Focused on sustainable global growth

QinetiQ Group plc

Annual Report & Accounts 2022

We are building an integrated global defence and security company

Our purpose

QinetiQ is dedicated to protecting lives and securing the vital interests of our customers.

Who we are

We are a leading science and engineering company operating primarily in the defence and security markets. We are an information, knowledge and technology-based company with the breadth and depth of approximately 7,000 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 do we develop cutting-edge technology and turn it into a capability, we 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.

Front cover depicts a Banshee Jet80+ target launching from HMS Prince of Wales. Photo by Ben Corbett; UK Ministry of Defence © Crown copyright 2022.

Throughout this report FY22/2022 refers to QinetiQ's Financial year ended 31 March 2022.

The report also refers to "Underlying" measures of performance. Definitions can be found on page 207.

How we have performed

Financial highlights

Good progress with strong second-half momentum.

ORDERS

£1,226.6m

(FY21: £1,149.4m*)

FY22	**£1,226.6m**
FY21	£1,149.4m*
FY20	£961.7m*

REVENUE

£1,320.4m

(FY21: £1,278.2m)

FY22	**£1,320.4m**
FY21	£1,278.2m
FY20	£1,072.9m

UNDERLYING OPERATING PROFIT

£137.4m

(FY21: £151.8m)

FY22	**£137.4m**
FY21	£151.8m
FY20	£133.2m

STATUTORY OPERATING PROFIT

£117.5m

(FY21: £108.7m^)

FY22	**£117.5m**
FY21	£108.7m^
FY20	£117.6m

UNDERLYING EARNINGS PER SHARE

20.6p

(FY21: 22.1p)

FY22	**20.6p**
FY21	22.1p
FY20	20.0p

STATUTORY EARNINGS PER SHARE

15.7p

(FY21: 21.4p^)

FY22	**15.7p**
FY21	21.4p^
FY20	18.7p

^ Prior year comparatives have been restated due to a change in accounting policy in respect of software implementation costs.
* Restated to exclude Joint Ventures.

Operational highlights

Positioning ourselves for long-term sustainable global growth.

- **Leading role in securing the interests of our NATO allies** – we supported Formidable Shield, the largest live-fire integrated air and missile defence exercise in 2021 led by the US Sixth Fleet and conducted by Naval Striking and Support Forces NATO. This is a good example of the benefits arising from our investment in the Long Term Partnering Agreement (LTPA) contract, driving enhanced operational outcomes for our customers, increasing the demand for our ranges and positioning QinetiQ at the leading edge of safe delivery of complex events to ensure our NATO allies can defend against future threats.
- **Our large contracts continue to support significant growth in the UK** – we have won orders totalling £115m on the Weapons Sector Research Framework contract, including work on the development and deployment of directed-energy weapons for the UK's Ministry of Defence (UK MOD), an important capability particularly focused on counter-hypersonics. The Engineering Delivery Partner (EDP) contract continues to evolve to meet the ever-changing needs of our customers, and has now delivered over £920m of orders since its inception in October 2018.
- **Strategic partner to Strategic Command** – we have won more than £160m worth of orders with Defence Digital and Defence Intelligence These include a £33m contract to transform the aeronautical data-management and aeronautical information production capability for UK MOD; and a £20m contract to support defence intelligence transformation across electronic warfare, mission-data, intelligence training, capability assessments and Urgent Operational Requirements implementation, adding automation and providing enhanced resilience.
- **Building a disruptive mid-tier company in the US** – we have won a number of notable and strategically significant contracts in the US, including a $12m advanced sensor prototype contract, a $62m full-rate production contract for our Squad Pack Utility Robot (SPUR) and a $12m contract to deliver additional Robotic Combat Vehicle Light (RCV-L) prototypes for testing. With a c.20% growth in orders coupled with our new leadership team, headed by Shawn Purvis, this provides a strong foundation for the delivery of our strategy in the US, through both strong organic growth and strategy-led acquisitions.
- **Trusted partner in Australia** – Our Australian business continues to deliver strong growth. Our Major Service Provider (MSP) contract has delivered orders totalling A$97m including an A$27m order to assist the Australian Department of Defence in delivering its largest and most complex Land projects. This contract positions us for future growth as a trusted partner able to provide sovereign Australian industry capability, while leveraging our global capabilities.
- **QinetiQ Target Systems (QTS) recovery** – In FY22 we have seen significant positive progress across the QTS business with customers resuming trials and exercises previously cancelled or postponed due to COVID-19 and winning significant orders, with growth in both existing countries and new business wins in the US, India and Japan. FY22 revenue was back to pre-pandemic levels and we remain positive on the trajectory of the business.
- **Net-Zero plan** – Over the last decade, we have set a series of increasingly ambitious greenhouse gas (GHG) emission reduction targets. In FY19, we developed a new target in line with the Science Based Targets initiative (SBTi) to reduce our Scope 1 and Scope 2 GHG emissions and we are pleased that over the last 3 years we have reduced our emissions by 32%. In March 2022 we published our Net-Zero plan which outlines a credible route to achieve Net-Zero across Scope 1, 2 and 3.

Focused on sustainable global growth

> Recent world events have reinforced the long-term needs of our customers, including capabilities utilising differentiated technology and test and training solutions which are directly aligned with our strategy."

Steve Wadey
Chief Executive Officer

01
Strategic report

What we do

We are a leading science and engineering company operating primarily in the defence and security markets. We apply our unique technical expertise across the product lifecycle, helping our customers to create, test and use defence and security capabilities.

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CEO review

We have delivered good underlying operating performance at Group level. We have continued to make good strategic progress this year, with our major achievements being £1.23bn of orders secured across the Group, and excellent performance in EMEA Services, with 26% revenue growth in Australia and 12% revenue growth in the UK.

See Page **14**

Our vision

To be the chosen partner around the world for mission-critical solutions, innovating for our customers' advantage. Our strategy delivers on this through three complementary and mutually reinforcing pillars; global leverage, distinctive offerings and disruptive innovation.

See Page **18**

ESG

QinetiQ has taken an active leadership role in ESG in the defence sector for many years. This year we have published our Net-Zero plan which outlines a credible route for us to decarbonise while also working with our partners and customers to help them on their journey to Net-Zero.

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02
Corporate governance

Group Chair's introduction

FY22 saw QinetiQ delivering a good underlying operating performance at Group level. However, our result was impacted by two short-term issues: complex project write-down and US revenue performance. The Board took swift actions to mitigate these, including a robust plan to ensure the best possible outcome on the large complex project.

See Page **79**

Board leadership decision making

Key decisions made by the Board include strategic decisions on potential acquisition opportunities, US leadership and our Net-Zero plan, and key operational oversight on the complex project, TCFD and our safety improvement programme.

See Page **81**

Risk and audit summaries

Key areas for the Audit Committee have included internal control and risk management, treatment of accounting judgements on key programmes, ESG target-setting, assurance and reporting, including Climate Related Financial Disclosures (TCFD).

See Page **108**

Remuneration summary

Implementing the Directors' Remuneration Policy in the interests of shareholders as been the primary focus of the Remuneration Committee this year. For FY23 we include more ESG metrics into the leaders' collective objectives and we are developing the new Remuneration policy, taking on shareholder feedback.

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Strategic report

Corporate governance

Financial statements

Other information

Our purpose

QinetiQ is dedicated to protecting lives and securing the vital interests of our customers.

Protecting lives

QinetiQ provides technology and solutions in order to keep our armed forces and society safe.

In action:

QinetiQ, in partnership with MedEng, has designed and developed the Next-Generation Advanced Bomb Suit (NGABS) for the army. The NGABS increases soldier readiness to respond to evolving threats by providing situational awareness, 360-degree ballistic protection and reducing weight-burdens via its modular scalable design.

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Securing vital interests of our customers

QinetiQ is focused on producing mission critical solutions and innovating for our customers' advantage.

In action:

With our defence-grade security technologies, rigorous threat checks and system-wide managed cyber-security service, we help customers build digital resilience.

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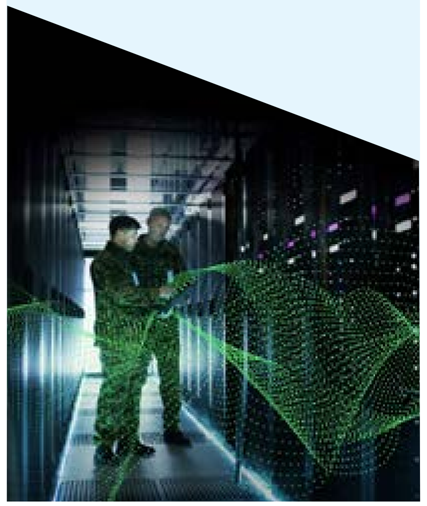


Where we operate

Many of our facilities around the world are unique assets that are critical to maintaining national defence capabilities, and are often the only place where certain trials can take place.

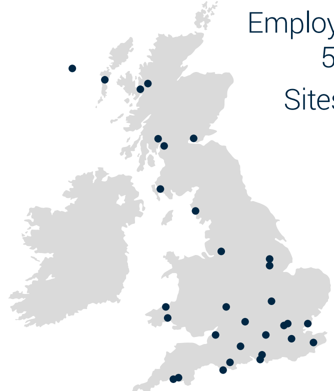
Three home countries:

UK

QinetiQ's heritage stems from formerly being a part of the UK MOD, who we now work with closely as our largest customer. Our capabilities are centred around customer advice and service provision across research and development, engineering advice, test and evaluation, training and mission rehearsal, cyber security and data.

Employees: 5,432

Sites: 31

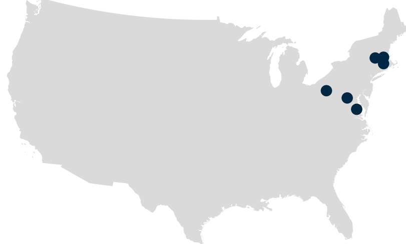


US

QinetiQ's capabilities in the US originate from a close and strong relationship with the US Department of Defense, as the most significant provider of small robots, combined with our acquired capabilities on autonomy and sensing. Our operations include manufacture of robots and prototype platforms for our customer.

Employees: 487

Sites: 6



Australia

QinetiQ has had a strong relationship with the Australian Department of Defence for many years, providing advice, engineering and design solutions, as well as expanding into test and evaluation services, robotics and autonomous systems.

Employees: 626

Sites: 5

Three priority countries:

Belgium

QinetiQ's space business designs and develops small satellites and space technology for military, security and civil use.

Employees: 166 Sites: 1

Germany

QinetiQ has developed its capability through acquisition. We are a trusted provider of airborne special mission operations, technical solutions and airborne training to defence and security customers.

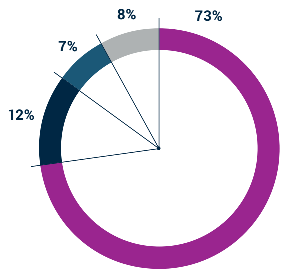
Employees: 123 Sites: 3

Canada

QinetiQ Canada provides many services, including test and evaluation advice, electronic surveillance systems, software tools for designing and developing vessels, and helping with cost estimation.

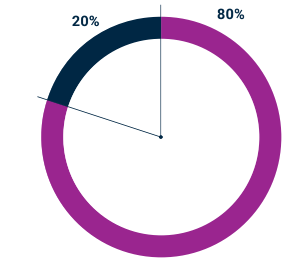
Employees: 74 Sites: 2

Revenue by customer location



UK	£962m
US	£153m
Australia	£98m
Rest of world	£107m

Revenue by division



EMEA Services	£1,059m
Global Products	£261m

We apply our unique technical expertise across the product lifecycle, helping our customers to create, test and use defence and security capabilities. Not only do we develop cutting-edge technology and turn it into a capability, we 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.

Our capabilities are grouped in to six distinctive offerings:

Experimentation and technology

QinetiQ collaborates with customers and partners to explore innovative technology solutions that solve our customers' complex problems. We bring together a wide range of experts to deliver new, fully-assured capabilities that provide mission advantage.

Case study: Awarded a multi-million pound UK research and development contract that forms part of a broad range of activities in the hypersonics field ,and secured active R&D projects for Directed Energy technologies.

Cyber and information advantage

QinetiQ innovates with a broad range of partners across leading-edge sensor technologies, data processing, advanced analytics, cyber and artificial intelligence to use data and information in a more effective way.

Case study: Awarded a $24m US Army contract to build three additional SPECTRE next-generation, full spectrum, hyperspectral prototype sensors for a US Army Program of Record.

Test and evaluation

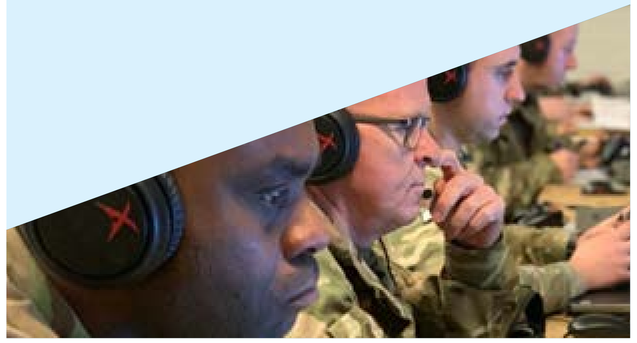
QinetiQ leverages unique skills, data and facilities to test and evaluate the performance of military systems. This provides assurance for our customers that their equipment and platforms will work effectively when needed in demanding environments and threat scenarios, helping to reduce operational risk and through-life cost.

Case study: QinetiQ specialists helped the UK Royal Navy to overcome an extremely challenging timescale and delivered both an airborne surveillance capability and guided weapon capability in time for the first operational deployment of the UK's Carrier Strike Group (CSG).

Training and mission rehearsal

QinetiQ combines engineering expertise, operational know-how and leading-edge technologies to deliver physical and virtual training exercises to support operational readiness and mission rehearsal.

Case Study: We supported Formidable Shield, the largest live-fire integrated air and missile defence exercise in 2021, providing the safe environment, logistics and range control to facilitate this trial, across the maritime and air domains. A range of targets were used to test defences, including subsonic, supersonic and ballistic targets.



Engineering services and support

Working alongside a large network of supplier providers, QinetiQ uses its deep understanding of customer requirements, existing systems and innovative approach to provide our customers with reliable technical advice and support, through all phases of procurement and systems engineering.

Case Study: New Futures Lab service introduced to maximise the innovation and exploitation of new technologies and capabilities, putting EDP at the forefront of some of the MOD's most important and innovative programmes.

Robotics and autonomous systems

QinetiQ develops, tests, evaluates and supplies trusted robotic and autonomous systems across land, sea and air domains.

Case study: Awarded a $62m contract for full-rate production of our SPUR – the winner of the Common Robotic System – Individual (CRS(I)) programme by the US Army.

Single routes to market

We focus on partnering with our customers, to deliver mission-led innovation through our six distinctive offerings.

We optimise our capabilities internally, through leveraging our technology and engineering solutions globally; in order to maximise external growth opportunities via single routes to market, in six "home" and "priority" countries.

Read more about **Our Markets** on Page **22**

EMEA Services

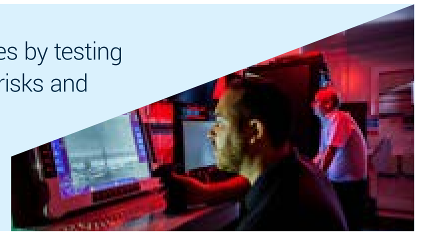
Revenue: £1,059m

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 and Space

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

Approximate revenue FY22 £230m.



Maritime and Land

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

Approximate revenue FY22 £415m.

Cyber and Information

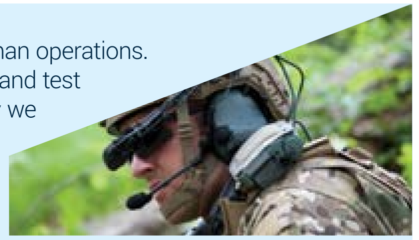
Helps customers respond to evolving threats based on our expertise in cyber security, secure communication networks and devices, intelligence gathering and training.

Approximate revenue FY22 £310m.

International

Included here is our Australian and German operations. In Australia we provide advice, products and test and evaluation services, and in Germany we provide airborne training and mission operations.

Approximate revenue FY22 £105m.



United States

Global Products

Revenue: £261m

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.

Space Products: Develops small satellites, payload instruments, subsystems and ground station services.

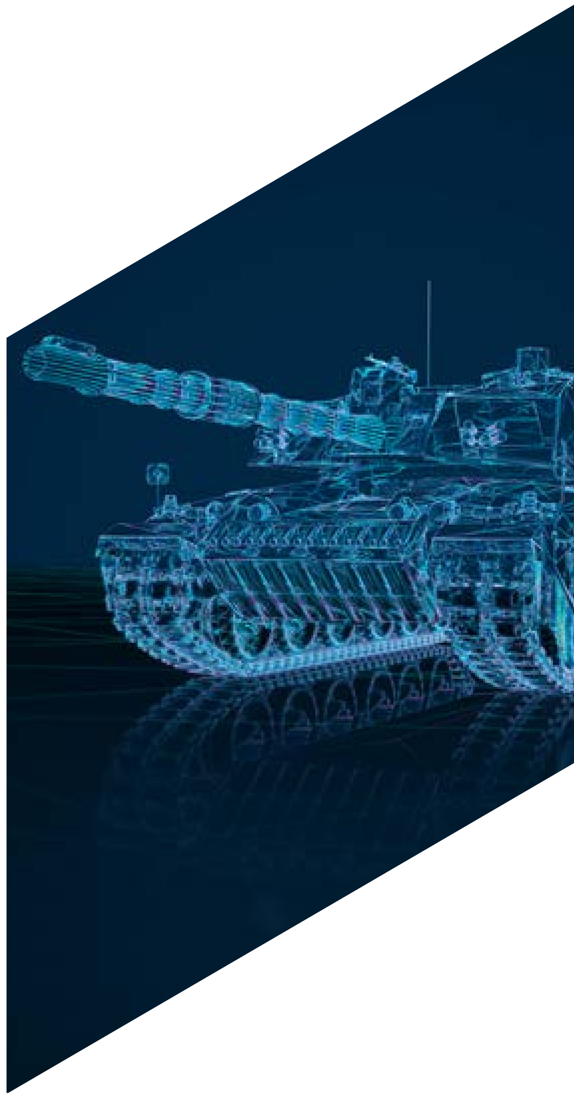
Approximate revenue FY22 £40m.

EMEA Products: Provides research services and bespoke technological solutions developed from intellectual property spun off from EMEA Services. The products and intellectual property are typically specialist defence and security solutions, including secure-communication devices, cyber products and electrification upgrades to military equipment. Included in EMEA Products is QinetiQ Target Systems – a world-leading provider of unmanned air, land and surface targets for live-fire training and weapon system test and evaluation.

Approximate revenue FY22 £70m.

United States: Develops and manufactures innovative defence products specialising in robotics, autonomy and sensing solutions.

Approximate revenue FY22 £150m.



Our investment case is underpinned by four key attributes:

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.

Operate in attractive markets

Our business operates in the defence and security markets which both are seeing significant spending increases; furthermore our capabilities are well aligned with those areas that are growing faster than the overall defence budgets:

- Global defence and security are climbing up the geo-political agenda
- We are a key partner to nations with shared defence and security interests: (eg the UK, Australia and the US, known collectively as AUKUS)
- The total addressable market is worth more than £20bn, with a key focus on the UK, US and Australia
- We are seeing growing demand for our differentiated capabilities
- There is significant opportunity for global leverage of our capabilities across our global business

>£20bn
addressable market

£2.3bn+
revenue ambition by FY27+

Unique capabilities and relevant offerings

We have unique capabilities around the world critical to maintaining national defence and security. In addition, many of our capabilities are well aligned with customer priorities:

- Unique position in defence, providing early-stage research and development, complex test and evaluation capabilities and select niche defence and security products
- Key partner to sovereign nations providing leading technical expertise and state-of-the-art facilities
- Relevant offerings for emerging and future threats
- Strong track record and significant opportunity for global leverage of capabilities across the Group
- Ambition to build an integrated global defence and security company

Six
distinctive offerings

~7,000
highly skilled employees

Strong financials and shareholder return

Our business has attractive financial characteristics supported by a strong balance sheet which enables us to invest and realise our long-term growth ambitions:

- Strong revenue visibility from long-term contracts
- Attractive margins at the upper end of defence contracting, demonstrating technical expertise
- Asset-light and cash-generative business model supports organic investment to drive future growth: organic investment funded from operating cash flow
- Strong balance sheet and good operational rigour to support leverage for future acquisitions
- Clear capital allocation policy
- Progressive dividend policy

~£900m
of FY23 revenue under contract

26%
return on capital employed in FY22

Delivering responsibly and taking a lead on ESG

QinetiQ has taken a proactive lead in ESG for many years and is uniquely placed to help our partners and customers to achieve Net-Zero through effective use of technology:

- An important role in the defence sector, protecting lives and society
- Early adopter and communicator:
  - Held investor seminar in March 2021 on ESG
  - Active sustainability leadership role in industry fora such as Defence Suppliers Forum and ADS.
  - Rated strongly by MSCI and Sustainalytics
  - Recognised as implementing best practice in our ethical policy for autonomous systems
- Unique position to help our customers meet their ESG targets – technology and offerings

AA rated
by MSCI

Net-Zero plan
published Mar-22

Group Chair's statement

"This has been a challenging year for QinetiQ, but robust actions and decisive leadership see us emerge with strengthened foundations to support our future growth."

Introduction:

This last year has seen both challenge and conflict – it started with much of the world still in the grip of the COVID-19 pandemic and finished with perhaps the most significantly unsettling conflict of a generation. While the wonders of science and medicine are successfully containing the COVID-19 pandemic, it is saddening to see the conflict and resulting humanitarian crisis arise in Ukraine. This conflict will impact lives, economies and geo-politics for many years to come. It also demonstrates the vital importance of defence companies to society. At QinetiQ we are proud of our unique and important role in the defence ecosystem, central to protecting lives and making the world a safer place.

For QinetiQ, it has been a year of mixed fortunes with our own share of challenges, alongside good operating performance. I have been immensely proud of the determination and commitment that our people have shown throughout the ongoing COVID-19 pandemic, and the resilience of teams in pulling together to resolve the short-term issues and build positive momentum towards our ambitious goals.

Delivering safely, responsibly and sustainably for the benefit of all our stakeholders

Delivering safely in all of our day-to-day operations remains a critical cornerstone of the business. This year we have implemented a programme of review, understanding and continuous improvement for safety across the Group, to further reinforce and enhance our safety culture.

Our customers partner with QinetiQ because of the breadth and depth of our technical knowledge, experience and the enthusiasm of our people, so we recognise the importance of an engaged and aligned workforce. To enable this high-performance inclusive culture we have implemented an adaptive working policy which enables our teams to operate most effectively as we all learn to live alongside COVID-19. We have continued to focus on proactive engagement with our employees through quarterly all-employee virtual roadshows led by the Global Leadership Team, quarterly employee engagement surveys and the "Global Employee Voice" engagement network, to name but a few.

Read more about **Safety** on Page **55**

As a Board we recognise the importance of delivering results in the right way. We have a strong and resilient Governance framework and take an active role in industry bodies to share and learn from best practice.

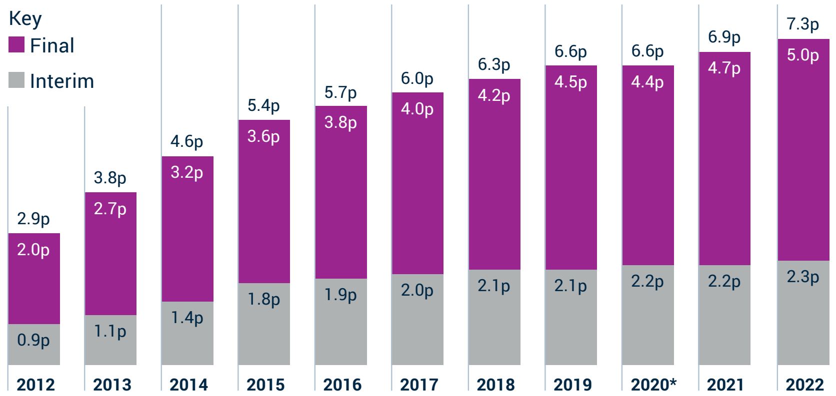
In March 2022 we published our Net-Zero plan which outlines a credible route to achieve Net-Zero by 2050 or sooner. We have a clear plan to decarbonise our own Scope 1 and 2 emissions, through the use of renewable energy sources, reduced aviation emissions and other global projects. But more significantly, with 89% of our total emissions coming from Scope 3, we intend to work closely with our partners and customers to help them on their journey to Net-Zero. We have a unique opportunity to help our partners and customers decarbonise through technology; whether that be through our expertise on stealth materials that enables wider use of windfarms as they are less likely to interfere with radar; our battery experts developing high power batteries for military and commercial use; our large-scale, low-speed wind tunnel being used to support advancements in aircraft efficiency, or many other technology-driven solutions to improve sustainability for our stakeholders.

Board changes

There were a number of changes to the membership of the Board during the year. Lawrence (Larry) Prior III joined the Board as senior US independent Non-executive Director, bringing a wealth of experience from various sectors including aerospace, defence and government services, IT, and cyber and security; Larry's breadth of experience as both an executive and non-executive in the US is a strong addition to the Board to support our US and global strategies.

Read more about **Net-Zero** on Page **47**

Historical dividend payments



After four years as CFO, David Smith stepped down from the Board and we were delighted to appoint Carol Borg as his successor. Carol brings extensive experience of leading global finance teams, and driving operational execution and performance management in complex growing businesses. David made a very significant contribution to QinetiQ, providing robust financial direction and guidance. I wish him the very best in his retirement.

I am also pleased to welcome Steve Mogford to the Board for FY23. Steve brings a wealth of experience, as Chief Executive of United Utilities Group Plc, and former senior roles in the defence sector at SELEX Galileo (part of Finmeccanica), BAE Systems Plc and British Aerospace Plc. Steve's official appointment date will be August 2022.

Overall I am confident we have the right mix of skills and experience on the Board to provide effective challenge and support to the business as it continues its global growth.

I would like to thank all my Board colleagues, past and present, and particularly Committee Chairs for their leadership, support and advice throughout the year.

While not Executive-level appointments, I am also pleased to see four further significant additions to the Global Leadership Team to further support and enable our global growth, with the appointment of Shawn Purvis as President and CEO of QinetiQ US from Northrop Grumman, internal promotion of Amanda Nelson to Group HR Director, internal promotion of our CTO, Mike Sewart, to the Global Leadership Team and the appointment of Sam Lewis as Group Business Development Director from various roles in large US defence businesses.

I would also like to take this opportunity to personally thank Steve Wadey, our CEO, for his focus, commitment and resilience over this past year. His leadership and that of his Leadership Team has been exemplary and an excellent demonstration of our values: Integrity, Collaboration and Performance. In the face of adversity, all of our people and teams have pulled together to deliver for our customers; my thanks to all of them.

Looking ahead

While we faced some unique challenges this year, I am extremely positive and optimistic about the future for QinetiQ. We are closing out the two short-term issues and have delivered strong underlying performance from the rest of the Group, increasing momentum towards our ambitious goals. We exit this period into a new normal with strong foundations – fantastic people, a cohesive strategy, a strong balance sheet and the right leadership; ingredients that will support us in achieving excellent results and exceeding our stakeholders' expectations over the long-term.

Neil Johnson
Non-executive Group Chair
20 May 2022

Capital allocation policy

Priority 1
Invest in our organic capabilities, complemented by acquisitions where there is a strong strategic fit.

Priority 2
Maintain balance sheet strength.

Priority 3
Provide a progressive dividend to shareholders.

Priority 4
Return excess cash to shareholders.

Read more on Page **29**

CEO review

Throughout the last year our people have continued to partner with our customers to deliver high-value solutions critical to current and future national defence and security challenges."

Introduction:

Recent world events have reinforced the long-term needs of our customers, including capabilities utilising differentiated technology, test and training solutions which are directly aligned with our strategy. With a clear focus on disciplined execution of our strategy, increasing demand for our solutions and good revenue coverage, we have positive momentum and are on-track to deliver sustainable growth.

Following a challenging first half, we delivered a strong second half and achieved good underlying operational performance at Group level.

With a clear focus on disciplined execution of our strategy we secured our largest order intake at £1.23bn, 9% growth on an organic basis, demonstrating high demand for our distinctive offerings. We maintained good programme execution and delivery across all our major contracts to deliver 5% revenue growth on an organic basis. Underlying operating profit was £137.4m, equivalent to 11.4% margin before a £14.5m complex project write-down consistent with our short-term guidance. We continue to deliver very strong cash performance with 114% underlying cash conversion, up from 98% last year, using our new cash conversion definition.

US revenue performance recovery was slower than expected, with the second half in line with the first half, largely due to the US defence budget being constrained by the extended Continuing Resolution. However, we secured c.20% year-on-year growth in order intake which, coupled with our new leadership team, provides a strong foundation for the delivery of our US growth strategy. The complex project contract is now closed and the financial impact remains fully contained in our first half results.

Delivering our global ambition

Recent world events have reinforced the long-term needs of our customers, requiring capabilities utilising differentiated technology, test and training solutions which are directly aligned with our strategy. This defence and security context is heightening the market needs for our six distinctive offerings. Our addressable market is worth more than £20bn per year, and we see increased customer demand for our high-value solutions in high-priority growth segments. The major focus for growth is in our three home countries, the UK, US and Australia, where we are pursuing similar opportunities to support their shared defence and security mission.

The formation of the AUKUS alliance between these nations reinforces our multi-domestic strategy and makes us increasingly relevant. We are well-positioned to deliver strong growth in the UK and to more than double our Australian and US businesses in the next five years.

Building on our track record of growing the company by 75% over the last six years, we have increased the scale of our ambition. We will grow by another 75% over the next five years to more than £2.3bn revenue. Within our latest strategic business plan, we see 30% of our future growth coming from the UK and more than 50% coming from Australia and the US. This plan is supported by our strong balance sheet and continued investment in our global strategy, through both organic opportunities and strategic acquisitions.

Focused strategy

Our strategy is increasingly relevant and provides focus for our business decisions and our investment choices. We are a company with a clear purpose, vision and customer value proposition called "mission-led innovation", co-creating cost-effective solutions to meet our customers' needs at pace, as reinforced by the current conflict in Ukraine. Our strategy is a multi-domestic strategy, with a clear focus on where we operate, what we do and how we deliver value for our customers:

Global leverage – Build an integrated global defence and security company to leverage our capability through single routes to market in the UK, US, Australia, Canada, Germany and Belgium.

Distinctive offerings – Co-create high-value differentiated solutions for our customers, in experimentation, test, training, information, engineering and autonomous systems.

Disruptive innovation – Invest in and apply disruptive business models, digitisation and advanced technologies to enable our customers' operational mission at pace.

Read more about our strategy on Page 18

Our first priority is to maintain focus on driving organic growth in each country. We remain disciplined in delivering our commitments to our customers and shareholders by continuously improving our bidding, programme execution and risk management capability.

Looking forward, we have a clear strategic business plan focused on creating a global leader in mission-led innovation. With a strong balance sheet, we continue to invest in our multi-domestic growth strategy to realise our ambition. We have clarity around our six distinctive offerings and focus on our home countries, to provide a guide for our future investment decisions. Growth will be driven by investing in these distinctive offerings and leveraging across countries.

We have continued to make good strategic progress implementing our strategy to become an integrated global defence and security company:

- Providing a leading role in securing the interests of our NATO allies through facilitating the Formidable Shield exercise
- Our large contracts in the UK continue to support significant growth, with 12% revenue growth in the UK
- We have won over £160m orders with Defence Digital and Defence Intelligence, becoming a strategic partner to Strategic Command
- We are building a disruptive mid-tier company in the US with a number of notable wins across our robotics and sensing capabilities
- We continue to deliver strong growth in Australia, with 26% revenue growth
- QinetiQ Target Systems has recovered from COVID-19 and achieved its largest ever order intake with £42m orders
- In March 2022 we published our Net-Zero plan, targeting a 33% reduction in emissions by 2030 and Net-Zero by 2050 or sooner
- You can read about these further in the Operating Review

Environmental, Social and Governance (ESG)

We continue to take our ESG responsibility seriously, ensuring our growth strategy is sustainable. We have been seen as a leader in the defence sector in ESG by many for years (validated by our strong MSCI and Sustainalytics ratings).

Our Environmental agenda is significant, including responsibility for over 50 internationally recognised conservation sites. In March we launched our Net-Zero plan with validation by Science Based Targets initiative (SBTi) currently underway, to achieve Net-Zero emissions by 2050 or sooner, with a reduction of 33% by 2030. We are already well on the way towards this target with a 32% reduction in our scope 1 & 2 emissions over the last 3 years. We are also working closely with our customers to co-create sustainable solutions, such as modernisation of the operations on St Kilda, a World-Heritage site, in the middle of our world-class test range.

From a Social perspective, we are a people business and we want our people to feel inspired and have the opportunity to realise their full potential. This year we are enhancing our focus on both physical safety and wellbeing. With rising costs of living and growing competition for talent, we have committed £10m additional investment into our reward offering with a particular emphasis on our lower paid staff. We continue to embrace many forms of difference to make us stronger, including gender balance with a global target of 30% women by 2030. I have recently augmented the QinetiQ Leadership Team for the next phase of growth. The team is diverse in many ways, with the necessary skills and experience in our key markets and has seen an increase of women representations from 25% to 36% in FY23.

Effective Governance is critical to our sustainability. We are focused on strengthening our own skills and processes and ensuring our supply chain is both vibrant and meets the same standards of safety, security, sustainability and governance that we do. In May 2022 we launched our sustainable procurement guide to help our suppliers achieve this objective. Driven by our company purpose, we take the ethics of defence seriously and carefully consider who we do business with and the projects we undertake, to protect lives and secure the vital interests of our customers. This year we are taking our focus on ESG to a new level, with 17.5% of all leadership incentives focused on delivering our commitments.

Read more about **ESG** on Page **44**

Outlook – FY23

We enter FY23 with confidence, a healthy order-book, £900m revenue under contract and positive momentum. We remain confident to deliver in line with our current expectations for FY23, with mid single-digit organic revenue growth and operating profit margin towards the middle of our 11-12% expected range, lower than our medium to long-term guidance, driven by inflationary pressures and our continued investment to support future growth. Capital expenditure is expected to be at the upper end of the £90m to £120m per annum range, consistent with our previous guidance and our strategy to invest to grow.

Outlook – Longer term

Our ambition is to deliver c.75% growth in the next five years, as we have in the last six years, with revenue of more than £2.3bn in FY27 and beyond. This means we are targeting mid-single digit percentage compound organic revenue growth over the next five years, with strategic acquisitions further enhancing this growth. We are targeting an operating profit margin of 12-13% in the mid to long-term. ROCE is forecast to remain strong at the upper end of the 15-20% range.

Steve Wadey
Chief Executive Officer.
20 May 2022

Our business model

The challenge

Exploiting emerging technologies and maintaining technological advantage requires extensive research and experimentation.

It requires dynamic approaches to innovation and partnerships to exploit the most advanced technology.

It requires industry to deliver more for less, driving efficiencies with innovative delivery models.

Our strengths

01
Customer focus

Our employees are inherently customer focused and adopt innovative and leading approaches to exceed our customers' expectations. This approach is underpinned by a high-performance culture where employees are engaged and empowered, supporting strong customer relationships and enabling us to act as a "trusted partner" in the delivery of critical services.

Read more about our **Customer focus** on Page **26**

02
Distinctive offerings

We operate some of the most advanced Research, Development, Test and Evaluation facilities around the world. These facilities are often unique assets that are of strategic importance to national defence capabilities. By combining these facilities with the unique expertise of our people, we are able to support our customers in countering current, future and emerging threats.

Read more about our **Distinctive offerings** on Page **6 and 7**

03
Technical expertise

Many of our employees are highly skilled scientists and engineers with deep domain knowledge and know-how. Their technical expertise is critical to delivering mission-led innovation for our customers, and our success is dependent on our ability to recruit, retain and engage high-calibre people.

04
Collaborative approach

The modern threat environment often requires collaboration across industry and academia to procure the most effective solution. By forming complementary partnerships and by managing large networks of small and medium-size enterprises, our collaborative approach ensures we deliver the most effective solutions for our customers.

Our customer value proposition

QINETIQ

We apply our unique technical expertise across the product lifecycle, helping our customers to create, test and use defence and security capabilities.

Create it

Developing cutting-edge technology and rapidly turning it into capability

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 a capability will work when it is 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 and rehearsals 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

By combining real and simulated training experiences we can ensure our customers are operationally ready to use their capabilities when it matters. 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.

Delivering for our stakeholders

A large proportion of our work is delivered under long-term contracts and we typically start the year with a significant proportion of revenue under contact, providing a high level of revenue visibility. In addition our business is cash-generative by nature, meaning we are able to organically invest in our capabilities and sustain our business model.

Our people are critical to our success and we are continually investing to support their career development, wellbeing and engagement. We are also investing in our facilities and digital infrastructure tools, ensuring we can continue to support our customers in facing future emerging threats and challenges.

114%
Underlying cash conversion in FY22

~£900m
of FY23 revenue under contract

Read more about **How we deliver for our stakeholders** on Page **26 and 27**

Our strategy

Our purpose
Protecting lives and securing the vital interests of our customers.

Our vision
The chosen partner around the world for mission-critical solutions, innovating for our customers' advantage.

Our strategy
Three complementary and mutually supporting strategic pillars support us in achieving our vision.

Global leverage	Distinctive offerings	Disruptive innovation
Build an integrated global defence and security company to leverage our capability through single routes to market in UK, US, Australia, Canada, Germany and Belgium.	Co-create high-value solutions for our customers in engineering, experimentation, test, training, information and autonomous systems.	Invest in and apply disruptive business models, digitisation and advanced technologies to enable our customers' operational mission at pace.
Read more on Page **19**	Read more on Page **20**	Read more on Page **21**

Creating a safe and secure environment for us all to thrive
A high performance and inclusive work environment where employees are engaged, empowered and clear about how they can contribute to our vision.

Our values

Integrity	Collaboration	Performance
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.	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.	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.

Our behaviours

Listen	Focus	Keep my promises
We listen to what our customers say, ask questions to help us understand, and challenge and offer ideas and solutions.	We hear what our customers want, are clear about our priorities and know what needs to be delivered and why.	We do what we say we will, are trusted to do the right thing, and are responsible and accountable for our own actions.

Read more about **Our Values** on Page **91**

We deliver safely, responsibly and sustainably for the benefit of all our stakeholders

Read more about **ESG framework and offerings** on Page **45**

Build an integrated global defence and security company

Global leverage

Strategic pillar #01

Leverage our capability through single routes to market in the UK, US, Australia, Canada, Germany and Belgium.

FY22 highlights

- We have won a $10m contract with the US Army to develop our supersonic target offering. The contract, known as Modernizing Instrumentation Solutions for Test and Evaluation (MISTE) for High Energy Laser Measurement (HELM), is a great example of our single routes to market in action, leveraging our Rattler target into the US for the testing of high-energy lasers on supersonic targets.
- Through FY22 QinetiQ Target Systems has seen significant positive progress following the COVID-19 disruption, with customers resuming trials and exercises and winning some significant orders. We have achieved good growth in both existing countries with new business wins in the US, India and Japan.
- We have entered into a strategic collaboration agreement with automotive manufacturer AM General to accelerate the development of electrification technologies for military vehicles, demonstrating the viability of electrifying military land vehicles to deliver enhanced performance, while decarbonising military operations, initially on the HUMVEE vehicle. This is a UK/US collaboration that will lay the foundation for further research into electrification capabilities for land vehicles.

> We are successfully leveraging our capabilities into the global Test and Evaluation market, with notable contract wins and delivery internationally."

Case study: T&E leverage into Australia

We are leveraging our UK capabilities in Test and Evaluation to support growth in our key home markets internationally; three examples this year of our global leverage in Australia are:

1. Building on our success with the development of the unmanned aerial systems (UAS) flight test range in Queensland, we have signed our first commercial Queensland flight test range user agreement.
2. Launched a global skills transfer programme, aimed at expanding local Test and Evaluation expertise to support increasingly complex projects in Australia. The bespoke career development program offers new and existing QinetiQ employees in Australia the opportunity to work alongside global experts to grow their technical and operational expertise within sovereign test and evaluation.
3. We have won an A$27m order to assist the Australian Department of Defence in delivering its largest and most complex land projects. This contract positions us for future growth as a trusted partner, able to provide sovereign Australian industry capability, while leveraging our global capabilities.

Co-create high value solutions

Our US business continues to develop and manufacture innovative defence products specialising in robotics, autonomy and sensing solutions."

Case study: US customer pivot against the near-peer threats in the Indo-Pacific

Our US business is continuing to successfully adapt to the changing market dynamics and customer behaviours. Two example projects that are focused to combat the future threat environment are:

1. We have won a $24m contract from the US Army to build three additional SPECTRE next generation full spectrum hyperspectral prototype sensors. SPECTRE is an ISR (intelligence, surveillance and reconnaissance) sensor system that enables multi-mission Uncrewed Aircraft Systems (UAS) and crewed aircraft to operate in parallel to other critical sensor payloads and weapons, with improved performance at a fraction of the size and weight of the sensors currently in use by the US Government.
2. We have received a $12m contract for delivery of additional prototype vehicles under the Robotic Combat Vehicle Light (RCV-L) programme, for testing and experimentation by the US Department of Defense. Furthermore, we have established a strategic partnership with Oshkosh for the Optionally Manned Fighting Vehicle (OMFV) competition, seeking to position ourselves to be the primary provider of autonomous controls and integration for the US military land platforms.

Distinctive offerings

Strategic pillar #02

Co-create distinctive products and services to offer exceptional value for our customers in engineering, experimentation, test, training, information and autonomous systems.

FY22 highlights

- We have secured a $62m full-rate production contract in the US for over 1,200 small advanced robots with a multi-year delivery schedule for the US Army. The Common Robotic System Individual contract is the largest US Government Program of Record in robotics, giving us a strong platform for growth.
- In 2018 we won a significant competitive programme to provide private sector client-side support to the Battlefield Tactical Communication and Information Systems Delivery Team for the UK MOD. The contract is a critical enabler to deliver the next generation of Tactical Communication and Information Systems for UK armed forces. Following the strong delivery we have been awarded a one year extension.
- We have won the DI Pillar £20m contract to support defence intelligence transformation covering electronic warfare, mission data, intelligence training, capability assessments to accelerating innovation, implementing Urgent Operational Requirements, adding automation and providing enhanced resilience.
- Successful field testing of advanced bomb suit for US Army – our Next-Generation Advanced Bomb Suit has successfully completed field testing to enable full-rate production in FY23 worth $70m over a 5 year period
- A$7.5m, five year extension to the Australian Mine Warfare Maintenance Facility contract, out to 2027.

Innovation to support delivery of our customers' mission at pace

Disruptive Innovation

Strategic pillar #03

Invest in and apply disruptive business models, digitisation and advanced technologies to enable our customers' operational missions at pace.

FY22 highlights

- Exploring directed-energy technology – In December we were awarded a multi-million pound R&D contract that forms part of a broad range of activities in the hypersonics field. QinetiQ has now secured active research and development projects that span near term and future generations of directed-energy technologies, all of which are aligned with the intentions set out in the UK Integrated Review and Defence Command paper. This is a great example of our disruptive innovation and focus on creating a global leader in high-value solutions to national defence and security challenges.
- Completion of modernisation and sustainability investment on St Kilda – alongside the National Trust for Scotland and UK MOD, as part of the LTPA Air Range Modernisation programme, we have completed a significant programme of upgrades on the UNESCO World Heritage Site of St Kilda. The investment has developed world-class test and evaluation and training capabilities, while improving the sustainability of facilities, demonstrating the deployment of our capital to support both our long-term growth as well as progressing QinetiQ's and our customers' drive towards Net-Zero.

We are successfully delivering on the most complex programmes, delivering disruptive innovation for our customers' advantage."

Case study: Delivery on the Robust Global Navigation System (RGNS) contract

We have completed the hardware design and initial associated embedded software development and integration for the highly complex Robust Global Navigation System (RGNS) £67m contract, won in 2019 with the UK Ministry of Defence. Having passed this important technical milestone, we now move into the initial stages of production and testing. This is an important programme for the UK to develop next-generation satellite navigation and timing receivers, that will be robust and reliable in the most challenging and contested environments. This demonstrates our ability to work collaboratively with our customers and partners to deliver the most complex innovative solutions for sovereign capabilities.

The long-term themes reshaping defence markets around the world

Geo-political tensions have risen to new heights following the Russian invasion of Ukraine. This has created more uncertainty around the world than has existed at any time since 9/11 and has risked moving Europe and NATO closer to a direct conflict with Russia.

There is an expectation that NATO members need to fundamentally increase the range and readiness of their military capabilities for the foreseeable future. At the same time, China demonstrates a growing assertiveness in the Indo-Pacific, which is further driving US investment and action to bolster deterrence and security in the region.

Achieving operational advantage over an adversary requires timely and reliable intelligence, alongside the strategic application of capability and resources, to mitigate threats and project power at range to deter malicious actors. The level of modernisation required to achieve these outcomes in today's environment relies on successful innovation, through the effective application of science, engineering and technology to enhance existing capabilities, create and assure new ones, and train users to deploy them effectively in a wide range of scenarios.

How are defence and security markets changing?

Rising global tensions and increasingly complex threats

The threat environment continues to become increasingly complex, fuelled by rapid advances in technology and heightened geo-political tensions. From hypersonic missiles and advanced fighter jets to low cost consumer drones adapted to cause harm, technological advances have enhanced the lethality of threats at both ends of the spectrum, giving both state and non-state actors access to capabilities which undermine western superiority. In parallel to traditional threats, digital-based threats continue to grow in sophistication, and are often deployed in conjunction with more conventional threat forms.

1

The proliferation of grey-zone warfare

Grey-zone activity has increased significantly in recent years as the supremacy of western forces has driven adversaries to adopt new tactics. Grey-zone tactics often include acts, which would not typically provoke a conventional military response, but nevertheless undermine defence and security, as well as economic and political stability. Typical threats in this space include cyber-attacks aimed at compromising critical national infrastructure, disinformation campaigns and political meddling. Key challenges for our customers include improving cyber resilience, improving threat-detection and adapting at pace.

2

Need for advanced capabilities, informational advantage and better interoperability

Maintaining technological superiority is critical in this increasingly complex threat environment. Our customers are investing heavily in R&D to develop next-generation capabilities and ensure informational advantage. Areas such as robotics, autonomy, advanced data analytics, artificial intelligence and novel weapons are all of particular interest to our customers. These new and emerging technologies must be integrated with traditional defence capabilities, and across our markets there is a need for greater inter-operability between platforms and systems to create true capabilities. This extends to the need for greater co-operation between different forces and nations to ensure a concerted effort in countering these modern threats.

3

Resilience of supply chains

In light of the growing tension and competition between global powers, nations are increasingly focused on developing resilient domestic supply chains. These supply chains must operate cohesively, as a single ecosystem, to respond to the changing and complex customer requirement. This is a critical part of maintaining a sovereign defence capability that can function without undue reliance on international trade and expertise or raw materials from potentially hostile states.

4

"Our customers seek to rapidly modernise their defence and security capabilities so they can better address current and future threats."

How are we evolving to these new market dynamics?

Delivering disruptive science, engineering and technology required to modernise defence and security capabilities

QinetiQ was founded on innovation with research, development, test and evaluation at the core of what we do. As a predominantly service-based business we are uniquely placed to operate across the breadth of platforms, systems and lifecycles, unlike a more traditional vertical platform manufacturer. We can experiment, innovate and develop new capabilities, drawing on a broad range of existing, emerging and disruptive technologies. We emulate advanced threats and test and evaluate the resilience and inter-operability of the systems and platforms used to respond to these threats, to provide assurances. We have invested heavily in contracts such as the LTPA to ensure we have the capabilities to generate and assure future capabilities and will continue to apply disruptive innovation to create relevant capabilities and offerings.

1

Delivering value for money through innovative delivery models

Governments around the world face significant fiscal pressure, with high budget deficits and growing debt levels exacerbated by the impact of COVID-19 support programmes. Against this backdrop nations have a growing number of threats to defend against and must wrestle with modernising traditional defence capabilities, while also developing future digitally enabled technologies. This means defence budgets must deliver value for money. We act as a strategic partner to our customers, understanding their challenges and applying our technical expertise to provide innovative solutions. We believe by focusing on our customers' needs and helping them realise cost efficiencies we can create opportunities for growth. Engineering Delivery Partner is an example of an innovative delivery model we have adopted for the provision of engineering services to the UK MOD, which has delivered both savings to the customer and growth in our business.

2

Partnering for innovation

The capabilities our customers require can often be so complex that no one company can deliver them alone. In addition, cutting-edge technology is more often found in the commercial sector and academia. The defence industry can benefit from leveraging this technology, but it needs new and more effective partnerships to rapidly convert emerging technologies into assured deployable capability. We collaborate across the supply chain, but also form novel partnerships with organisations outside of defence to provide the agility and expertise required to innovate at pace. Our ability to work across platforms and technologies and form powerful partnerships helps deliver mission-led innovation to our customers.

3

A multi-domestic strategy

Our strategy is a multi-domestic strategy aimed at developing sovereign defence capabilities within the countries in which we operate. The major focus for growth is in our three home countries, the UK, US and Australia, where we are pursuing similar opportunities to support their shared defence and security mission – targeting to be seen as British in the UK, American in the US and Australian in Australia. The formation of the AUKUS alliance between these nations reinforces our multi-domestic strategy and makes us increasingly relevant. We are well-positioned to deliver strong growth in the UK and more than double our Australian and US businesses in the next five years.

4

Trading environment

The UK, US and Australia are our home countries and collectively represent 92% of our revenue.

UK

The 2021 Integrated Review outlined the UK's current defence and security policy. This, alongside the Defence Command Paper and the Defence and Security Industrial Strategy, has seen the allocation of an additional £24.1bn in funding over a four-year period from November 2020 to 2024. The Integrated Review placed science and technology at the heart of the UK's defence policy with innovation cited as critical to UK success. The UK is investing over £6.6bn in research and development to develop next-generation and emerging technologies in areas such as cyber, space, directed-energy weapons, and advanced high-speed missiles. The Russian invasion of Ukraine has further cemented wider support for defence investment.

As the UK seeks to develop and deploy next-generation capabilities faster than their adversaries, we are well-positioned to support them in applying mission-led innovation to achieve this. Our unrivalled expertise in Research and Development and Test and Evaluation combined with our recent investment to modernise UK test ranges will help our customers generate and assure new and emerging technologies at pace. Delivering value for money remains critical to our customers and we will continue to utilise innovative delivery models to support our customers in achieving this.

Read more about our **UK business** on Page 30

US

The US maintains the largest defence budget worldwide, with the FY22 Department of Defense budget of $743bn, more than the next ten largest countries combined. The FY23 budget request is $30bn higher at $773bn. The budget reflects the National Defence Strategy and the focus of that strategy on the growing challenge presented by China. As well as supporting the preparation for future challenges, such as climate change, it preserves investment for the readiness and deterrence against current threats, including the acute threat of an aggressive Russia and the constantly emerging threats posed by North Korea, Iran, and violent extremist organisations. The budget request includes more than $130.1bn for research, development, test and evaluation (an all-time high and a 9.5% increase on FY22) to address the need to sharpen readiness in advanced technology, cyber, space and artificial intelligence.

In the US, we are a market leader in robotics, autonomy and advanced sensing solutions, an area of budget growth, delivering value to our customers through the rapid development and deployment of disruptive solutions. We have ambitious growth plans in the US. This is underpinned by a relevant offering with a growing need to provide actionable intelligence into war fighters' hands quicker, and a push to develop and integrate multiple autonomous and semi-autonomous systems as the US seeks to invest in next-generation technologies to maintain a technological advantage.

Read more about our **US business** on Page 33

Australia

Tensions in the Indo-Pacific region remain heightened from competition between global powers. In light of this, Australia published its Defence Strategic Update and Force Structure Plan in July 2020, placing increased emphasis on force readiness and capability modernisation. In September 2021, a trilateral security partnership was announced between Australia, United Kingdom and United States (AUKUS) to further enhance security in the region.

The total defence budget is estimated to increase by 3.1% in real terms from 2021-22 to 2022-23, and by 7.1% in real terms over the period 2022-23 to 2025-26. This reflects funding required to continue delivery of the 2016 Defence White Paper and new or adjusted capability investments outlined in the 2020 Force Structure Plan, as well as increased investment in the capabilities of the Australian Signals Directorate through the 2022-23 budget measure REDSPICE (Resilience, Effects, Defence, Space, Intelligence, Cyber, and Enablers). During 2022-23, AUKUS partners will progress trilaterally agreed programmes of work and priority initiatives under: cyber capabilities, artificial intelligence, quantum technologies, and additional undersea capabilities.

We see many opportunities to support the Australian forces in modernising sovereign defence capabilities, leveraging expertise from across QinetiQ.

Read more about our **Australian business** on Page 32

Other international markets

The strategic landscape has undergone a seismic shift following Russia's invasion of Ukraine in February 2022. This has provoked NATO to increase its defence capabilities and readiness to respond, adding to the pressure for the NATO member countries to increase their defence spending of at least 2% of GDP. Following the announcement of Germany to increase defence spending by EUR100bn over the next five years, many other NATO and European countries are also increasing their defence and security investment.

While priority and investment focus will be attached to the prosecution of our three home country strategies (UK, US and Australia), we will continue to conduct business in the support of allies in 5-Eyes, NATO and Continental Europe.

Read more about our **International markets** on Page 32

1 Sources: Jane's Market Budget Forecast April 2021, UK MOD and US DOD forecasts for RDT&E, Australia Defence publications and QinetiQ estimates.
2 Research & Development and Test & Evaluation.

Our stakeholders

Our approach to engagement

In order to deliver responsibly and for the benefit of all stakeholders we must understand what matters to our stakeholders. To do this we engage in a variety of ways in an open and transparent manner, trying to identify common goals. In some cases the Board will engage directly with certain stakeholders, however in others the relevant delivery teams will manage this engagement. This is dependent on the stakeholder and issues considered, with engagement led by those best placed to effect any necessary change. We expect that our approach and how we engage with our stakeholders will continue evolving as we pursue further growth and geographic expansion benefit of the customer, QinetiQ and our suppliers.

For more information on Section 172 Statement see page 72.

Primary stakeholders	How we engage	Impact of engagement	How we create value
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 to deliver mission-led innovation, and invest time in understanding and responding to their needs.	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 customer's 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 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.
Shareholders Our shareholders' ongoing support enables us to invest in our business and execute our growth strategy for the benefit of all stakeholders. In return we aim to deliver long-term sustainable growth and attractive returns.	We engaged with our shareholders during the year through both physical and virtual 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. We seek to keep an open dialogue with our shareholders, particularly around the short-term issues experienced in this year.	We have sought to keep the financial markets and our shareholders up-to-date with progress on the issues throughout this challenging year; shareholder feedback and comments on operational direction, returns and acquisitions has helped shape our strategic thinking and decision-making.	Our business model, supported by our strategy, aims to deliver sustainable long-term growth and returns to our shareholders.
Employees We are a people business and our employees are critical to our success. Their health, safety and wellbeing is vital and we are committed to providing fulfilling careers where our employees can perform meaningful and intellectually stimulating work.	Our methods of engagement include: Quarterly Peakon surveys, Q-talks, Global roadshows led by our CEO and Global Leadership Team, our Global Employee Voice Group (GEV) and other engagement forums (e.g. works councils), as well as indirectly through feedback on platforms such as Glassdoor.	Our engagement has helped us to identify priority focus areas to improve the employee experience. By listening to our people through our Peakon surveys we have directed our efforts to enhance those areas highlighted, including ways of working, safety, digital improvements and concerns on cost of living.	Our employees work in an 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.
Other stakeholders			
Suppliers We occupy a unique position in defence, working in partnership with various suppliers to deliver the best solutions for our customers. We strive to adopt a collaborative approach and ensure we treat our suppliers with integrity, taking a fair and sustainable approach.	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. We engage with our suppliers through our QinetiQ Collaborate programme; we seek new suppliers through our presence at external events and engagement with small to medium sized enterprises through our participation at "Meet the Buyer" events.	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.	Working with our suppliers we bring together complementary industry-leading thinking in a truly collaborative environment to the benefit of the customer, QinetiQ and our suppliers.
Communities We strive to be a good neighbour, having a positive impact on our local communities and wider society; from our outreach programme, inspiring the next-generation of scientists and engineers, to providing services that ensure the safety and security of members of society, and our Net-Zero emissions plan.	We engage via a variety of community investment activities such as outreach, volunteering, supporting local charities and community liaison.	Our community investment activity is viewed positively. Through our community liaison, our regular updates have ensured local people are aware of our activity. Our outreach activity has provided benefit to young people.	We aim to benefit the wider socio-economic wellbeing of the communities where we operate. We offer time for volunteering, and one of the main ways we support our local communities is through STEM (science, technology, engineering and maths) outreach with young people, raising aspirations and providing signposting to rewarding careers.
Regulators Various aspects of our business involve oversight from regulators. We engage with regulators to understand changing regulations, ensuring we can meet these requirements.	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.	We take an active role in the defence industry, with our customers, peers and partners alike. For example, our Chief Executive has been recently re-appointed as Industry Co-Chair of the Defence Growth Partnership (DGP).

Answers to some of our stakeholders' most frequently asked questions

Q What differentiates QinetiQ from competitors, particularly in regard to ESG?

A We are capability-focused rather than platform-focused, meaning we operate across all customer platforms, developing strong partnerships with customers, defence peers and academia. We are proud of our unique and privileged position as a customer-friend and advisor. Our core capabilities such as test and evaluation, training and rehearsal, robotics and autonomy support our purpose of protecting lives, by ensuring platforms work safely and correctly, and removing the war-fighter from harm's way. We are also proud to have published our Net-Zero GHG emissions plan and to manage over 50 conservation sites.

Q What is driving the strong performance in EMEA Services?

A EMEA Services is a brilliant example of the results from successful delivery of our long-term strategy, where we have been actively winning larger, longer-term contracts, which has driven strong growth in our backlog, supported by up-skilling our business development capability and our programme management capability to successful execute those contracts. This demonstrates the strength in the fundamentals of our strategy and the foundations of QinetiQ.

> "EMEA Services demonstrates the successful delivery of our long-term strategy."

Q What is QinetiQ's US growth strategy and how does this differ from the past?

A Our US growth strategy is developing a disruptive mid-tier operator in the world's largest defence market, targeting $600m annual revenue by FY26, through both organic and inorganic growth. Importantly, the structure and approach of QinetiQ US today is very different from 2006-2010. In the first instance we have significantly strengthened our governance system with Special Security Agreement (SSA), enabling much greater collaboration with the wider QinetiQ Group and management teams. Secondly we are focused on our core capabilities in higher-skill, higher-margin operations that align with key US budget growth segments such as sensing, autonomy and robotics. Thirdly, we have put in place a strong management structure to drive performance, including the excellent hire this year of Shawn Purvis as QinetiQ US CEO.

Q What is QinetiQ's exposure to inflation?

A As a predominantly service orientated business, our primary inflation exposure is from wages. For single source work (approximately half of Group revenue) wage inflation is recoverable as an allowable cost. In competitive processes any cost increase is considered in our pricing strategy. Fixed price contracts contain "variation of price" clauses that allow for an adjustment based on an agreed escalation factor or index, reducing or removing inflation risk to QinetiQ. Firm price contracts include our assumptions on wage growth over the contract, therefore we hold the benefit and risk of wage inflation being lower or higher than planned. We enter each financial year with approximately 60-65% of that year's revenue already contracted, therefore with the mix of fixed, firm and cost-plus contract we are exposed to approximately half of the cost increase as an impact to our bottom line with the other half passed directly on to customers.

Q What is QinetiQ's capital allocation policy?

A Firstly, we look to invest in our business to support the long-term growth of the Group. We do this through two lenses, supporting organic growth and targeting acquisitions that are strategically aligned with our overall growth ambition. Next, we look to retain a strong balance sheet and to optimise our capital structure. At present we have a net cash position but in future we would consider taking on leverage to fund strategically aligned acquisitions consistent with our financial and operating policies. Our business would be comfortable in a sustainable leverage position of circa 2 times net debt to EBITDA, and for the right strategic acquisition potentially higher for a short duration, returning to below 2 times leverage within 24 months. We also have a disciplined approach to portfolio management as demonstrated by the three disposals completed last year that were no longer aligned with our strategic objectives. Then we look to retain a progressive dividend to shareholders – the full-year dividend for FY22 is 7.3p per share. Finally we commit to return excess cash to our shareholders. Whilst we have had a material cash balance for a few years, and with good operational and strategic rigour this may continue to increase in the short term, we are comfortable with this as it gives us the flexibility and ability to prosecute our strategy.

Q What were the two discrete short-term issues that QinetiQ faced this year, why did they occur and how has QinetiQ's approach evolved since?

A In our first-half results we reported two discrete short-term issues. Firstly, an unusual combination of emergent risks across system maturity, supplier capability and contract delivery conditions on a large complex project caused a £14.5m write-down. The project has now been fully closed and the financial impact remains consistent and contained in our first half results. Neither the system nor the supplier exist in our forward order-book and there is no read-across to other programmes. After careful review, we strengthened our risk-management practices to better consider and mitigate the effect of combined risks materialising on an individual project. Secondly, US organic revenue reduced by 24% compared to prior year with the second half revenue performance recovery slower than expected. As we reported in November in our Interim results, there were a number of compounding effects that impacted our first half results in the US including lower opening order backlog due to COVID-19, supply-chain and the US administration change, and the customer priority pivot from Afghanistan to the Indo-Pacific. Whilst we took proactive steps to manage the revenue shortfall in the first half and position us for growth in the second half, our second half revenue recovery performance was slower than targeted, with the second half in line with the first half largely due to the US defence budget being constrained by the extended Continuing Resolution. The US defence budget was constrained by the extended Continuing Resolution through the first quarter of calendar 2022 which had a material impact on contract funding held back, and therefore customer spending behaviour, impacting our ability to deliver revenue in our fourth quarter; the impact of the Continuing Resolution delay was particularly felt by those companies like ours with March year ends.

EMEA Services

Overview

EMEA (Europe, Middle East and Australasia) Services combines world-leading expertise with unique facilities to provide capability generation and assurance, underpinned by long-term contracts that provide good visibility of revenue and cash flows.

Financial Performance	FY22 £m	FY21 £m
Orders[1]	918.9	864.4
Revenue	1,059.2	939.9
Underlying operating profit	135.6	118.6
Underlying operating margin	12.8%	12.6%
Book to bill ratio[2]	1.1x	1.2x
Total funded order backlog	2,541.6	2,710.6

1 To be consistent with revenue reporting prior year orders has been restated to exclude £1.7m of contribution from Joint Ventures.

2 B2B ratio is orders won, excluding the share of orders from JV orders, divided by revenue recognised, excluding the LTPA non-tasking services revenue of £222m (FY21 £226m).

Financial performance

Orders for the year increased by 6% to £918.9m (FY21: £864.4m), driven by £115m under the WSRF contract in the UK, mainly for the development of directed energy systems in the UK; an increase in orders from Defence Digital and Defence Intelligence; and an order worth A$27 million for Land systems engineering support in Australia.

Revenue increased by 13% to £1,059.2m (FY21: £939.9m), and grew by 13% on an organic basis, as a result of new work under the EDP and WSRF contracts, Defence Digital contracts (in Cyber & Information) and ongoing growth in Australia.

At the beginning of FY23, £726m of the division's FY23 revenue was under contract, compared to £684m (of the FY22 revenue) at the same point last year. This reflects the 6% increase in orders won in the year.

Underlying operating profit grew by 14% to £135.6m (FY21: £118.6m) and grew organically by 14% in line with revenue growth. Operating margin increased to 12.8% reflecting the continuation of disciplined cost control and risk management.

Including the LTPA, approximately 67% of EMEA Services revenue is derived from single source contracts (FY21: approximately 68%). By investing in our core contracts and extending their duration the high proportion of single source revenue contracted on a long-term basis provides visibility and reduces our exposure to future changes in the baseline profit rate set annually by the Single Source Regulations Office.

Business unit commentary

Maritime & Land (~39% of EMEA Services revenue)

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

- We supported Formidable Shield, the largest live-fire Integrated Air and Missile Defence exercise in FY22 led by US Sixth Fleet and conducted by Naval Striking and Support Forces NATO. In total, 16 ships, 31 aircraft, and approximately 3,300 personnel from 10 NATO nations participated in the live training event at the Hebrides range. We provided the safe environment, logistics and range control to facilitate this trial, across the maritime and air domains. A range of targets were used to test defences, including subsonic, supersonic and ballistic targets. This is an excellent example of our investment in the LTPA contract, driving enhanced operational outcomes for our customers and increasing the demand for our ranges, with QinetiQ being at the leading edge of safe delivery of complex events to ensure our NATO allies can defend against future threats.
- We supported the Royal Navy Carrier Strike Group Strike Warrior exercise at MOD Aberporth and Hebrides ranges, with our operational training and missions system business Inzpire, supporting the overall training activity using its God's Eye View (GEV) capability. Exercise Strike Warrior involved more than 20 warships, three submarines and 150 aircraft from 11 nations and was the final test for the Carrier Strike Group before its first operational deployment. The GEV system developed by QinetiQ enabled the Royal Navy and Royal Air Force to enhance the training value from the exercise with a near real-time picture of the overall exercise, tracking each asset across waters off north-west Scotland by connecting sensors across the Hebrides range and RAF bases through a digital backbone.
- We have won orders totalling £115m on the Weapons Sector Research Framework (WSRF) contract, including work on the development and deployment of directed energy weapons for the UK MOD, an important capability as identified in the Integrated Review earlier in the year, particularly focused on counter-hypersonics. We were appointed to lead the WSRF in June 2020 by DSTL, alongside industry partners MBDA and Thales. The framework, which we expect to be worth £300m over five years, brings together more than 100 industry and academic partners to research and develop technologies for the benefit of the UK MOD.
- Working alongside a range of industry and NATO partners, we successfully delivered the *Robotic Experimentation and Prototyping augmented by Maritime Unmanned Systems* (REPMUS) trials in Portugal. This was an important unmanned system development trial that combined multi-national and multi-domain data to generate a detailed mobile command and control picture of the battle-space used by an amphibious raiding party.
- Under the LTPA Air Ranges Modernisation programme we have completed a significant upgrade to our facilities on the island of St Kilda – the UK's only dual UNESCO World Heritage site, 40 miles off the west coast of the Outer Hebrides in Scotland. We have developed a new energy centre, accommodation, tracking radars and telemetry, completed on time and to budget.
- We have made an investment in our autonomy capability in the UK, acquiring the Northstar autonomous navigation software intellectual property and related test and trials assets from TP Group Plc. As part of the investment, the software development team have also moved to QinetiQ. This investment demonstrates our capital allocation policy in action, investing in important capabilities and IP to support future growth in the UK and internationally.

Air & Space (~22% of EMEA Services revenue)

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

- The Engineering Delivery Partner (EDP) programme continues to evolve to deliver the ever changing needs of our customers, and has now delivered over £920m of orders since inception of this 10-year framework contract in October 2018. Over 97% of engineering outputs have been delivered on time, right first time. This year, we also achieved Full Operating Capability (FOC) as planned and we successfully passed through the 4-year review point demonstrating DE&S' continued confidence and commitment to the contract. Key wins this year include:
  - A £25m, 3-year contract to integrate all Lightning II Technical Support requirements to provide the continuity and flexibility necessary to support safe, effective and operationally focused aircraft capability development;
  - A multi-year contract bringing together the Land Assurance QinetiQ is providing into a single, agile contract, supporting the achievement of FOC of the AJAX vehicle line by 2025;
  - A series of contract amendments totalling £22m to supporting the New Style of IT programme in its delivery of critical engineering delivery commitments and timelines through maintaining essential engineering expertise and continuity of technical knowledge.
- Despite logistical challenges presented by COVID-19, we have successfully delivered the full 2021 Test Aircrew Training course. Aligned with our global ambitions and broadening international success, our training courses are attracting significant international demand. In FY22, we have welcomed students from Australia, Finland, Switzerland, Netherlands, Sweden, German and Turkey.
- We have made good progress on developing the tools, people, processes and procedures for Digital Test and Evaluation. We are applying these to the New Medium Helicopter acquisition programme for DE&S where we will pilot our digital innovation on this important procurement to help the MOD speed up its decision-making and reduce costs.
- Building on our pre-collaboration agreement on the UK's next-generation fighter concept known as Tempest, throughout the year we have signed contracts with the four main key industry partners to develop our role and position in the programme. We will provide capability assurance, helping streamline the development programme, while also exploring how our advanced technologies could be used to enhance operational capability of the platform. We have also continued to develop opportunities on the FCAS Acquisition Programme.
- We continue to deliver on a range of other critical programmes and capabilities in the Air domain, including Merlin CROWSNEST radar trials and Future Anti Surface Guided Weapon trials in support of the MOD Carrier Strike Group (CSG) capability, acceleration of the Tribune program, bringing the C130J capability across to the A400M, support to the Battle of Britain Memorial Flight, and continued provision tests for Boeing in our five-metre wind tunnel at Farnborough.

Cyber & Information (~29% of EMEA Services revenue)

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

- We have won over £160m of orders with Defence Digital and Defence Intelligence. We have become a strategic partner supporting Strategic Commands' digital change programmes and are well-placed to continue to leverage our position with these customers in the coming years. Orders won include the following , many of which are contracted through EDP:
  - A £33m contract to transform the aeronautical data management and aeronautical information production capability for UK MOD. PICASSO Aeronautical Information Capability (P-AIC) will provide global access to reliable, timely, accurate, and (where applicable) assured and legislatively aligned, worldwide Aeronautical Information that will support safe Defence aviation. The solution will be a 24/7, cloud-hosted, system-of-systems, that will transform the way UK MOD manages aeronautical data;
  - In 2018, a significant competitive programme to provide private sector client side support to the Battlefield Tactical Communication and Information Systems (BATCIS) Delivery Team within Defence Digital (within MOD). The contract is a critical enabler to deliver the next generation of Tactical Communication and Information Systems as part of a Single Information Environment for UK armed forces. Following the strong delivery in the first three years of the programme by both QinetiQ and in collaboration with our partners (Roke, ATOS and BMT) and suppliers, we have been awarded a one-year extension;
  - A several million pounds 2-year contract extension to support UK MOD in the development and transition to live service of a cutting edge, highly scalable and deployable secure Communications and Information System;
  - The DI Pillar £20m contract to support defence intelligence transformation, covering aspects key to defence intelligence: from electronic warfare; mission data; intelligence training; capability assessments to accelerating innovation; implementing Urgent Operational Requirements (UORs); adding automation; and providing enhanced resilience. This contract is won and delivered through EDP alongside our partners and subject-matter experts.
- Over the last year we have seen strong delivery progress on the highly complex Robust Global Navigation System (RGNS) development contract, won in 2019 with the MOD. We have completed the hardware design and initial associated embedded software development and integration. This is an important programme for the UK to develop the next-generation satellite navigation and timing receivers, that will be robust and reliable in the most challenging and contested environments. The contract is a great example of QinetiQ delivering on highly complex programmes at the leading-edge of technology for sovereign capability.
- Our recent acquisitions of NSC and Naimuri are performing well producing over 20% year-on-year revenue growth. In particular, in line with our acquisition strategy, we have successfully leveraged the Naimuri business (acquired in 2020) into the National Security and Data Intelligence UK market, now a key supplier on intelligence frameworks.

International (~10% of EMEA Services revenue)

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

- Our Australian business continues to deliver strong growth. Our Major Service Provider (MSP) contract has delivered orders totalling A$97m including an A$27m order to assist the Australian Department of Defence in delivering its largest and most complex Land projects. This contract positions us for future growth as a trusted partner able to provide sovereign Australian industry capability, while leveraging our global capabilities.
- Building on our success with the development of the unmanned aerial systems (UAS) flight test range in Queensland, we have signed our first commercial Queensland UAS range user agreement. This demonstrates excellent progress in leveraging our UK capabilities in Test and Evaluation to support growth in our key home markets internationally.
- In Germany, following the re-baselining of the business plan in FY21, this past year has been better for the business, winning both extensions and new work. Furthermore the German Government's commitment to increase defence spending provides a supportive environment to business growth in our capabilities of operational training and special mission support.

Global Products

Overview

Global Products delivers innovative solutions to meet customer requirements. The division is technology-based and has shorter order cycles than EMEA Services. 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.

Financial Performance	FY22 £m	FY21 £m
Orders	307.7	285.0
Revenue	261.2	338.3
Underlying operating profit	1.8	33.2
Underlying operating margin	0.7%	9.8%
Book to bill ratio[1]	1.2x	0.8x
Total funded order backlog	287.2	233.5

1 B2B ratio is orders won divided by revenue recognised.

Financial performance

Orders increased by 8% to £307.7m (FY21: £285.0m) This was driven by a US$62m order for the full rate production contract on the SPUR robots in the United States, partly offset by a reduction in order value of £22.5m associated with the complex project, and a change in customer funding priorities from counter-insurgency missions in Afghanistan to emerging near-peer threats in the Indo-Pacific and the impact of the Continuing Resolution in early 2022.

At the beginning of FY23, £172m of the division's FY23 revenue was under contract, compared to £117m (of the FY22 revenue) at the same point last year. This increase reflects the growth in orders in year combined with lower revenue burn following supply chain and technical challenges in the United States in FY22.

Revenue was down 23% on a reported basis at £261.2m (FY21: £338.3m), due to slower recovery in the US including COVID related delivery and supply-chain challenges on the initial production ramp-up of SPUR robots and the change in customer funding priorities mentioned above. Furthermore there was the loss of revenue contribution from the FY21 disposals (Optasense, Boldon James and Commerce Decisions) amounting to £16.8m. Excluding the impact of these disposals and foreign exchange, revenue was down 16% (£51.7m) on an organic basis.

Underlying operating profit fell to £1.8m (FY21: £33.2m), with an underlying operating profit margin of 0.7% (FY21: 9.8%). This loss was driven by a £14.5m write-down on the complex project and the revenue shortfall in the US business. Excluding the impact of this write-down operating profit was £16.3m (6.0% margin) in FY22.

Business Unit commentary

United States (~58% of Global Products revenue)

Our US business develops and manufactures innovative defence products specialising in robotics, autonomy and sensing solutions. This business unit comprises Technology Solutions (formerly QNA) as well as C5ISR Solutions (formerly MTEQ), which we acquired in December 2019.

- US organic revenue reduced by 24% compared to prior year with the second half revenue performance recovery slower than expected. As we reported in November in our interim results, there were a number of compounding effects that impacted our first half results in the US, including lower opening order backlog due to COVID-19, supply-chain issues and the US administration change, and the customer priority pivot from Afghanistan to the Indo-Pacific.
- Whilst we took proactive steps to manage the revenue shortfall in the first half and position us for growth in the second half, our second half revenue recovery performance was slower than targeted, with the second half in line with the first half largely due to the US defence budget being constrained by the extended Continuing Resolution. The US defence budget was constrained by the extended Continuing Resolution through the first quarter of calendar 2022 which had a material impact on contract funding held back, and therefore customer spending behaviour, impacting our ability to deliver revenue in our fourth quarter; the impact of the Continuing Resolution delay was particularly felt by those companies like ours with March year ends. Furthermore we have also seen some delays to other contract wins due to overall customer sentiment during these times, which has had the effect of delaying some spending decisions.

Business unit commentary

United States (~58% of Global Products revenue) continued

Despite these challenges, we have secured an impressive $253m of orders in FY22, 19% growth on the prior year.

- Building on the successful delivery and trials of our Intelligence, Surveillance and Reconnaissance (ISR) prototype system on a Program of Record, we have won a $24m contract from the US Army to build three additional SPECTRE next generation full spectrum hyperspectral prototype sensors. SPECTRE is an ISR sensor system that enables multi-mission Uncrewed Air Systems (UAS) and crewed aircraft to operate in parallel to other critical sensor payloads and weapons, with improved performance at a fraction of the size and weight of the sensors currently in use by the US Government. This is exciting progress for our US business, with opportunity for greater exploitation in the future.
- Our Next Generation Advanced Bomb Suit (NGABS) for the US Army has successfully completed field testing to enable full-rate production to commence in FY23, worth an estimated $70m over a five-year period. Our solution brings together a novel see-through Heads-Up Display, combined with advanced integrated sensing capability, to bring a differentiated capability for Explosive Ordinance Disposal operators. As a Program of Record, NGABS production will provide another significant foundation for our growth in the US.
- We have won a $10m contract with the US Army to develop our supersonic target offering. The contract, known as Modernizing Instrumentation Solutions for Test and Evaluation (MISTE) for High Energy Laser Measurement (HELM), is a great example of our single routes to market in action, leveraging our Rattler target into the US for the testing of high energy lasers on supersonic targets.
- We have also secured a $62m FRP contract in the US for over 1,200 SPUR robots under the Common Robotic System–Individual (CRS-I) contract with a multi-year delivery schedule for the US Army. The SPUR robot enables a heightened capability for organic tactical reconnaissance, surveillance and target acquisition to enhance manoeuvres and protection for dismounted forces. The small advanced robotic platform is lightweight and highly mobile offering unprecedented capability in multi-domain environments including special payloads, advanced sensors and mission modules. CRS-I is the largest US Government Program of Record in robotics, giving us a strong platform for growth. During the year we have completed necessary steps to transition the contract from low rate to full rate production to meet customer delivery milestones in the years ahead.
- We received a $12m contract for delivery of additional prototype vehicles under the Robotic Combat Vehicle Light (RCV-L) programme, for testing and experimentation by the US DoD. Furthermore, we have established a strategic partnership with Oshkosh for the Optionally Manned Fighting Vehicle (OMFV) competition, seeking to position ourselves to be the primary provider of autonomous controls and integration for the US military land platforms.
- We are investing in tactical airborne and strategic ISR capabilities and strategic teaming to exploit our expertise on combat-vehicle platforms over the next few years to drive future growth. We are confident we will deliver growth in the second half from existing contracted customer-funded R&D work and new growth opportunities on airborne sensors and ground-vehicle integration.
- In January 2022 we announced the appointment of Shawn Purvis as the new President and CEO of QinetiQ US. Shawn has more than 25 years of experience in the US defence and intelligence industry with Northrop Grumman and SAIC, with a track record of transformational leadership, driving billion-dollar P&L performance of complex organisations and large-scale acquisition integration. Shawn is further building her US leadership team to support the scale of our ambition of growth. In July 2021 we also appointed Lawrence (Larry) Prior III to the QinetiQ Plc Board; he brings a wealth of US experience from aerospace, defence and government services. With these executive and non-executive appointments, we are building the right foundations for growth to more than double the size of the US business over the next five years, through both organic growth and strategy-led acquisitions. For more context and information on our growth ambition and plan, please refer to the investor seminar we presented on 27 April 2022: Delivering our global ambition; a playback can be found on our website here: https://www.qinetiq.com/en/investors/investor-seminars/delivering-global-growth.
- While the second half revenue in the US has been lower than we expected, we remain confident of our growth looking forward. We have secured 20% growth in order intake in FY22 which, coupled with our new leadership team, headed by Shawn Purvis, provides a strong foundation for delivery of our strategy in the US.

Space Products (~15% of Global Products revenue)

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

- We have won two significant new contracts in our Belgium Space business:
  - -A €28m contract for satellite and payload integration of Quantum Key Distribution encryption technology. This is a significant commercial satellite win with our customer, ArQit, aiming to be the first provider of quantum encryption services to the defence and commercial sectors. This contract also provides market opportunity for further follow-on satellite sales over the next 10 years.

Building on the success of the PROBA satellite platform, we have won a >€10m contract for the European Commission, contracted via the European Space Agency (ESA) to deliver and operate an important new satellite that will support technological innovation, de-risking and concept testing for public agencies and commercial enterprises in Europe. The satellite will provide organisations with new opportunities to capitalise on affordable access to space demonstration and validation, essential for driving advances in new space technologies and capabilities.

EMEA Products (~27% of Global Products revenue)

EMEA Products provides research services and bespoke technological solutions developed from intellectual property originating in EMEA Services. QinetiQ Target Systems is also reported within EMEA Products.

- We have entered into a strategic collaboration agreement with automotive manufacturer AM General to accelerate the development of electrification technologies for military vehicles. The partnership has begun with the development of a hybrid concept of the globally iconic HMMWV (High-Mobility Multipurpose Wheeled Vehicle often referred to as 'HUMVEE') – demonstrating the viability of electrifying military land vehicles to deliver enhanced performance while decarbonising military operations. The HUMVEE vehicle concept is the first step of a highly ambitious programme in which QinetiQ and AM General are exploring how electrification can transform competitive advantage in the land domain. This collaboration will lay the foundation for further research into electrification capabilities for land vehicles, for example autonomous systems, increased situational awareness through enhanced sensor capability and optical communications.
- QinetiQ Target Systems (QTS) experienced disruption in FY21 due to COVID-19 with cancellations of trials and deployments due to travel restrictions around the world. Through FY22 we have seen significant positive progress across the QTS business with customers resuming trials and exercises and winning some significant orders, seeing growth in both their existing countries and new business wins in the US, India and Japan – the business has both recovered from COVID and achieved its largest order intake ever with £42m orders.
- QinetiQ Target Systems, under the LTPA and CATS contracts, in September 2021 supported trials of our Banshee Jet 80+ on the flight-deck of HMS Prince of Wales. The Banshee flights represent the first step for the UK Royal Navy in exploring how crewless technology could be operated from the Queen Elizabeth-class aircraft carriers in the future. Commander Rob Taylor, lead for Royal Navy air test and evaluation group, commented: "There is a real need for a low-cost drone such as the Banshee that can replicate a range of the threats in the skies and provide a test bed for future payloads".
- Our sensors and communication products have seen strong global demand and growth, with orders of £15m for our SIGINT, counter-drone radar, secure communication and secure navigation products to UK and international customers.

"Exceptionally strong performance in EMEA Services enabled us to partially mitigate a disappointing year from Global Products."

Financial performance

	Statutory results		Underlying results	
(£m)	FY22	FY21[2]	FY22	FY21
Revenue	1,320.4	1,278.2	1,320.4	1,278.2
Operating profit	117.5	108.7	137.4	151.8
Profit after tax	90.0	121.9	118.1	126.1
(p)				
Earnings per share	15.7	21.4	20.6	22.1
Dividend per share	7.3	6.9	7.3	6.9
Total funded order backlog			2,828.8	2,944.1
Total orders			1,226.6	1,149.4
Net cash inflow from operations	209.7	194.4	215.3	199.0
Cash conversion ratio[1]			114%	98%
Free cash flow			110.0	106.7
Net cash			225.1	164.1

1 Cash conversion defined as operating casflow pre-capex/ EBITDA.

2 Prior year comparatives have been restated due to a change in accounting policy in respect of software implementation costs.

Overview of full year results

We have made good progress with a strong second half, partially offsetting the challenging first half.

We delivered strong orders and revenue, growing organically by 9% and 5% respectively. Prior to the complex project write-down, we delivered good underlying trading performance with operating profit margins within our short-term target range at 11.4%. Strong cash performance has continued in FY22 and we closed the year with net cash of £225.1m, which continues to provide support for investment opportunities. We have changed our cash conversion definition to reflect our pre-capex cash flows as a proportion of EBITDA – using this new definition we achieved underlying cash conversion of 114%. We enter FY22 in a strong position, with a large order backlog and a robust balance sheet.

Orders in the year totalled £1,226.6m (FY21: £1,149.4m), a 7% increase, 9% on an organic basis. This included £320m of Engineering Delivery Partner (EDP) framework orders, £115m under the WSRF contract and in excess of £160m from Defence Digital and Defence Intelligence in EMEA Services and in the United States a $62m order for the full rate production contract on the SPUR robots in Global Products.

We are also seeing positive trends in our order-book progression:

- Backlog: The LTPA is a large multi-year contract that was booked in prior years – as we deliver revenue this will naturally reduce the LTPA order backlog. Order backlog excluding the LTPA continues to steadily increase, with 7% CAGR increase, now standing at £1.33bn.
- Opportunity size: As part of our previously stated strategy, we are also seeing success in winning and delivering on larger longer-term contracts, with 34% of our FY22 Orders from contracts over £5m in size, up from 28% two years ago.

Revenue increased 3% to £1,320.4m (FY21: £1,278.2m) up 5% on an organic basis, with a 13% organic increase in EMEA Services primarily due to ongoing EDP growth, new work under the WSRF contract and work delivered under the Major Service Provider (MSP) contract in Australia. Global Products revenue was down 16% organically due to the revenue performance recovery in the US being slower than expected, with the second half in line with the first half, largely due to the US defence budget being constrained by the extended Continuing Resolution.

As explained in our Interim Results, in the first half we reported a write-down on a large complex project due to technical issues and supplier delay on system development for a service contract.

The write-down was due to a unique combination of emergent risks across system maturity, supplier capability and contract delivery conditions. Our first half results included a prudent judgement of the revenue and additional cost impact to resolve the project. The impact on our full year underlying results was an order reduction of £22m, revenue reduction of £11m and operating profit reduction of £14.5m. The project has now been fully closed and the financial impact remains consistent with and contained in our first half results.

Underlying operating profit of £137.4m (FY21: £151.8m) was down 9%. Excluding the impact of the write-down underlying operating profit was flat at £151.9m, at 11.4% margin, consistent with our short-term target range of 11-12%. On an organic basis (after adjusting for the impact of acquisitions, disposals and the effect of foreign exchange) underlying operating profit was down 12%. Operating profit in Global Products decreased by £31.4m primarily due to the write-down and US reduced revenue. This was offset by EMEA Services which saw a 14% increase in profit following a similar increase in revenue in this area of the business.

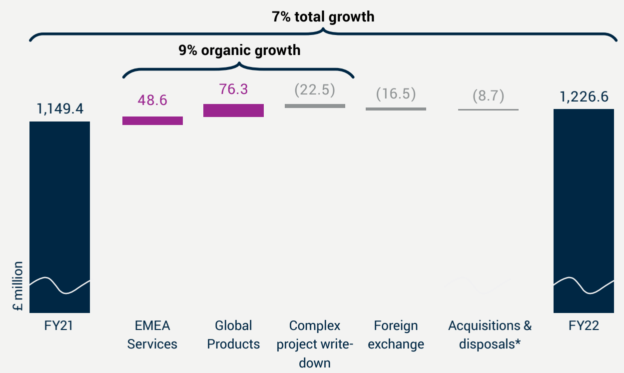
Statutory operating profit, including the impact of specific adjusting items, as set out below, was £117.5m (FY21 restated: £108.7m).

Underlying profit before tax decreased 9% to £136.0m (2021: £149.9m) in line with the decrease in underlying operating profit, with underlying net finance expense at £1.4m (2021: £1.9m).

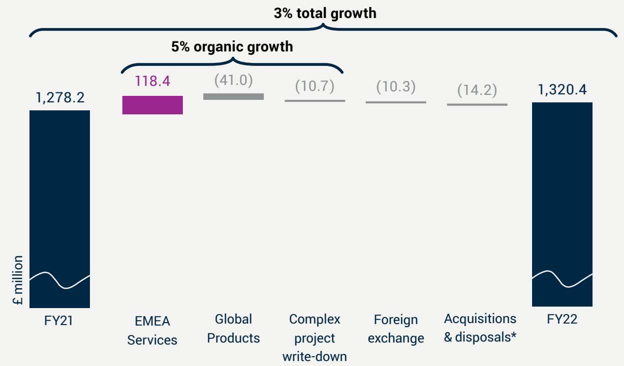
Specific adjusting items

Specific adjusting items, sometimes referred to as the middle column, at the operating profit level amounted to a loss of £19.9m (FY21 restated: loss of £43.1m). This included £10.7m amortisation of acquired intangibles (FY21: £10.9m); £3.7m associated with unsuccessful acquisition activity (FY21: £1.0m acquisition costs); a £2.4m past service cost in respect of the defined benefit pension scheme and a £1.9m charge in respect of a change in accounting policy in respect of software implementation costs. The latter arises from a decision by the International Financial Reporting Interpretations Committee (IFRIC) on how companies should be interpreting accounting standards when assessing how to account for configuration and customisation costs in cloud computing arrangements.

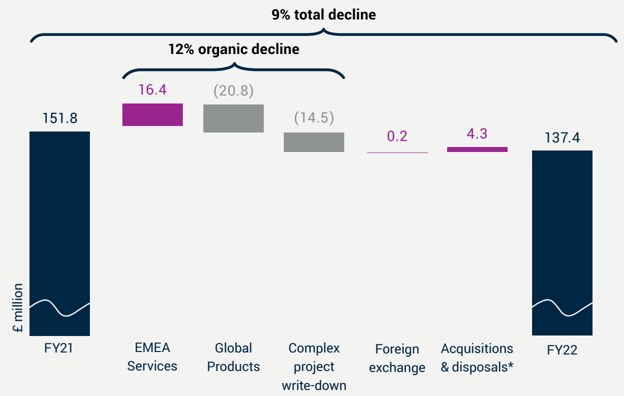
Orders bridge



Revenue bridge



Underlying operating profit bridge



* Prior year acquisition of Naimuri and prior year disposal of Optasense, Boldon James and Commerce Decisions

Many companies, including QinetiQ, are now having to expense, rather than capitalise, the costs of implementing new software tools procured through "Software as a Service" arrangements.

Below operating profit, specific adjusting items included income of £4.5m (FY21: £7.1m) in respect of the defined benefit pension net surplus and a tax expense of £11.8m (FY21 restated: £3.1m income), discussed in more detail below. The prior year also included a gain on sale of businesses and investments of £28.7m and a £25.4m goodwill impairment in relation to the QinetiQ Germany business. Further analysis is set out in note 4.

Net finance costs

Net finance income was £3.1m (FY21: £5.2m). The underlying net finance expense was £1.4m (FY21: £1.9m) with additional income of £4.5m (FY21: £7.1m) in respect of the defined benefit pension net surplus reported within specific adjusting items. The pension net finance income is calculated as a percentage of the opening net asset. In FY22 the opening net asset (£214.3m) was substantially smaller than the net asset at the start of FY21 (£309.7m) generating a reduction in the level of net finance income.

Similarly, the increase in the net surplus within FY22 (closing at £362.2m) will lead to an increase in the pension net finance income in FY23.

Tax

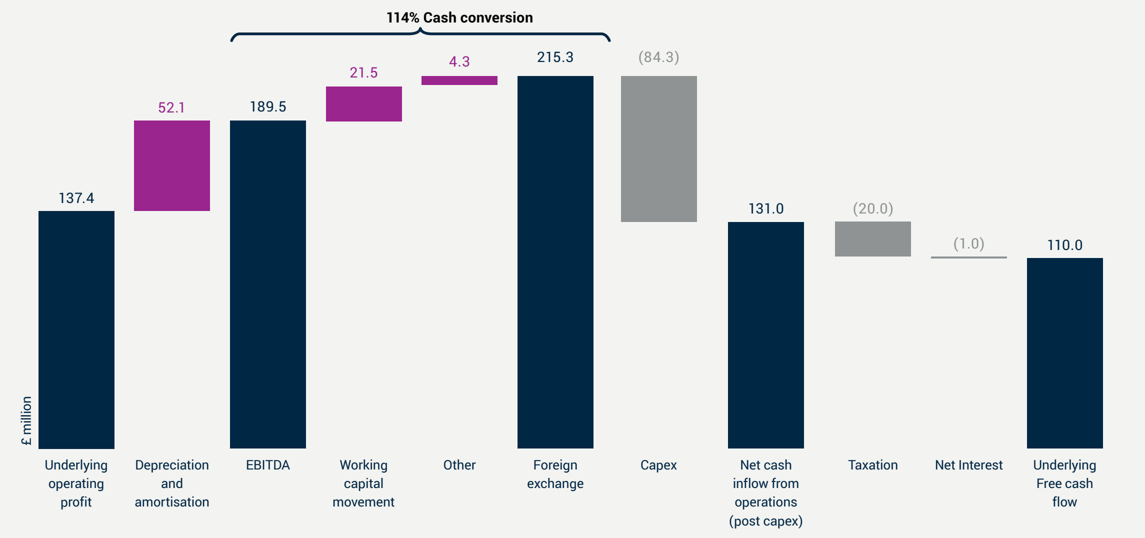
The total tax charge was £29.7m (FY21 restated: £20.7m), with specific adjusting items driving the increase. The underlying tax charge was £17.9m (FY21: £23.8m), on lower underlying profit before tax with an underlying effective tax rate of 13.2% for the year ending 31 March 2022 (FY21: 15.9%). The underlying 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 for under IAS 12 within the tax line. An adjusted underlying effective tax rate before the impact of RDEC would be 17.3% (FY21: 19.4%). The impact of RDEC is shown net of £9.5m (FY21: £10.6m) appropriated by the MOD. Within other creditors there are provisions for payments of MOD appropriations awaiting the resolution of an SSRO decision with regard to RDEC which may give rise to a reversal of the creditor and to an increased benefit from RDEC in the income statement in the current and future periods.

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 £15.9m charge in respect of the impact on UK deferred tax balances due to the UK corporation tax rate change from 19% to 25% has been classified as a specific adjusting item. Together with a £4.1m income (FY21 restated: income of £3.1m) in respect of the pre-tax specific adjusting items (see note 4), the total specific adjusting items tax expense was £11.8m (FY21 restated: income of £3.1m).
At 31 March 2022 the Group had unused tax losses and US carried forward interest expense of £128.1m (FY21: £73.2m) which are available for offset against future taxable profits. Deferred tax assets are recognised on the balance sheet of £15.5m in respect of £59.7m of US net operating losses, £4.5m in respect of £19.0m of Canadian net operating losses and £1.8m in respect of £5.5m of German trade losses.

Cash flow bridge

Strong cash generation



Cash performance

Underlying net cash flow from operations was £215.3m (FY21: £199.0m). Listening to stakeholder feedback we have changed our cash conversion definition to reflect our pre-capital expenditure cash flows as a proportion of EBITDA in order to demonstrate how we convert our profit (excluding interest, tax, depreciation and amortisation) into cash flow – under this new definition we achieved underlying cash conversion of 114%, an increase from 98% last year applying the new definition; for reference using our prior year definition we delivered cash conversion (pre-capex cash flow vs operating profit) of 157% (FY21: 131%). This cash flow included a £21.5m working capital inflow driven by the timing of contract receivables and payables.

Capital expenditure increased to £84.3m (FY21 restated: £75.9m), driven by ongoing LTPA contract investment and digital transformation. After paying tax and net interest of £21.0m the Group generated free cash flow of £110.0m (FY21: £106.7m). Looking forward, given the nature of our business model, we expect to continue to fund our capex requirements from operational cash flow.

As at 31 March 2022 the Group had £225.1m net cash (FY21: £164.1m). The increase in net cash was primarily due to the £110.0m free cash flow, offset by dividend payments of £40.2m (FY21: £37.7m).

We retain a strong balance sheet to support investment in our long-term growth strategy and maintain a rigorous approach to the deployment of our capital, scrutinising organic and inorganic opportunities in the same manner, to ensure returns to our shareholders are appropriate for the risks taken.

Our priorities for capital allocation, following this rigorous methodology, are:

1. Organic investment complemented by 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.

Through FY22 we have demonstrated our capital allocation policy in action: excellent cash conversion and balance sheet strength retained; £84m capital investment in year; M&A targets pursued; and a progressive dividend payment confirmed. Whilst we have had a material cash balance for a few years and with good operational and strategic rigour this may continue to increase in the short-term, we are comfortable with this as it gives us the flexibility and ability to prosecute our strategy.

Committed facilities

The Group has a £275m bank revolving credit facility with an additional 'accordion' facility to increase the limit up to £400m. The facility, of which £65m will mature on 27 September 2024 and £210m will mature on 27 September 2025, was undrawn at 31 March 2022 and provides the Group with significant scope to execute its strategic growth plans.

Return on Capital Employed (ROCE)

In order to help understand the overall return profile of the Group, last year we reported our Return on Capital Employed, using the calculation of: 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 FY22 Group ROCE was 26% (FY21: 28%). Before the impact of the complex project write-down FY22 ROCE is 28%, in line with the prior year. As we continue to invest in our business to support sustainable long term growth our ROCE is forecast to remain attractive, at the upper end of the 15-20% range.

Earnings per share

Underlying basic earnings per share decreased by 7% to 20.6p (FY21: 22.1p) driven by the lower underlying profit after tax. Basic earnings per share for the total Group (including specific adjusting items) decreased 26% to 15.7p (FY21 restated: 21.4p).

The average number of shares in issue during the year, as used in the basic earnings per share calculations, was 573.2m (FY21: 569.7m) and there were 573.8m shares in issue at 31 March 2022 (all net of Treasury shares).

Dividend

The Board proposes a final FY22 dividend per share of 5.0p (FY21: 4.7p) making the full year dividend 7.3p (FY21: 6.9p). The full year dividend represents an increase of 6% in line with the Group's progressive dividend policy.

Subject to approval at the Annual General Meeting, the final FY22 dividend will be paid on 25 August 2022 to shareholders on the register at 29 July 2022.

Pensions

The net pension asset under IAS 19, before adjusting for deferred tax, was £362.2m (31 March 2021: £214.3m). The key driver for the increase in the net pension asset since March 2021 was gains due to changes in financial assumptions (primarily in respect of the discount rate), which decrease the present value of scheme liabilities, partially offset by a small decrease in the value of scheme assets.

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

Foreign exchange

The Group's income and expenditure is largely settled in the functional currency of the relevant Group entity, mainly Sterling, US Dollar or Australian Dollar. The Group has a policy to hedge all material transaction exposure at the point of commitment to the underlying transaction. Uncommitted future transactions are not routinely hedged. The Group does not hedge its exposure to translation of the income statement. The principal exchange rates affecting the Group were the Sterling to US Dollar and Sterling to Australian Dollar exchange rates.

For the avoidance of doubt, the strategic report covering pages 1 to 75 has been approved by the board and signed on their behalf by:

Carol Borg
Chief Financial Officer
20 May 2022

Details of the **Group's tax strategy, treasury policy and approach to managing currency risk and liquidity risk** can be found in the Additional Information section on **page 205**

Key performance indicators

Financial KPIs

The overall objective of our strategy is to deliver sustainable growth, creating long-term value for our stakeholders.

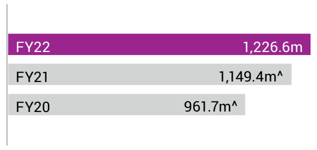
Our progress is measured by a range of financial and non-financial key performance indicators (KPIs).

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 business units and where relevant, are accompanied by indicators specific to those business units.

Our non-financial KPI are shown on page 42 and 43.

Orders (£m)

1,226.6
(FY21: 1,149.4)^



Description

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

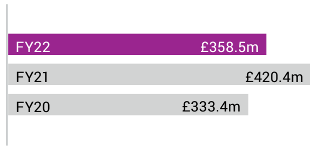
Orders in the year were £1,226.6m, up by 7%, or 9% on an organic basis. EMEA services grew by 6% on an organic basis driven by growth in WSRF orders. Global Products grew 20% on an organic basis, driven by a $62m order for SPUR robots full rate production contract in the US.

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)

358.5
(FY21: 420.4)



Description

This represents revenue derived from non-UK customers, that was recognised in the period. International revenue demonstrates the Group's ability to win and deliver work outside of the UK. Building a global defence and security business and leveraging Group-wide capabilities is a core pillar of our strategy.

Performance this year

Non-UK revenue was down 16% organically due to the revenue performance recovery in the US being slower than expected, with the second half in line with the first half, largely due to the US defence budget being constrained by the extended Continuing Resolution.

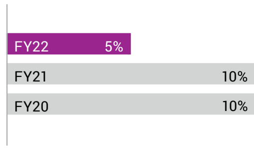
Link to strategy

Growing our international revenues and leveraging Group-wide capabilities to support growth is a core pillar of our strategy, which aims to deliver long-term sustainable growth for shareholders. International revenue was previously used as a metric for remuneration purposes in the Deferred Share Plan in FY20. It is no longer used for remuneration purposes but remains a KPI.

^ Restated to exclude Joint Ventures

Organic revenue growth (%)

5%
(FY21: 10%)



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.

Performance this year

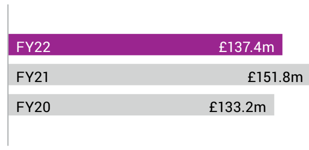
Revenue grew by 5% on an organic basis, driven by a strong performance in EMEA Services where organic growth was 13%, driven by ongoing EDP growth and new work under the WSRF contract. This was partially offset by a 15% organic decline in Global Products driven by challenges in the US business.

Link to strategy

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. 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)

137.4
(FY21: 151.8)



Description

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

Performance this year

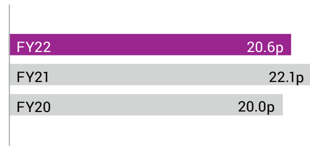
Underlying profit decreased by 9% (£14.4m) to £137.4m, driven by the £14.5m complex project write-down. There were various other movements including US underperformance, offset by stronger EMEA Services performance.

Link to strategy

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.

Underlying earnings per share (p)

20.6
(FY21: 22.1)



Description

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

Performance this year

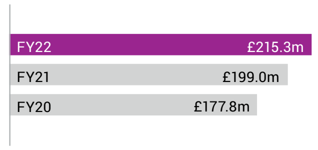
Underying EPS decreased by 7% (1.5p) to 20.6p with the decline in underlying profit partially offset by the lower effective tax rate.

Link to strategy

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.

Underlying net cash flow from operations (£m)

215.3
(FY21: 199.0)



Description

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

Performance this year

Underlying net cashflow from operations was strong, growing 8%. This reflects movements in working capital and no cash impact from the complex project profit write-down.

Link to strategy

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.

Key performance indicators

continued

Non-financial KPIs

We are committed to delivering responsibly and sustainably for the benefit of all of our stakeholders.

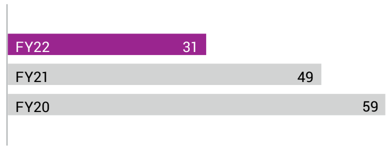
Understanding measurements that give us insight into customer satisfaction, health and safety and employee engagement help us enhance our performance and are vital in ensuring our progress is sustainable.

Read more about our ESG approach on Page 44

Customer satisfaction (Net Promoter Score)

31

(FY21: 49)



Description

The Net Promoter Score is an internationally recognised metric for customer satisfaction. The NPS 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.

Performance this year

Our score remains in the category of good, supported by our continuous improvement approach to actioning customer feedback.

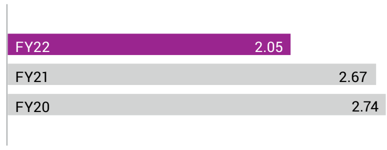
Link to strategy

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

Health and safety (LTI)

2.05

(FY21: 2.67)



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.

Performance this year

Our LTI decreased to 2.05 in FY22 from 2.67 in FY21. This ongoing decrease, is supported by our EHS strategy and planned future programme.
See page 55 for more details.

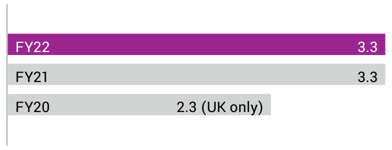
Link to strategy

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

Early careers talent (%)

3.3%

(FY21: 3.3%)



Description

The total percentage of our early careers community (apprentices, graduates and sponsored students) of our global workforce. We have been measuring this globally for two years, improving on a UK-only KPI in FY20).

Performance this year

We continue to see investment in our early careers community and programmes, and see a steady level in the number of our early careers population (again 3.3%) compared with FY21.
See page 58 for more details.

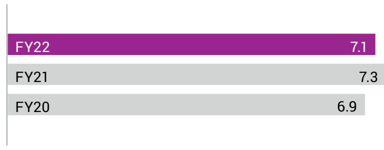
Link to strategy

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

Employee engagement (score out of 10)

7.1

(FY21: 7.3)



Description

We use WorkDay Peakon, an employee engagement measurement tool, which provides regular insights into how our people feel about working at QinetiQ, enabling us to identify what we are doing well, but also where we can improve and take action.

Performance this year

This year we continue to have good participation rates (71%) and have seen a slight decline in the overall score, 7.1 in FY22 from 7.3 in FY21, but with some areas of improvement.
See page 58 for more details.

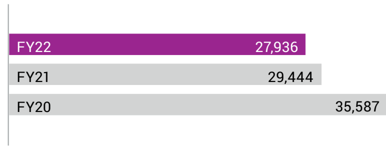
Link to strategy

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".

Greenhouse gas emissions Scope 1 & 2 (tonnes CO_2e)

27,936

(FY21: 29,444)



Description

In FY19 we set a target to reduce our Scope 1 and Scope 2 greenhouse gas emissions, by 25% from the FY19 base year. During FY22 we set new targets; in FY23 we will be transitioning to a new target and will show performance in the Annual Report for completeness.

Performance this year

We saw a significant decrease in our Scope 1 and Scope 2 emissions in FY21 compared with FY20 and we continue to see this decrease in FY22, equating to a 32% reduction against our FY19 base year.
See page 48 for more details.

Link to strategy

Setting a target and measuring and reporting our greenhouse gas emissions is a key way to demonstrate our commitment to addressing climate change and a critical part of our sustainability strategy; it underpins our wider business performance. We have published our Net-Zero plan and will transition to new targets in FY23.

Environmental, Social & Governance

During FY22, we have had many conversations with our key stakeholders, where they have expressed the importance they place on sustainability and their expectation that we are considering environmental, social and governance (ESG) aspects. FY22 has seen a particular focus on climate change with the development and publication of our first Net-Zero greenhouse gas emissions plan, TCFD reporting and Carbon Reduction Plans. The board has oversight and governance of ESG and regularly discusses and reviews a range of topics such as climate change, diversity and inclusion and Speak Up.

Steve Wadey
Chief Executive Officer

Highlights in FY22

- Publication of our Net-Zero Greenhouse Gas Emissions Plan.
- 32% reduction of our Scope 1 and Scope 2 greenhouse gas emissions (GHG) against our FY19 Base Year.
- Leadership in climate change programmes in our sector.
- Launched adaptive working for employees.
- Won Engineering, Aerospace and Defence Sector category in Britain's Most Admired Companies 2021.
- Received Team of the Year award from the Jon Egging Trust.
- Received Gold Award in the UK MOD Defence Employer Recognition Scheme.
- Achieved Employer of Choice for Gender Equality citation in Australia.
- Recognised for Outstanding Diversity and Inclusion Strategy at the Australian Aviation Aerospace Awards.
- Awarded Graduate Program of the Year in the Australian Defence Industry Awards and an Excellence Award for Best Graduate Development Program at the Australian HR Awards.

Over the following pages, we report progress on those areas we consider most important. Additional information is provided on the sustainably pages on our website **www.qinetiq.com/en/our-company/sustainability**

Signposting
Through this report we have also indicated where ESG is an enabler for our business: non-financial KPI (pages 42), risk management (page 62), engagement with stakeholders (page 26), TCFD report (page 50) non-financial information statement (page 74) and Board Governance including ESG (page 89)

ESG Strategy

Priorities, strategy, materiality and stakeholder engagement

The ESG landscape continues to evolve rapidly so we regularly review our ESG priorities by considering our business strategy and purpose, the views of our stakeholders, the landscape and best practice. This approach ensures we are confident that ESG issues are integral to our business strategy and we are meeting the expectations of our stakeholders. We have refreshed our ESG strategy, enhancing our plans and introducing new programmes e.g. our Net-Zero GHG plan, new sustainable procurement strategy and Adaptive Working.

We have also revisited our mapping against the Sustainable Development Goals. Our Leaders have common goals to focus on a number of aspects, including safety, engagement, diversity and inclusion (D&I) and environment. Our approach to ESG governance is described on page 61. We strive to be proactive, chairing the Sustainability Working Group with our trade body (ADS), and Co-chairing the MOD-Industry Sustainable Procurement Working Group. In FY22 Steve Wadey became the Industry Co-chair of the new Climate Change and Sustainability Steering Group under the UK Defence Suppliers Forum (DSF). We actively collaborate with customers/peers on topics such as ethics, D&I and skills.

Our ESG framework

Our purpose

Protecting lives and securing the vital interests of our customers

Our ESG framework

We have a clear framework and focus to deliver change in the three areas of ESG

Environmental

Material issues

- Climate change; Net-Zero and resilience
- Sustainable solutions for customers
- Environmental management
- Waste and resources
- Conservation and biodiversity

Social

Material issues

- Health, safety and wellbeing
- Employee engagement
- Diversity and inclusion
- Learning and development
- Reward and recognition
- Human rights and modern slavery
- Community and STEM outreach

Governance

Material issues

- Business ethics
- Code of Conduct
- Anti-bribery and corruption
- Ethical trading policy
- Responsible and sustainable procurement
- Leadership ESG remuneration

Creating a safe and secure environment for us all to thrive

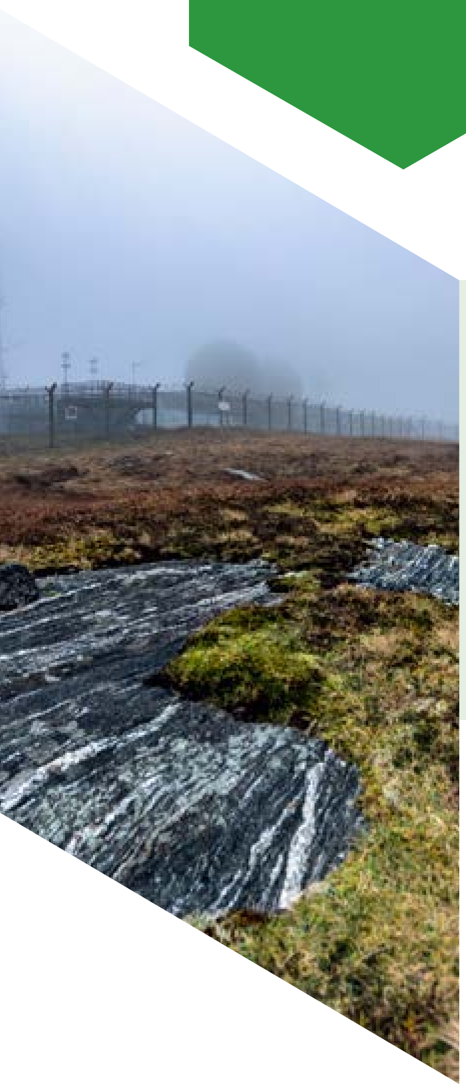
Our values demonstrate our purpose and ESG framework in action

Our values

Integrity	Collaboration	Performance
ESG fully supported by the Global Leadership Team and Board	Industry engagement and leadership; Multidisciplinary internal collaboration.	*MSCI* AA and *Sustainalytics*: in the top 7% in our sector

We deliver safely, responsibly and sustainably for the benefit of all our stakeholders

Environmental



Environmental stewardship has never been more important, with climate change and the impact on biodiversity ever-growing global concerns. We actively play our part, reducing greenhouse gas emissions, our conservation activities and by the solutions we provide for our customers to meet their sustainability ambitions while maintaining defence capability.

Climate change

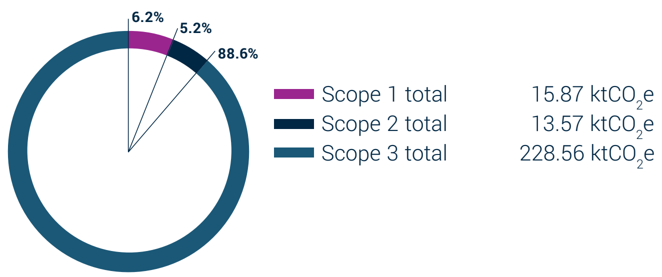
Over the last decade, we have set a series of increasingly ambitious GHG emission reduction targets. In FY19, we developed a new target in line with the Science Based Targets initiative (SBTi) to reduce our Scope 1 and Scope 2 emissions by 25%, from a FY19 base year by FY25. We are pleased that from FY19 to FY22 we were able to make excellent progress against this target (see page 48). In FY22 we extended the coverage of our GHG reporting to incorporate Scope 3 emissions. This means we are now developing visibility of the GHG emissions of our whole value-chain, which is essential for playing our part in tackling climate change. We have collected data, set a new base year of FY20 and set a target of reaching Net-Zero by 2050 or sooner. In this section we outline our new Net-Zero plan, detail our Scope 1 and 2 data and energy projects, and provide our disclosures in line with the Taskforce on Climate Related Financial Disclosures (TCFD) (see page 50).

Transition to Net-Zero

During FY22 our Climate Change Steering Group, comprising a team of multi-disciplinary experts and leaders from across our business (including energy management, Group Property, CR&S, Strategy and Planning, Supply Chain, Legal, Operations, Aviation, Business Development, Investor Relations and Innovation) worked together to develop our Net-Zero plan. This plan replaces our previous targets; it includes our Scope 3 emissions, which we mapped for the first time and sets a new base year (due to improved data quality and availability, as it includes Scope 3 and improved representation of our operations, e.g. a full year of data from our business in Germany). A summary of the plan is shown on the next page and a full copy of the plan can be found on our website. We commit to achieve Net-Zero GHG emissions by 2050 or sooner for our operations and our whole value-chain (ie Scope 1, 2 and Scope 3). A breakdown of our new targets against the FY20 base year is presented in the table below. Our total footprint for FY20 across Scopes 1, 2 and 3 was 265k tonnes CO_2 equivalent (tCO_2e). Our FY21 current footprint is 258k tCO_2e and is presented in more detail in Figure 1 (see also our Net-Zero plan). We will now be reporting our Scope 3 emissions annually.

Timeframe	Scopes 1&2	Scope 3	Total
FY20	Base year	Base year	Base year
FY30	-50% absolute reduction	-30% absolute reduction	-33% absolute reduction
FY50 or sooner	Net-Zero	Net-Zero	Net-Zero

Figure 1: FY21 Scope 1, 2 and 3 emissions



QinetiQ's Net-Zero GHG Emissions plan: one page summary

Our ambition

QinetiQ will be a Net-Zero company by 2050 or sooner, with achievable and ambitious near-term GHG emissions reduction targets. To deliver this, we will take a global whole value-chain approach. We will work proactively with our supplier ecosystem, continue to invest in relevant climate-positive research and development to help our customers achieve their Net-Zero ambitions, while improving the operational efficiency and biodiversity of our estates and those we manage on behalf of our customers.

Our Net-Zero pathway initiatives

Achieving QinetiQ Net-Zero			Contributing to Global Net-Zero
Initiative 1 Net-Zero Operations (Scope 1 and 2 GHG emissions)	**Initiative 2** Net-Zero upstream and downstream focus (Scope 3 GHG emissions)	**Initiative 3** Deliver critical internal and industry-wide enabling activities	**Initiative 4** Co-create with customers, invest in research and development and care for our environments

Our targets

Initiative 1	Initiative 2	Initiative 3	Initiative 4
50% **Reduction from 2020 to 2030 and net-zero by 2050 or sooner**	30% **Reduction from 2020 to 2030 and Net-Zero by 2050 or sooner**	**Create and foster the internal foundation and productive industry engagement to deliver success**	**Helping our customers achieve their Net-Zero ambitions without compromising their capability**

Examples of how we will achieve our ambition

Initiative 1:
- Optimise our estate footprint using metering, management and control.
- Implement energy efficiency improvements to deliver 5-20% energy savings.
- Invest further in on-site renewables (we have, for example, generated renewable electricity on the roof at our HQ site in Farnborough since February 2012) and procure 100% of the remainder of our electricity needs from renewable sources by 2030.
- Reduce water consumption by introducing grey water/rainwater harvesting where appropriate.
- Transition our road fleet to zero emission power sources by 2035.
- Monitor opportunities to transition our aviation fleet to Sustainable Aviation Fuel (SAF).
- Eliminate leakage of sulphur-hexaflouride (SF6) from our range equipment.

Initiative 2:
- Develop an advanced, data-driven approach to further leverage our Scope 3 data.
- Focus on highest emitting categories, including our engineering services supplier network, procurement of digital assets and travel and transport.
- Reduce emissions from international air travel by 50% by 2030 and use transportation providers who are demonstrably improving their own emissions performance.

Initiative 3:
- Continue the QinetiQ Collaborate programme to engage with suppliers and customers.
- Participate in relevant industry associations and events.
- Develop environmental awareness training for colleagues.
- Evolve the employee relationship with incentives.
- Maintain a detailed 5-year funding horizon for Net-Zero activities through the Integrated Strategic Business Plan.

Initiative 4:
- Net-Zero pilot site by 2025.
- Co-create with customers to develop innovative solutions, building our portfolio of climate-positive solutions which currently includes: enhanced synthetic test and evaluation solutions, stealth materials for wind turbines, hybrid-electric technology for battlefield equipment, smart power grids, and providing deployable test and evaluation capabilities.
- Invest in relevant research and development to bring more climate-positive solutions to market; an example area of investment is high power batteries and storage for military and commercial use.
- Implementing nature-based sequestration initiatives, with a specific focus on restoring natural ecosystems.
- Exemplary management of our estates and habitats around the globe.

Our full Net-Zero plan can be found on our website: www.qinetiq.com/en/our-company/sustainability/climate-change/net-zero

Stakeholder engagement and expectations on climate change

During FY22, we saw a significant increase in focus on climate change from key customers and have been actively responding and engaging. Under the Defence Suppliers Forum (DSF) Climate Change Steering Group, QinetiQ have taken a leading role as Industry Co-chair, delivering the first phase of the programme, including producing a Code of Practice for the Defence Sector through joint industry-MOD working group. We also published our first Carbon Reduction Plan, pursuant to a new requirement from UK Government customers and essential in order to bid for contracts over £5 million pa (this can be found on our website).

Environmental
continued

Scope 1 and Scope 2 emissions

	FY22	FY21	FY20
Total Scope 1 emissions (tCO_2e)	15,727[A]	15,872	19,289
Total Scope 2 emissions (tCO_2e)	12,236[A]	13,572	16,298
Total Scope 1 and 2 emissions (tCO_2e)	27,936	29,444	35,587
Intensity ratio (tCO_2e per £m of revenue)	21[A]	23	33
Energy consumption (kWh) resulting in the above reported emissions	125,261,565	122,808,625	139,780,656
Proportion of energy consumption arising from UK operations (%)	98%	99%	98%
Proportion of emissions arising from UK operations (%)	98%	99%	98%

In line with reporting requirements, in the table above we publish our Scope 1 and Scope 2 emissions and intensity metric. We have adopted a financial control approach, used the GHG Protocol Corporate standard and UK Government (BEIS) emission conversion factors. PricewaterhouseCoopers LLP (PwC) carried out a limited assurance engagement on selected GHG emissions data for the year ending 31 March 2022 in accordance with International Standard on Assurance Engagements 3000 (revised) and 3410, issued by the International Auditing and Assurance Standards Board. The figures that have been covered by this assurance process are indicated in the table by the following symbol ([A]). A copy of PwC's report and our methodology is on our website:

www.qinetiq.com/en/our-company/sustainability/climate-change

We are pleased to report a further reduction in our Scope 1 and Scope 2 emissions, equating to a 32% reduction from our base year, against our target of 25% by FY25. As described in the previous section, this target has now been superseded by more ambitious Net-Zero targets.

To meet the Streamlined Energy and Carbon Reporting (SECR) requirements, we also present our energy performance in the table above (identifying the proportion that is for the UK) and the following are examples of energy and emissions reduction projects in FY22:

- Replacement of the main drive control system in our 5m wind-tunnel, which should result in estimate a 1 MWh/annum saving.
- Improvement of the ventilation systems in the concourse at Farnborough to reduce the need for compressors.
- Installation of new air conditioning systems in the range control building at MOD Hebrides.
- Review of options for electric vehicle infrastructure on our main sites – these will be implemented in FY23.
- Review of photovoltaic (PV) solutions for our key sites, informing our plans for expanding our use of PV.
- Significant employee engagement, including blogs and webinars.
- Replacement of 139 street lights and bollards in parking and pedestrian areas across our Farnborough site.
- SF6 is a GHG with a very high global warming potential and we have worked with the customer to change pressure systems to be able to use an alternative gas, while maintaining delivery.

Sustainable solutions for customers

Sustainability is essential to next-generation defence. Climate change will trigger new instability due to natural disasters and lack of resources; military technologies that rely on outdated fuels may become inoperable without commercial infrastructure. Electrification opens up new ways of operating; there is a need for greater agility to respond to these changes and to increase resilience to future shocks. Innovation is vital to help our customers modernise and gain operational (or business) advantage, meeting Net-Zero goals without reducing capability, and wherever possible taking advantage of new technologies to deliver enhanced capabilities.

Examples where QinetiQ can provide those vital solutions include virtual test and evaluation (T&E): unit-based virtual training (UBVT) gives the field army a virtual (desktop/laptop) style environment for training a wide variety of units (dismounted forces, logistics, and vehicle squadrons, to reservists). It is a very flexible, immersive and realistic training environment, which reduces risks for personnel, as well as equipment logistics and reduces the carbon footprint prior to live training. A wide variety of training events has been held this year, including AWE21 demonstration for Collective Training development.

We manage a number of sites as part of the LTPA for the UK MOD, including at MOD West Freugh. Funded by the MOD, the West Freugh project was started as a technical demonstrator to show how a site could be taken to Net-Zero carbon emissions. A site audit identified key issues (such as a high proportional baseload) and an 'ideation' campaign helped us gather cross-company input and ideas, alongside expert evaluation. A suite of solutions has been developed, ranging from 'Fabric First' where insulation and lighting are improved, decarbonisation of space heating (removing oil and gas heating), local generation by solar and wind, sub-metering, smart grid and storage, to smooth out peaks and troughs, as well as electrification of vehicles and carbon sequestration. The solutions are replicable and so provide opportunities for other sites.

Environmental management

We have refreshed our commitment to protect our environment, and simplified our approach as part of our EHS strategy. We seek to deliver responsibly and sustainably for our customers, protecting the environment, enhancing biodiversity and minimising our GHG emissions. Underpinned by ISO 14001 certification in the UK and Canada, environmental matters are reviewed regularly by the Risk and Security Committee.

We have engaged and communicated with our people on a range of environmental issues, explaining our approach to environmental stewardship and encouraging their participation and we used World Environment Day as an opportunity to engage with our teams through various virtual events. We ran a "December Climate Change Challenge" campaign to promote how we can all contribute to tackling climate change. Every day through December, different employees wrote blogs about their ideas and experiences.

Waste management

Our waste target is to increase the annual proportion (%) of UK waste that is re-used and recycled from our underlying waste production. The sites that produce significant waste (collectively 95% of the total) have waste management action plans. We met the FY22 waste target, with 82.7% of underlying waste re-used or recycled (compared with 81.5% in FY21). There had been some COVID-19 related impacts on waste-contractor availability to transport and deal with waste, which had effected recycling opportunities, but we are now seeing improvements. Waste contributes to our Scope 3 emissions and so forms part of our Net-Zero plan and we will continue to look at how we can drive reductions.

Conservation and biodiversity

Climate change is having an impact on habitats and we know that responsible stewardship of the sites we manage can contribute to biodiversity. We continue to support operational delivery while protecting flora and fauna, for example:

- We have successfully undertaken remedial works of the MOD Pendine Long Test Track, alongside the protected colonies of the diminutive petalwort.
- Our work as part of Sands For Life (a conservation project to revitalise sand dunes across Wales) has seen dune habitats rejuvenated at MOD Pendine through clearance of scrub and sea buckthorn and improving fencing to enable conservation grazing.
- Our work to reinstate and landscape in the SSSI (Site of Special Scientific Interest) as part of the new accommodation project in the World Heritage Site of St Kilda has been well received by National Trust for Scotland and positively remarked upon by visitors.
- Partnership is key and we work with Marwell Wildlife to support the SSSI at our site in Farnborough.
- We have also resumed face to face meetings of the MOD Shoeburyness Conservation Group, where we bring together many of our stakeholders.

In FY23 we will continue to focus on environmental stewardship programmes, building in greater connection with our Net-Zero plan. We will be further promoting environmental volunteering to engage our people, proving opportunities for awareness, learning and involvement.

Taskforce on Climate-related Financial Disclosures

The recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) provide a framework for consistent reporting of climate-related information. Across four overarching themes (governance, strategy, risk management and metrics), there are 11 disclosures. We are committed to implementing this approach to provide investors and other stakeholders with information on climate-related risks relevant and material to our business. Pursuant to Listing Rule 9.8.6 R(8), we provide our disclosures here, consistent with this framework, plus links to where further detail is provided in this document. A number of aspects of TCFD were already part of our ESG and risk management approach, but we recognise the TCFD framework is still new, so we will seek to refine our reporting over time as best practice and guidance evolves and our approach develops.

Governance

Board oversight of climate-related risks and opportunities

The QinetiQ Board has overall responsibility for our ESG approach and climate change forms a core part of this agenda. Both the CFO (previously David Smith and now Carol Borg) and our Group Director of Corporate Responsibility and Sustainability (CR&S) provide regular reports and briefings on ESG and climate change to the Board (see page 89).

Our Remuneration Committee has also reviewed and approved non-financial collective goals for our leadership community for FY23 (See page 117) which will include climate change.

Management's role in assessing and managing climate-related risks and opportunities

Carol Borg, our CFO, has extensive ESG experience (page 82) and is the Board member with overall responsibility for climate change; she chairs the Climate Change Steering Group (CCSG) supported by our Group Director of CR&S. The CCSG membership includes leaders and subject matter experts from across the business in key roles (see page 46 for details), ensuring we take the necessary multidisciplinary approach. It is the senior forum for developing and implementing strategy and plans and for reviewing risks and performance.

The CCSG met monthly through FY22, to drive the development of the Net-Zero plan (see pages 46-47) and to oversee our TCFD approach as well as other programmes such as stakeholder engagement. There is a dedicated TCFD Working Group, reporting into the Steering Group.

Strategy

Climate-related risks and opportunities identified over the short, medium and long term

Climate change is a significant global issue and considerations for businesses include both physical risks, including factors such as flooding and extreme weather events, and transition risks which are related to the transition to a lower carbon economy, such as policy or regulation change and changing markets.

We have undertaken a qualitative review of our operations, our supply chain and our work for customers and considered the effect on cost, revenue and asset value. We have considered the medium (2030) and longer term (2050). We have identified that our business is exposed to both physical and transitional risks (before mitigation activities) and issues are listed below. This is included in our principal risks on page 70 and a description of our risk management approach is on page 52.

Physical risk:

- Increasing number or the increasing severity of extreme weather events or flooding (for a limited number of sites) may result in damage to infrastructure, which could disrupt operations on our estate and those sites we manage on behalf of our customers. Depending on the scenario, the likelihood and severity of these events is likely to increase in the medium and long term.
- Increasing number or the increasing severity of extreme weather events may impact the ability of our supply chain to meet requirements, thereby causing disruption to operations or customer delivery. Depending on the scenario, the likelihood and severity of these events is likely to increase in the medium and long term.

Transition risk:

- Policy and Legal: Across all of the territories we operate, we may be subject to greater regulatory requirements or carbon (GHG) pricing which may result in additional costs, or the failure to meet requirements. This will be potentially more likely for scenarios where global decarbonisation is more rapid.

Opportunities:

- The global transition to a low-carbon economy may create opportunities for us to innovate for our customers, and increase revenue from current or future low-carbon solutions (products or services).

Other issues were considered (for example, the impact on reputation) but were less material. We will continue to refine our approach and look to create a quantitative approach and will report further information as this develops.

The impact of climate-related risks and opportunities on QinetiQ's business, strategy and financial planning

Climate change risks and opportunities are reflected in our strategy and plans and we strive for continuous improvement to reflect our purpose, our growth strategy, the external landscape and stakeholder expectations.

- During FY21 we more explicitly embedded our commitment to ESG and sustainability into our QinetiQ business strategy, revising our framework to include the need to "deliver responsibly, sustainably for the benefit of all our stakeholders" (further updated in FY22 to include safety (see page 18). ESG and climate change are embedded in our Integrated Strategic Business Plan (ISBP) process.
- In FY21, we also included, for the first time, GHG emissions as a core non-financial KPI (see page 43) reflecting the increased importance of our GHG emissions.
- During FY22, we more clearly brought together an overview of those products and services that meet the sustainability agenda of our customers.
- In FY22 we developed and published our Net-Zero plan (see pages 46-47) which provides a framework for reducing our GHG emissions using four initiatives, which will contribute to both reducing risks, for example reducing our exposure to energy prices by reducing energy use, to creating opportunities, such as our strategy to innovate and collaborate across the value-chain to develop sustainable solutions for customers.
- In FY22 we started work on quantifying the financial risks of climate change and will continue to develop this as part of our climate resilience programme, focusing on risks and mitigations. We have been developing an approach to introduce an internal cost of carbon that will be used in business cases and acquisitions (see our full Net-Zero plan: www.qinetiq.com/en/our-company/sustainability/climate-change/net-zero).

The resilience of QinetiQ's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

In FY22, we undertook scenario-analysis to assess the potential impact of climate change on our business. Our analysis considered three scenarios to explore rising, stabilising and declining emissions to ensure we considered different possible futures (including 2°C or lower). We used scenarios that were based on the Representative Concentration Pathways (RCPs), which are used by the Intergovernmental Panel on Climate Change (IPCC) to reflect that the transition to a decarbonised world may take different pathways, with different outcomes.

- Low (<2°C) strongly declining emissions: Intensification of decarbonisation action resulting in increasing and rapid transition, with more limited physical risks.
- Middle (2-4°C): stabilising/slowly declining emissions; physical risks continue and transition risks continue to increase.
- High (>4°C): rising emissions; Failure to address climate change results in high physical risks, with more limited transition issues.

We considered two time horizons (2030 and 2050) so we were aligned with our Net-Zero targets and used a variety of data sources. In our Net-Zero plan we have aligned our strategy with a transition to Net-Zero. Our four initiatives outline our plans for reducing our Scope 1, 2 and 3 emissions, addressing our operations, working with our supply chain and customers (see page 47 for more detail).

This scenario analysis builds on our previous programmes of undertaking climate-change risk assessment at key sites and horizon scanning for changes to the external landscape (e.g. regulatory and market). The output has informed our understanding of how climate-related risks (both physical and transitional) could impact our business. We will review and evolve this scenario analysis and integrate the findings into our risk management approach, in order to ensure that mitigations are identified and in place to address our business resilience to climate change. Our approach to scenario modelling has been qualitative and we have started to develop a quantitative approach which will evolve.

Risk management	
QinetiQ's processes for identifying and assessing climate-related risks	Our risk management and control framework enables us to effectively identify, assess and manage risks and where material these are featured within our principal risk register. We have based our approach to climate risks on our existing risk management methodology (to ensure that we are embedding it into our existing processes). In line with TCFD recommendations, our risk assessment approach covered both physical risks and transition risks. To identify key risks and opportunities, we undertook a review of best practice and guidance to explore what would be relevant to QinetiQ operations. In order to establish those that we believe are material, In order to identify material risks, we ran briefing sessions and workshops with key stakeholders (e.g. Head of Site, supply chain, operations, business development) who are our subject matter experts across the business in order to identify risks, and then these were reviewed to look at the key issues and identify those that were considered to be most material. As part of our day to day management of our site operations we are familiar with the physical risks posed and have a good understanding of suitable mitigations. Transition risks include a number of issues which we also manage – for example – routinely horizon scanning for emerging regulation and understanding of evolving markets (e.g. via our close engagement with customers on Net-Zero).
QinetiQ's processes for managing climate-related risks	Ownership and management of individual risks are assigned to members of the Global Leadership Team (GLT) who are responsible for ensuring the operational effectiveness of internal control systems and for implementing key risk mitigation plans. The Board undertakes an annual assessment of the principal risks and Climate Change is included (see page 70 in the risk section). The GLT is supported by our Head of Enterprise Risk Management and our risk managers, who are able to have more tactical and operational oversight. Risks are assigned owners. This approach, which forms part of our risk culture, will ensure that climate change is fully integrated into our risk management approach (see page 62).
How processes for identifying, assessing and managing climate-related risks are integrated in to QinetiQ's overall Risk management	For physical risks we have considered these primarily by site, and for issues such as our supply chain and business delivery. Risks have been identified (for example where there may be increased flood risk) and will form part of the regular review cycle. Risk will change either due to new emerging information or changes to our business (e.g. use of site, supplier, etc). Transition risks are more dynamic and we will be horizon scanning to identify any relevant changes. Any new changes (e.g. new legislation) will be addressed in line with our standard processes. We have used a variety of sources of information to undertake the assessments. We have developed a TCFD "resource hub" for our risk community. Climate change is identified as a principal risk and described in more detail in the risk section on page 70.

Metrics and targets	
Metrics used to assess climate-related risks and opportunities in-line with QinetiQ's strategy and risk management process	A key part of addressing the risks of climate change is to transition our business to Net-Zero and so key metrics are associated with GHG emissions, one of our five non-financial KPI (see page 43) as well as targets as part of our Net-Zero plan (see pages 46-47).
Scope 1, 2 and if appropriate 3 GHG emissions and the related risks	We have disclosed our Scope 1 and Scope 2 GHG emission in the Annual Report and Accounts for a number of years. During FY22 we calculated our Scope 3 emissions for the first time and this is shown on page 46. We have also published our total Scope 1, 2 and 3 GHG emission in our Net-Zero plan (the plan is published in full on our website: www.qinetiq.com/en/our-company/sustainability/climate-change/net-zero). Our Net-Zero plan identified how we will address these emissions through four initiatives. This programme has clear oversight by the CCSG and will ensure we are able to manage the programmes, and identify and address risks.
QinetiQ's targets for managing climate-related risks and opportunities and performance against targets	We were the first aerospace and defence company globally to publicly commit on the Science Based Targets initiative (SBTi) website to developing science based-GHG targets aligned to a 1.5°C scenario. We submitted our full set of Scope 1,2, and 3 (near term and Net-Zero) emissions targets to SBTi in January 2022, with formal assessment and validation scheduled in FY23. Our targets will, subject to validation, position us to pledge our commitment to Race to Zero, the United Nations global campaign. The targets form part of our Net-Zero plan where we have in place a programme across our business to measure manage and reduce emissions from our supply chain operations and our products and services. These targets are detailed on page 46. Our leadership Incentive scheme will support these targets (see page 117).

Priorities for FY23	
Governance	Our Board will continue to review progress and in FY23 our new ESG Steering Committee, chaired by our CEO will provide an additional route for leadership support and monitoring of progress. Our leadership incentives are aligned with ESG and this will be enhanced in FY23 (see page 117), linked to our climate change programme and goals.
Strategy	We will review best practice and evolve our use of scenarios. We will develop tools to build a quantitative methodology and refine our approach.
Risk Management	We will be focusing on further embedding climate change risk into business as usual. To support this we will continue to refine our approach and review emerging trends as well as best practice.
Metrics and targets	We have published our new Net-Zero plan and so will be working towards these new targets. We will also consider whether any additional metrics are required to support our climate resilience reporting.

Our people and communities

We want working at QinetiQ to feel inspiring, for our people to have the opportunity to realise their full potential, and feel recognised for their contribution.

This year we have fully articulated our employee offering, bringing together all of the advantages of working at QinetiQ and what our people can expect in return for their contribution. This includes opportunities to grow their career, to get involved in meaningful and interesting projects, clear reward and recognition, and to have pride in our impact on the world around us. The employee offering framework features six areas of focus; safety and wellbeing, responsibility and sustainability, diversity and inclusion, adaptability and flexibility, learning and development, reward and recognition; with our purpose, values and behaviours at the heart.

Safety and wellbeing

Safety

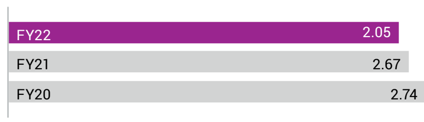
Our Environment, Health and Safety (EHS) strategy encourages us to look after ourselves, each other and the world around us. In support, we have;

- Introduced a new EHS incident management tool, consolidating previous systems and tools, enabling improved data analytics and enhancing governance across the whole of the Group.
- Developed a new risk assessment process, ensuring consistency across the Group and providing a suite of tools and resources.
- Initiated a new training programme on accident investigation, increasing competencies of leaders and investigators.

Underpinning our commitment, our leaders have a common goal for safety as part of their leadership incentive scheme (see page 125).

Our overall safety record is good, the Lost Time Incident (LTI) rate (1) for the whole of the Group has decreased from 2.67 in FY21 to 2.05 in FY22. It is one of our five non-financial KPIs (see page 42).

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.

In the last year we received two safety Improvement Notices from the UK Health and Safety Executive (HSE). The first relates to the incident at the MOD Pendine site in the UK, which resulted in life-long injuries to one of our team. This event occurred in March 2021 and was reported last year. Action has been taken, resulting in confirmation from the HSE that the terms of the notice have been met. The second Improvement Notice refers to management of gas networks at five UK sites and we are on track to meet the requirements, by the due date of September 2022.

As a result, with a desire to continuously improve, we launched a company-wide Safety Improvement Programme. We undertook two safety culture surveys, seeking feedback from all employees on our safety culture across all our sites. The results have been compared against previous data and will be used to identify site-based culture improvement programmes. We are utilising DuPont Sustainable Solutions (DSS) for a further independent deep-dive into our safety culture and organisational safety performance. See also page 92 and page 116.

Wellbeing

Our wellbeing strategy focuses on the five pillars of physical health and mental health, personal growth, working environment and financial wellbeing. We continue to develop our global wellbeing offering:

- Extended the UK and Australia Mental Health First Aider network into Canada.
- Launched the Thrive mental wellbeing app in Belgium, Canada and the US.
- Delivered online mental health awareness courses to support managers and employees.
- Created a suite of seven wellbeing tool-kits to support wellbeing conversations in the workplace.
- Delivered a wellbeing action plan guide and template to support employee wellbeing best practice.

COVID-19

Having established a range of guidance and controls early in the pandemic, we have continued to ensure that our people understand what they need to do to look after themselves and each other. Reflecting government guidance in each of the countries where we operate, we empowered up to 80% of our people to work at home and protected those who needed to be on our sites.

To enable this we have:

- Shared practical advice and developed our digital tools.
- For colleagues who need to work on site, taken a risk-based approach with individual teams working through what they need to do, based on the work they are doing.
- Encouraged regular testing, with test kits available on our sites.
- Continued to offer extended special paid leave, providing support to anyone who cannot work from home.
- Engaged and shared information with our people, encouraging them to use the health and wellbeing resources available, including our Mental Health First Aiders, Employee Assistance Programme, Wellbeing Toolkits and Wellbeing Action Plan.
- Published regular COVID-19 updates as well as answering any questions as they arise. All of the guidance and resources are consolidated on our COVID-19 Hub, accessed via our intranet.

Feedback from WorkDay Peakon continues to show that this support is valued.

As we look forward to FY23, our overall safety and wellbeing focus will be on continuous improvement. For safety, we will continue to deliver against the EHS strategy and Safety Improvement Programme. For wellbeing, we will leverage insights from our employee networks (e.g. Neurodiversity and Disability and Carers), the Peakon Workday engagement survey and Safety Improvement Programme outputs. We will be improving our offerings in areas such as financial wellbeing and stress awareness and will be promoting and maximising the benefits from our Employee Assistance Programme. As we address COVID-19, we are putting the emphasis on enabling our people to manage the risk in a way that is right for each situation. It is important we are now trusting our own judgement to make considered and informed decisions about how we look after and protect each other.

Responsibility and sustainability: Community

Due to COVID-19, we have adapted our community outreach activities, which have traditionally been in person, and recognised evolving needs in our communities. Our key focus is through science, technology, engineering and maths (STEM) outreach with young people, where our employees provide real-world experiences to inspire the next generation of scientists and engineers. Support from employers to schools and youth groups, continues to be important to help mitigate the long-term impacts of the pandemic.

We have a network of STEM outreach leads in the UK, Australia and Belgium, who support our volunteers. We have valued the expertise of partners; in the UK we have worked with the Jon Egging Trust, STEM Learning and Primary Engineer, to continue to understand young peoples' current needs, and to design virtual and remote outreach activities, which can be delivered globally. A highlight this year was receiving the Team of the Year award for our contribution to the Jon Egging Trust Blue Skies Outreach programmes in Wiltshire.

In Australia, we have partnered with Girls of Impact to sponsor a Future Female Innovators summit for Australian high school students. In Belgium we participated in specialist Space Industry Careers fair to raise awareness with young people of rewarding careers. We engaged with an estimated 5,500+ young people through bespoke in-person or online outreach activities, and through larger events or external organisers such as virtual careers fairs.

In addition to volunteering, we continue to support a number of charities. In the UK our charity partner is SSAFA. In Australia we have donated to Legacy Australia and the Royal Flying Doctor Service of Australia.

In FY23 we aim to increase our outreach, both through virtual activities (such as virtual work experience) and increase in-person outreach (such as our Schools Powerboat Challenge).

Our defence partnerships

We have been re-validated with the Gold Award status by the UK MOD in their Defence Employer Recognition Scheme, which recognises UK employers who demonstrate a commitment to defence by proactively supporting the Armed Forces community and inspiring others to do the same (we were first awarded gold in 2016). We have always been passionate about supporting our Armed Forces community, including veterans, as we believe that having Service Leavers and Reservists within our company greatly enhances how we connect with our key customers. We signed the UK Armed Forces Covenant in 2013 and continue to create covenant-related initiatives, such as our global QinetiQ Veterans and Reserves Network (QVRN), which helps to connect, support and value colleagues who serve or have served in their nations' Armed Forces.

In the US, we have a Veteran's outreach programme through Circa and Military Offices Association of America and participate in military hiring events through Recruit Military and Corporate Grey. We also partnered with Our Military Kids whose mission is to recognize the children's service and sacrifice, by providing grants for extracurricular activities. We have enrolled in the Virginia Veteran Values (V3) Program, a Commonwealth of Virginia Department of Veterans Services Program, which educates and trains employers on the value of Virginia's veterans, and helps them connect with these personnel to maximise the productivity of their workforce.

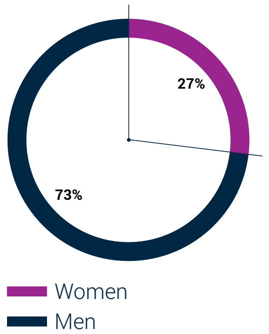
Diversity and inclusion

We're creating a company where our differences are not only embraced but make us stronger. To achieve this our Inclusion 2025 strategy aims to build a workplace and culture where everyone can feel valued, be authentic and realise their full potential. Our focus in FY22 has been across three key themes: awareness of the importance of diversity and inclusion (D&I); leadership; and employees. This year, we have:

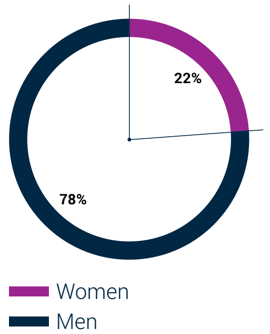
- Held a number of global awareness campaigns on topics, including dyspraxia, mental health, women in STEM, menopause, psychological safety, Black History Month, LGBT History Month, disability, Speak Up and Domestic Violence awareness.
- Increased availability of D&I training and resources.
- Maintained D&I as part of our leadership incentive scheme, with leaders delivering 670+ interventions such as running team sessions, writing blogs and supporting reverse mentoring and our D&I networks.
- Facilitated our D&I champions (see page 105) and the leads of our seven employee-led networks to meet regularly, sharing ideas and best practice.
- Run a fourth cohort of our reverse mentoring programme.
- Recognised our D&I champions and network leads at the Global Recognition Gala.
- Gained an Employer of Choice for Gender Equality citation in Australia and recognised for an Outstanding Diversity and Inclusion strategy at the Australian Aviation Aerospace Awards.
- Participated in FTSE Women Leaders, reporting improved female representation in our Executive Committee plus direct reports, from 23.5% in FY21 to 27.2% in FY22.
- Reported an improvement in our UK gender pay gap from 13.9% in 2020 to 12.6% in 2021.

Our FY23 priorities will be to continue to deliver our Inclusion 2025 strategy; to raise awareness, work with our leaders and our employee networks. We will build on our progress on gender balance, setting a target of 30% for our Group workforce to be women by 2030 and we will also be focusing on improving ethnic diversity.

GLT and direct reports



All employees (including leaders)



Gender balance data

	FY22		FY21		FY20	
	Female	Male	Female	Male	Female	Male
Board directors[1]	4 (44%)	5 (56%)	3 (37%)	5 (63%)	2 (22%)	7 (78%)
Senior managers[2]	59 (20%)	240 (80%)	57 (19%)	239 (81%)	54 (17%)	267 (83%)
Other employees[3]	1478 (22%)	5136 (78%)	1,447 (22%)	5,145 (78%)	1,384 (20%)	5,080 (80%)

1 For more information on Board diversity see page 104.

2 Senior managers are defined as employees who have responsibility for planning, directing or controlling the activities of the Group, or a strategically significant part of it. This includes directors of subsidiary companies. It includes our Global Leadership Team (GLT) but excludes our CEO and CFO who are captured under Board directors.

3 Excluding senior managers, CEO and CFO.

Employee engagement

Critical to all of our people feeling valued and engaged is making sure that the employee voice is considered. Views are represented by the Global Employee Voice (GEV), a group of employees who work alongside leaders to help shape ideas and initiatives. The representatives met regularly with the CEO and Group Director of Human Resources and have also met with the Chairman and Board members during the year (see page 93). The GEV Chair also actively participates at leadership engagement events. In FY22 the GEV has supported a number of changes, including the COVID-19 response, Employee Offering, our Adaptive Working approach, and supporting organisational change.

With our people working on site and remotely, communication has never been more important. Two-way communication channels, including our Global Portal intranet, monthly live events through Q-Talk, and virtual communities, encourage our people to share their thoughts, feedback and experience. In addition, we hold Global Employee Roadshows four times a year, providing an opportunity for our people to hear from the Global Leadership Team about our market strategy, and important topics from across the global business.

Employee engagement is one of our five non-financial KPIs, reflecting its importance to our business strategy (page 43). To enable us to adopt a continuous listening approach, using regular insight to shape how we create a great place to work, we use Workday Peakon. This helps us understand what is important to our people, so that we can take action globally and locally. We measure engagement quarterly and continue to see a good level of engagement, with participation rates at 71%, similar to FY21 (74%). This year we have seen a slight decline in the overall score from 7.3 in FY21 to 7.1 in FY22. Employees shared that areas of strength are adaptive working, flexibility and autonomy. Our people also tell us that there is a strong sense of team working, pride and purpose. We have made progress in the priority area of Career Growth (see below for more details on activities). Underpinning our commitment, our leaders have a common goal for engagement as part of their leadership incentive scheme. Where leadership focus is prioritised and visible, engagement has improved, for instance in Australia and the US. Our voluntary turnover was 13.8% in FY22, compared with 8.7% in FY21 with some hotspots in the US and Australia.

Focus in FY23 will be on evolving our employee offering, creating choice and meeting the diverse needs of our people. Responding to business needs and listening to feedback, we are continuing to explore how we can make the best of our investment, enabling us to attract and retain talented people who are proud of what they do.

Adaptability and flexibility

The continuing impact of the global pandemic has meant that we have had to adopt different ways of working to ensure that we maintain the safety and wellbeing of our people and our partners while continuing to deliver effectively for our customers. Building on what we have learnt, we launched our Adaptive Working approach, encouraging us to consider where, when and how we work together to deliver the best outcome for our customers, while retaining the benefits of work/life balance, greater flexibility and more focus on safety and wellbeing.

Adaptive Working was launched in June 2021 and focuses on three principles; working flexibly, global collaboration/ knowledge-sharing, and business focus. To help our people understand this approach, we have published Group-level principles and local guidance, supported by discussion tools and information resources. Adaptive Working empowers us to make a difference to our customers and the teams in which we work, balancing work and individual needs, and meeting our sustainability commitments to protect the world around us. Looking forward to FY23, we will be focused on maximising the value of this approach in our overall employee offering.

Learning and development

We promote and enable personal growth for employees and take a blended approach to learning, with a mix of on-the-job experience, virtual and live training, and access to a wide range of resources and toolkits. Our learning portfolio has increased and evolved this year to include:

- Introducing SuccessFactors to 95% of our company, providing a platform for continuous development, through setting development plans, understanding the competencies needed to progress, and providing access to the associated learning resources.
- Leadership Live, a new digital platform provides fresh, relevant and on-demand personalised development, available to all of our people, not just leaders.
- New global suite of mandatory e-learning, translated and appropriate for each country.
- Sustained focus on coaching and mentoring; focusing on leaders, increasing the number of mentors and growing our reverse mentoring programme.
- Established Management and Team Essentials programmes aimed at providing leaders with fundamental knowledge and skills to help build high-performing teams.
- Welcomed five new Fellows and promoted two colleagues to Senior Fellow.
- More than 300 new starters attended the new interactive virtual corporate induction.

In FY23, we will:

- Continue to grow our digital learning capability to help more people access learning faster in the moment of need and during their work to improve productivity and reduce the costs associated with face to face external training courses.
- Provide new, innovative ways to develop our global leaders.
- Leverage our skills and expertise globally through the Test and Evaluation Sovereign Skills Programme.
- Provide a new personal development fund, enabling more choice for our people to drive their career development.

Early careers

Our Early Careers programme is designed for graduates and apprentices, providing a rich and rewarding learning experience for them as they start their career with us. We also welcome year in industry, and summer placements every year. Investing in the next generation ensures we are developing the skills and capabilities needed for the future, as well as creating a near-term talent pipeline. Demonstrating our commitment to early careers is one of our non-financial KPIs (page 43). In the UK programme, we have focused on developing personal, technical and leadership skills, building business knowledge, and acquiring professional qualifications. Our placements ensure real-life experience, such as working on trials, customer secondments, and alongside the Global Leadership Team. We encourage coaching and mentoring, including opportunities to take part in our Reverse Mentoring programme.

As a member of The 5% Club we commit to publishing a breakdown of our UK early careers community (see table below) including the percentage they comprise of the UK workforce.

	FY22	FY21	FY20	FY19
Apprentices	53	72	67	101
Graduate programme	105	98	50	90
Sponsored students	24	24	2	8
% UK workforce	3.3	3.6	2.3	4.0

We are also actively supporting 38 colleagues at later stages of their careers to undertake apprenticeships because we believe the apprenticeship model is an excellent way to support skills development and career development. In Australia our 18 month graduate programme has seen two cohorts of 30 graduates run concurrently this financial year with a further 14 graduating from the 2020 programme. D&I remains a priority; we achieved 50% female representation in our 2022 graduate intake and realised a significant increase in the employment of Indigenous Australians through the creation of dedicated traineeships and apprenticeships as part of our Reconciliation Action Plan, and in support of the Australian Government's Indigenous Participation Plan. We were proud to win Graduate Programme of the Year in the Australian Defence Industry Awards and an Excellence Award for Best Graduate Development Programme at the Australian HR Awards.

Our Early Careers focus in FY23 will be on maximising the apprenticeship levy in the UK, supporting the ongoing development of our people through progression or reskilling, as part of talent development plans.

Rewarding for Performance

Reward and recognition are key elements of our people strategy and an important part of our employee offering. We offer a broad range of reward and recognition, designed to enhance our employees' wellbeing and incentivise both collective performance and individual contribution; enabling us to make choices about what works best for ourselves and for our families. Through our Rewarding for Performance framework, our people have been able to collectively share in our success:

- Our All Employee Incentive Scheme (AEIS) for contribution in FY22 paid £500 to each employee.
- We continue to invest in Pay and Progression, addressing market anomalies and managing in-year role and grade progression, with an investment of £ 2.0m.
- Through Thank Q, our global recognition scheme, we celebrated 2,540 individual people and 872 teams, with 3,412 awards.

As we continue to build a truly integrated, global company, we are evolving the way we work together. Our Global Recognition Gala is no exception and in 2021 we adapted the event to bring together colleagues celebrating at live events from the UK, US and Australia, as well as virtually from Belgium, Germany and Canada; making this our most global gala yet. At the event we presented 51 awards, recognising 186 of our people.

Looking forward to FY23, we plan to increase our current investment by a further £7.1m in our refreshed global reward strategy and wider employee offering. As part of this we will also review our current offering, with the intention of ensuring that our overall reward strategy meets the changing needs and diverse nature of our workforce. Our leaders will continue to be incentivised, aligned with key ESG factors to support our strategy and this will be enhanced in FY23 (see page 117).

Governance is a critical pillar, supporting us in how we deliver business responsibly and sustainably. It is linked to our corporate governance section.

Business ethics, doing business the right way

Our Code of Conduct defines our ethical standards, providing clear direction and guidance on how we do business. It contains information on ethical decision-making and also how to seek help and advice. We review the Code 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 of Conduct. 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 we provide a number of different ways for them to seek help or raise concerns. Employees can 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. These are also available to third parties (we publish our Code on Conduct on our website, which contains the details:

www.qinetiq.com/en/our-company/sustainability/business-ethics

Throughout the year, we have promoted the importance of speaking up and the various different contact routes with our employees, in awareness campaigns, in the Code of Conduct and in our mandatory ethics training. We have promoted psychological safety both via blogs and a team tool kit. We promoted our guide for managers, supporting them in creating an open and inclusive environment, where our people feel confident to raise concerns, and they know how to listen to and support anyone who may come to them with an issue. For third parties, we have promoted these via our website and in our supplier Code of Conduct.

We have responded to all queries received via our ethics email advice services and confidential reporting line.

Our Audit Committee oversees our approach to confidential reporting (see page 95). Our Business Ethics Committee, chaired by our Chief Ethics Officer (the Company Secretary), oversees our ethics programme. We are members of our trade association, ADS, Business Ethics Network where members can share best practice on ethics, human rights and anti-bribery.

Our focus in FY23 will be to continue to promote and raise awareness on Speak Up and we will be undertaking a best practice review of the Code of Conduct.

Anti-bribery and corruption (ABC)

We have a zero-tolerance approach to bribery and corruption. Our ABC programme is continuously reviewed to ensure that it adheres to regulatory requirements and addresses the bribery and corruption risks that we recognise face our company and that it meets best practice. The principles of our ABC procedure are embedded within key processes and instructions, covering subjects such as the use of commercial intermediaries, gifts and hospitality and facilitation payments. All third parties that we engage with are subject to initial, and repeat, risk-based due diligence, along with ongoing monitoring to address bribery and corruption risks. In addition to our mandatory business ethics training (which is for all employees), we provide specific training for our people in roles with a higher potential exposure to bribery and corruption risks. This is repeated bi-annually. The programme is overseen by the Chief Ethics Officer and receives internal assurance and oversight to ensure that it remains effective. No material breaches of our procedures were identified during the year.

In FY23, we plan to review our fraud prevention procedures and deliver specific role-related commercial intermediary training.

Human rights and modern slavery

As part of our ongoing programme to address modern slavery, we operate and manage an action plan across the Group. We continue to provide in-depth training to those in key roles, and develop new supporting resources for all employees and suppliers, including industry engagement events such as our Collaborate programme. We regularly review our policies and our approach to risk in the supply chain. Our updated supplier Code of Conduct helps to ensure our suppliers have clarity of their responsibilities on human rights, modern slavery and speaking up. Our annual modern slavery and human trafficking statements are published on our website.

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, our ethical trading policy, international business risk management process, grievance mechanisms, due diligence and export controls process. Our third-party confidential reporting mechanism, provides routes for third parties to raise concerns. We monitor the application of these policies and procedures through our business and supplier 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. More information can be found on our website:

www.qinetiq.com/en/our-company/sustainability/business-ethics

In FY23 we will continue make progress against our modern slavery action plan.

Working with our Supply Chain

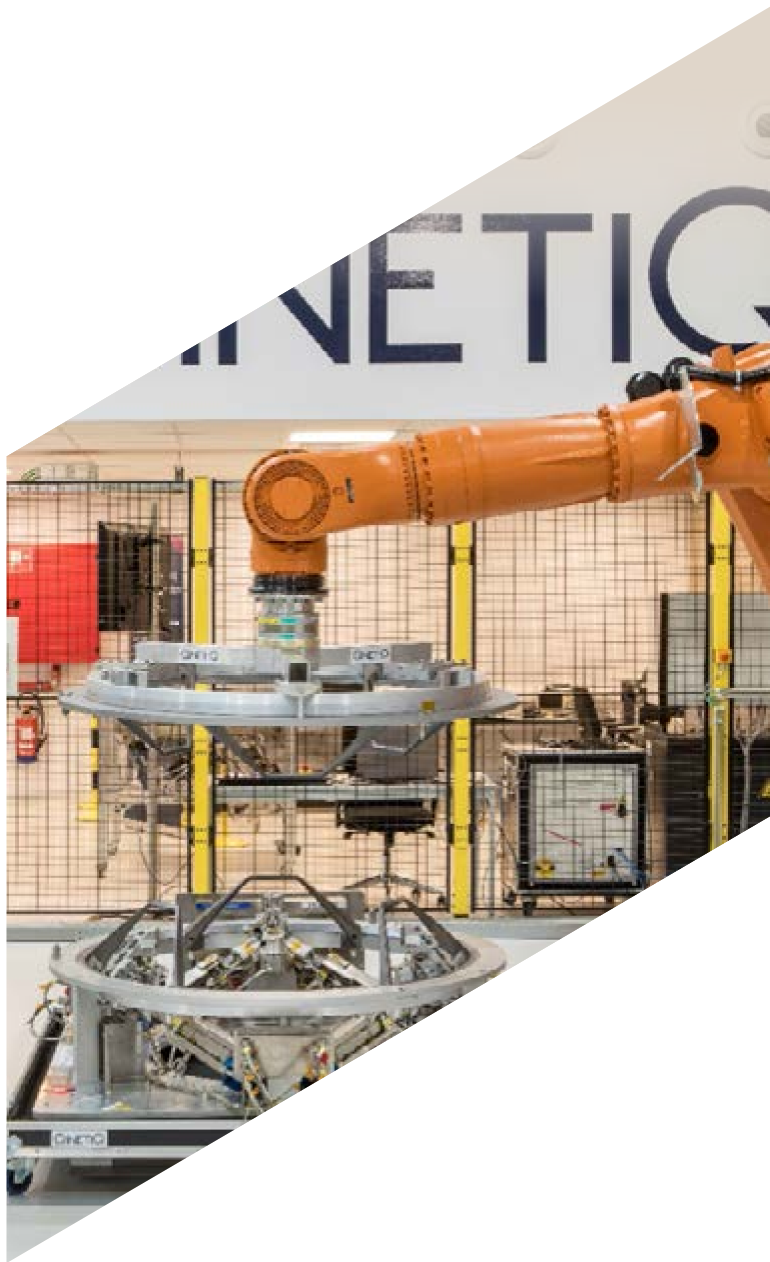
Our supply chain is an extension of our own company. We ensure that it is committed to the same standards of safety, security, sustainability and governance as we are. We have a supplier Code of Conduct and our supplier assurance process ensures that suppliers understand the issues important to us. We have developed a new Sustainable Procurement Strategy and created a Sustainable Procurement Guide for our suppliers. The Supplier code and the Guide are both available on our website:

www.qinetiq.com/en/our-company/suppliers-and-smes/working-with-us

As signatories to the UK Prompt Payment Code, we report our payment performance as required by legislation and have continued to focus on paying small suppliers early throughout the COVID-19 pandemic. In FY22, we ran supplier Collaborate events to raise awareness of issues such as environment and emissions, abolishing slavery in our supply chains and fostering supplier diversity. Working in collaboration with wider industry, we foster and develop ecosystems which draw together supplier, academia and third sector communities to answer complex science, social, engineering and technology challenges, supporting our customer offering. Through this approach we enable access to opportunities for diverse suppliers, including Small to Medium Sized Enterprises and non-traditional defence suppliers, removing barriers of entry and promoting inclusive procurement. In FY23 we will continue to develop our approach to sustainable procurement and run further Collaborate events.

Governance of ESG

Regular papers and briefings are provided to the Board by the Group Director CR&S on all material ESG issues, including ESG strategy, stakeholder engagement and reporting, ethics, Speak Up, Climate change, D&I and community (See page 89). This provides oversight of our approach, including progress against programmes and plans. In FY23 we will be introducing a new ESG Steering Committee, chaired by our Chief Executive. The ESG strategy forms part of our ISBP (the five year plan) and includes longer term plans e.g. our Net-Zero plan with targets to 2050. We have linked key ESG factors to the non-financial element of our leadership incentive scheme, and this continues to evolve; the FY22 focus on engagement, D&I, safety and security will be enhanced in FY23, (see page 117), aligned with key ESG priorities, with the addition of a specific goal linked to climate change, to support our new Net-Zero plan.



Risk management

Our Approach to identifying and managing risks

How we protect our business

Effective management of current and emerging risks is critical to achieving our strategic goals. Our Group Director of Risk and Governance has oversight and responsibility for risk management across the organisation, providing risk expertise and support to the businesses and reporting risk information to the Global Leadership Team, the Board and its Audit and Risk and Security Committees.

Risk processes cannot operate in isolation and, like safety and security, must engender a supportive and robust culture to enable effective risk-based decision making. Our Group-wide risk management framework supports and develops a positive risk culture that spans the strategic to operational levels; exploiting both a top-down and bottom-up approach. Our culture and embedded risk management processes, combined, result in a stronger and more resilient organisation in the face of challenges. Managing threats and optimising opportunities to support the long-term success of our organisation is an established part of the way we conduct business. Continual cycles of review and improvement of our risk maturity keeps pace with a growing business in a complex industry; to ensure we are best placed to deliver results, while simultaneously innovating for our customers' advantage.

Principal risks

The Group Risk Register consists of material risks relating to both the effective delivery of our strategy and those risks which may have a material effect on our stakeholders, partners and environment. The Board and Global Leadership Team assess these principal risks from a number of different perspectives, both individually and collectively. The Board recognises that some risks may be affected by factors outside the control of the company and that despite the robustness of the risk management processes they cannot provide absolute assurance and unknown risks may manifest without warning. We have well established processes in place to rapidly deploy appropriate management in these situations, and utilise lessons learned across the organisation as part of our ongoing drive for continuous improvement.

Over the past 12 months, we have seen considerable movement in our principal risks, including the addition of three new risks, which have gained in materiality, and the decrease of three existing risks. The pandemic has been the catalyst for fundamental changes in the way employees work, and the subsequent "Great Resignation" phenomenon, driven by worker's dissatisfaction with current working conditions and personal reassessments of career and lifestyle due to the changes and hardships of the pandemic, is likely here to stay. In light of this, we have escalated our people risk to the principal risks. In addition, the step-change in the new requirements and evolving context of our climate risk was met with a significant amount of work throughout the year to assess and evaluate; resulting in it being moved from the emerging risks to the principal risks. Finally, given the significant growth ambitions of the QinetiQ Group, we must ensure that our delivery organisation can match the increasing size and complexity of programmes we undertake. Until our project and programme improvement initiative is completed, the risk of our project management failing to keep pace with our growth will be held as a principal risk.

There has been a reduction in the likelihood of our innovation risk following a number of successful group-wide initiatives. Our UK growth risk has also decreased in likelihood as a result of robust mitigation; including increased collaboration across the Group, paving the way for international opportunities, and the strong positioning of our abilities and offerings following the UK Government Spending Reviews. The large contracts risk has decreased, in part, because the Engineering Delivery Partner (EDP) contract is now firmly established as the default route for contracted engineering services for Defence, Equipment and Support (DE&S). In addition, recent renegotiations of elements of the EDP programme has taken it to the next level and builds on the success of the first three years.

Emerging risks

We define emerging risks as newly developing or changing risks, where the extent and implications are not yet fully understood. These risks are identified and managed using the same established risk management framework as our principal risks and are included as part of our strategic planning process to ensure we capitalise on the opportunity and minimise the downsides they present. Where appropriate, we establish "Working Groups" to monitor and scrutinise the potential impacts of the emerging risks and ensure relevant mitigation actions are undertaken at pace. We also consider the wider impact of emerging external risk; for example, where a risk creates challenges for our customers it may create an opportunity where we have well-aligned capability to further support them.

The enduring COVID-19 pandemic has continued to have limited impact on our operations globally. Our sites and facilities have remained open and the opportunity to realise the potential of new ways of working is being exploited through our transformation programme in order to re-invent our workspaces to maximise performance and optimise spend whilst simultaneously providing increased flexibility and productive ways of working for our employees. We remain cognisant that the pandemic challenges have the potential to cause future disruption and, therefore, we continue to monitor the situation in readiness to respond effectively to ensure that our people are safe and we continue to deliver excellence for our customers.

Refer to page 55 for more detailed information on our COVID-19 response

ESG issues continue to be a focus for our investors and other stakeholders, and so we are ensuring we provide visibility on our programmes and plans, including how we are managing the associated risks. We have a well-established ESG strategy in place, underpinned by robust sponsorship from our Board and the Global Leadership Team, to ensure we are identifying and managing the ESG risks to our company, including compliance to legislative and reporting requirements. The landscape continues to evolve and, through 2021, we saw a number of topics emerge and develop. Key areas included the focus and outcomes of COP26, the evolution of the management of COVID-19, Social Value and Levelling Up (in the UK), new reporting requirements and Defence Ethics. We carefully track the emerging ESG risks and, where necessary, build in additional work-streams under the ESG Programme to ensure robust mitigation is undertaken and opportunities are leveraged. To reflect the importance and necessary focus of ESG in QinetiQ, our CR&S Director reports on the programme directly to the Board.

Risk management and assurance activity

Three Lines Model

Our risk management and assurance activity follows the established Three Lines Model with the first and second line reporting to Global Leadership Team and Board, and the third line reporting to the relevant Board Committees. The first line is performed by operational management, who own and manage the risks in accordance with the Group Operating Model; the second line is performed by the compliance, assurance and risk functions; and the third line is performed by the internal audit team and external assurance providers.

Board

Responsible for effective risk management and internal control across QinetiQ Group
Sets risk appetite and assesses principal and emerging risks

Audit Committee, and Risk and Security Committee

- Receive reports from second and third line assurance functions
- Monitor and review the principal and emerging risks
- Risk deep-dives
- Monitor the effectiveness and application of internal controls

Global Leadership Team

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

Management

First Line

Managers identify and evaluate risk, in conjunction with Second Line

Design and operate internal controls and other mitigation measures, in conjunction with Second Line

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

Report risks through relevant reporting and escalation processes

Manage the day-to-day operational risks

Ensures compliance with legal, regulatory, and ethical expectations

Second Line

Risk management and other oversight functions with limited independence

Provides complementary expertise, support, monitoring, and challenge related to the management of risk

Design and facilitate the risk management processes across the Group

Provide risk expertise and support, including analysis and reports on the adequacy and effectiveness of risk management

Responsible for continually improving the risk management process across the Group

Monitor compliance with policies and standards

Report to the Board and Global Leadership Team

Independent Assurance

Third Line

Internal Audit and other external independent assurance providers

Review and evaluate risk management activity and provide assurance over the effectiveness of the control environment

Manage the Confidential Reporting process

Report to the Board and Global Leadership Team

We have described our approach to ESG in more detail in the **responsible business section** of this report on Page 44

Risk management continued

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

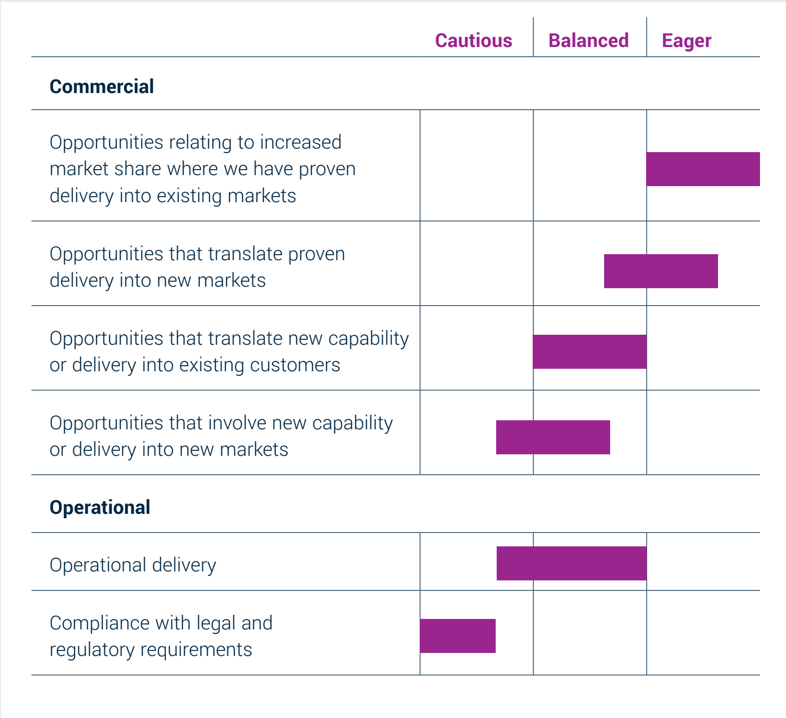
Avoidance of uncertainty – with negligible or low residual risk. Applying innovation prudently where the risks are fully understood.

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.



Strategic risks

UK strategy

Risk	Impact	Mitigation	
UK Government budget constraints lead to reduced spending in core markets in which we operate. This, and the ever-increasing pace required to introduce new technology to respond to emerging threats, results in a risk that our approaches/offerings for evaluating capability may not remain relevant.	A reduction in revenue and associated profitability from the Group's UK Defence and Security contracts.	Our strategy is focused on leading and modernising UK test and evaluation in support of our UK and overseas customers' objectives and developing our training and mission rehearsal and data intelligence/cyber businesses. This includes ongoing proactive engagement with our major customers to enable us to support their objectives through mission-led innovation. Our focused investment into contracts enhances our offerings that support our customers with their pace and efficiency challenges as well as ensuring that we provide the right services as the threat environment continues to evolve. We continue to deliver new customer solutions, increasingly utilising modelling and synthetics, embracing digital transformation. We are expanding our global test and evaluation business, as evidenced through securing the contract to operate and maintain the Queensland Flight Test Range and, post-Brexit, maintain relationships with the UK Government to support bilateral relationships within Europe; where there is increased recognition that T&E is an enabler to military capability and prosperity. Read more at Page 19.	**Metrics** Customer satisfaction All financial KPIs **Responsibility** Group Function Director: Business Development Managing Director: A&S, M&L and C&I. **Risk appetite** Eager **Likelihood/Impact** Low/Medium **Proximity/Velocity** 1-2 yrs/Medium **Strategy** Global leverage Distinctive offerings Disruptive innovation

US business

Risk	Impact	Mitigation	
There is a risk that the US Business will be unable to establish a robust and distinct position in the marketplace and deliver the significant growth ambition, resulting in impact to the strategic direction of the Group and potential reputational damage. The ongoing impact of the Continuing Resolution on the US DoD budgets within the Federal Government may exacerbate this risk through increased customer disruptions and constraints.	Adverse impact on the Group's financial performance.	Our US strategy is focused on developing our relationships with the DoD and major industry prime contractors through mission-led innovation at pace in areas of technology such as robotics and autonomy, sensor solutions and systems, artificial intelligence and maritime systems where we feel we have strong technology capability and the ability to deliver the most appropriate products or services. We have created specific and ambitious growth strategies for the US and are developing our capability to enact those strategies under a new US CEO, and through driving the operational performance through two customer-focused businesses, C5ISR Solutions and Technology Solutions. Additionally, we are leveraging the broader QinetiQ group to sell our commercial systems internationally to expand our market and mitigate reliance on the US Government procurement cycles. To encourage business winning, our single routes to market approach enables our in-country team to leverage the full QinetiQ brand and our Group-wide capabilities; maximising the opportunities to cross-sell and offer comprehensive solutions to the domestic challenges our US customers face. Initial focus is on augmenting US business relationships on the next generation of combat vehicle programmes and making a greater selection of threat representation targets available to US DoD customers. We continue to mature our global end-to-end processes and business systems such that we can act with agility and pace in response to our US customer requirements. Further, the US business is fully embedded in our annual Group Audit and Assurance planning process. Read more about our addressable market on page 25.	**Metrics** All financial KPIs US revenue as % of total revenue **Responsibility** Group Function Director: Business Development President and CEO: US **Risk appetite** Balanced to Eager **Likelihood/Impact** High/High **Proximity/Velocity** 0-1 yrs/Medium **Strategy** Global leverage Distinctive Offerings Disruptive Innovation

International strategy

Risk	Impact	Mitigation	
Our international business conducts business in a number of regions, including Australia, Canada and Germany. Plans to grow these businesses to achieve our global leverage 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 operation. Political uncertainties could also impact the availability and focus of customer budgets. Elements of this risk exist within QinetiQ's control, including growing the maturity of our in-country capabilities to deliver our growth ambitions.	Unable to realise expected growth in the planned timeframes.	Our international strategy is focused on growing capability in our home and priority markets, and leveraging aligned Group products and services to maximise growth. We have developed specific and ambitious growth strategies in our priority markets, including organic and inorganic growth options. We undertake extensive due diligence, taking the appropriate professional advice to ensure structural, regulatory, legal and political risks are understood and minimised. In addition, our international businesses are included in our Group Audit and Assurance plans, and hold several internationally recognised certifications and standards. The continued exploitation of single routes to market enables our in-country teams to leverage the full QinetiQ brand and our Group-wide capabilities; maximising the opportunities to cross-sell and offer more comprehensive solutions to the domestic challenges our customers face. We are maturing our global and local processes and systems, as well as the approach to the global leverage of capabilities, such that we can deliver world-class solutions consistently across all of our home-market countries. Read more about our addressable market on page 24.	**Metrics** All financial KPIs International revenue as % of total revenue **Responsibility** Group Finance Director Business Development Managing Director: International **Risk appetite** Balanced to Eager **Likelihood/Impact** High/High **Proximity/Velocity** 1-2 yrs/Medium **Strategy** Global leverage Distinctive offerings

Risk management
continued

Innovation strategy

Risk	Impact	Mitigation	
Failure to innovate to enable the realisation of new ideas for our customers and our organisation, in the face of market and environmental changes such as rapidly evolving customer needs, technological change and increased competition. Specifically failure to: • Create a culture of innovation across the QinetiQ group. • Develop relevant business models, processes and products/services. • Attract, retain and nurture the right talent.	Negative impact on the Group's market position, competitiveness, future growth and profitability.	Global initiatives to ensure innovation and the necessary underlying culture is embedded across the Group, including: • Investment in tools to facilitate innovative approaches, such as enhanced exploitation of digital platforms and virtual environments to collaborate and demonstrate our products/services globally. • Diversity and Inclusion programme to drive and foster diverse thinking and embraces new ideas. • Commercial innovation, including agile approaches to contracting. • Strategic workforce planning and global Success Factors, utilisation to ensure we identify, attract and retain the right people now and for the future. Ongoing Group-wide communications, including via the Global Roadshows and Q-Talks, and training to drive understanding and adoption of our Mission-Led Innovation philosophy across QinetiQ Group, which is to deliver better operational outcomes for customers and end-users; working collaboratively to solve complex problems, at pace. Read more about our approach to innovation on page 21.	**Metrics** Customer satisfaction Employee engagement **Responsibility** Group Function Director Business Development Group Function Director Strategy and Planning Group Function Director Technical Group Function Director Human Resources **Risk appetite** Balanced **Likelihood/Impact** Medium/High **Proximity/Velocity** 1-2yrs/Low **Strategy** Global leverage Distinctive offerings Disruptive innovation

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

Risk	Impact	Mitigation	
The Long Term Partnering Agreement (LTPA) is a 25-year partnering contract with the UK MOD to provide test, evaluation, and training services. The Engineering Delivery Partnership (EDP) programme is a 10 year agreement delivered by the Aurora Engineering Partnership and is established as the default route for contracted engineering services for UK MOD Defence Equipment and Support (DE&S) and the wider UK MOD. UK Government budget constraints, could lead to a material change in use of these large contracts.	The LTPA and EDP directly contribute a material proportion of the Group's revenue and earnings.	We are investing significantly into the LTPA capabilities to ensure they remain relevant and modern. The investment portfolio is agile to changing customer needs and technological advances to ensure we remain at the cutting edge. We are now also working with the MOD on the T&E Futures programme through the delivery of a number of capability and technology demonstrators. We have achieved excellent customer satisfaction feedback along with very strong performance across all of our KPIs, resulting in strong financial performance on the contract throughout FY22. EDP is a collaborative programme with DE&S and our Aurora partners, that provides customers with key capacity and capability, focused on long term outcomes that maximise efficiencies and operational performance. During FY22 we have renegotiated some commercial elements of our agreement to build on the success of the first two years, ensuring that EDP remains competitive, relevant and continues to form a robust part of the solution to government spending challenges, delivering the best equipment and support of the UK's Armed Forces and Front Line Commands.	**Metrics** All financial KPIs except orders Customer satisfaction **Responsibility** Group Managing Director M&L Group Managing Director A&S LTPA Managing Director **Risk appetite** Balanced **Likelihood/Impact** Medium/Medium **Proximity/Velocity** 0-1yrs/Low **Strategy** Global leverage Distinctive offerings Disruptive innovation

Mergers and acquisitions

Risk	Impact	Mitigation	
M&A activity continues to form a key element of our strategic growth plans in order to expand our customer offerings within our home markets of the UK, the US and Australia, as well as in our priority growth markets. There is a risk that our new acquisition selection and integrations do not realise the maximum potential benefits.	Adverse impact on the Group's financial performance.	Robust governance is underpinned by the M&A Committee, which reports to the Board, and the relevant Integration Steering Committees, for newly acquired companies. All acquisitions are thoroughly assessed for strong strategic alignment for value creation potential and for integration risk. Extensive due diligence involves internal experts and a variety of external advisory companies, and every integration is managed separately to ensure focus. Best practice, learned from successful integrations, is rigorously applied to each new transaction. Portfolio rationalisation is ongoing where appropriate.	**Metrics** Inorganic growth Revenue and Profit **Responsibility** Group Function Director Strategy and Planning Group Managing Directors **Risk appetite** Balanced **Likelihood/Impact** High/High **Proximity/Velocity** 1-2yrs/Low **Strategy** Global leverage Distinctive offerings

The Transformation and Digitisation Programme

Risk	Impact	Mitigation	
The Transformation and Digitisation Programme aims to position QinetiQ for further growth, by globalising consistently around the customer to deliver excellence. In order to achieve this we must invest in our processes and systems to embed a robust Global Operating Model, supported by a Global Interoperable Infrastructure to enhance our collaboration, and a Digital Workspace that enables us to leverage our skills globally. This requires significant alignment and effort across the Group as well as cultural and behavioural changes. There is a risk that the investment required to achieve the intended outcomes is greater than budgeted, that the programme benefits are not fully realised and our Group ambitions are constrained.	Failure to realise benefits will challenge our ability to meet our strategic growth targets and limit our capacity to scale affordably.	Global Leadership Team work stream sponsorship and Group-wide stakeholder engagement to ensure robust requirement identification and focussed investment. This is supported by a CEO-led steering group and a Global Digital and Data Programme Board. Budget and scope managed through a robust governance model reporting to the Global Leadership Team and Board that gives sufficient flexibility to respond to changing customer needs but with the guide-rails in place to identify and control potential cost overruns. Benefits realisation is managed through a strong focus on change management, to drive adoption and the required changes to behaviours. The Digital and Data Programme acts as an enabler for the overall transformation by providing the tools and ways of working to more rapidly address the cultural and behavioural changes required to make the programme a success.	**Metrics** Customer satisfaction Employee Engagement All financial KPIs **Responsibility** Group Function Director Business Transformation and Services **Risk appetite** Balanced **Likelihood/Impact** High/High **Proximity/Velocity** 0-1yr/Medium **Strategy** Global leverage Distinctive offerings Disruptive innovation

Operational risks

Significant breach of relevant laws and regulations

Risk	Impact	Mitigation	
We operate in highly regulated environments across many jurisdictions. Non-compliance to existing and new requirements presents risks to people, property and the environment as well as having the potential to compromise our ability to conduct business in certain markets, potentially having an impact on a variety of stakeholders.	Failure to comply with particular regulations could result in serious detriment to people, property and the environment, and/or a combination of fines, penalties, civil or criminal action, suspension or debarment from government contracts, as well as significant reputational damage to QinetiQ.	Maintaining and strengthening a proactive safety and regulatory compliance culture across the Group is a key part in minimising the risk of a failure. The Global Operating Model clearly defines lines of responsibility through the organisation. In addition we have robust policy, procedures and mandatory training in place. The QinetiQ Code of Conduct sets out clear expectations for the Group and its employees; and in areas such as bribery and corruption the company adopts a zero-tolerance approach. We drive continuous improvement using a range of approaches such as audit and evaluation, focused training, strategic improvement programmes, and business objectives. One example is the launch of our Group-wide Health and Safety Improvement Programme; partnering with industry safety experts to further enhance our safety culture. The effectiveness of our internal control environment continues to be assessed annually with the Board, and a board assurance map is increasingly used to identify any potential gaps in assurance over key risks. ESG risks are robustly managed under the ESG programmes.	**Metrics** Health, Safety and Environment Mandatory training compliance Commercial intermediary monitoring **Responsibility** Director of Group Safety Improvement Programme Company Secretary/ Group General Counsel Group Function Director Technical Group Managing Directors **Risk appetite** Cautious **Likelihood/Impact** Medium/High **Proximity/Velocity** 0-1yr/High **Strategy** Global leverage Distinctive offerings

Security and IT systems

Risk	Impact	Mitigation	
A breach of physical or data security, cyber-attacks or IT systems failure, leading to loss of customer or company information could have an adverse impact on our reputation, customer confidence and operational delivery.	Significant reputational damage, as well as service interruptions and the possibility of withdrawal of our accredited status (our "licence to operate") resulting in exclusion from some types of government contracts and subsequent impact on orders, revenue and profit.	As a key supplier in the National Security supply chain, we must ensure that the organisation's security meets governments' and other relevant requirements worldwide. We employ a holistic security threat approach through four interlocking pillars: Physical, Information, Cyber and Personnel Security. Our changing and increasingly sophisticated threat environment is continuously reviewed, using appropriate tools and techniques, as part of our over-arching Security Strategy such that new and emerging threats are removed or mitigated, ensuring our strategy appropriately balances the security, cost and flexibility required for any given solution. Our programme of continuous security improvement includes: • A Group Cyber Security Standard. • Targeted Cyber Security Training for key IT staff, and mandatory awareness training for all staff and contractors. • Deployment and continual upgrade of cyber security detection and protective technologies. • Annual strategic security reviews. • Continuous employee communications and engagement, including an annual Security Culture survey. The introduction of a group-wide common IT infrastructure through the Digital and Data Transformation Programme will strengthen our overall cyber security capability through the adoption of common security tooling. This will also facilitate greater global inter-operability through technology controlled information sharing while still protecting National and Sovereign data and information.	**Metrics** Cyber dashboard Security dashboard **Responsibility** Group Director Transformation and Business Services **Risk appetite** Cautious **Likelihood/Impact** High/High **Proximity/Velocity** 0-1yr/High **Strategy** Global leverage Distinctive offerings

Project and programme professionalism and processes

Risk	Impact	Mitigation	
QinetiQ operates in a competitive and complex delivery environment. Scalable, adaptable and agile leadership of work is the norm. There is a risk that our Portfolio, Programme and Project Management (P3M) maturity fails to keep pace with our growth plans and successful delivery of larger, longer-term contracts. We must continually innovate and develop our frameworks, processes, tools and training in order to ensure consistent excellence in winning business and delivering for our customers.	Adverse impact on group financial performance, competitiveness and future growth.	The Group Performance Excellence (GPE) function is responsible for the continuous improvement or our robust P3M framework in order to provide a scalable and consistent approach to delivering benefits to time, cost and quality. Work is ongoing to consolidate toolsets, implement a pan-discipline, Group-wide Lifecycle Framework, and enhance Project Manager professional development. Project Management Offices (PMOs) have been embedded in each business unit, and are actively implementing GPE outputs; including the integration of professional Project Controls and Assurance.	**Metrics** All Financial KPIs Customer Satisfaction Revenue and Profit **Responsibility** Group Director Technical **Risk appetite** Cautious/Balanced **Likelihood/Impact** Medium/Medium **Proximity/Velocity** 0-1yrs/Medium **Strategy** Global leverage Distinctive offerings Disruptive innovation

Risk management
continued

Climate change			
Risk	**Impact**	**Mitigation**	
QinetiQ Group, like all organisations, must play its part in reducing GHG emissions and ensuring that the risks and opportunities resulting from climate change and the decarbonising economy are understood, and effectively managed as an intrinsic part of our operations and strategy. Failure to manage the climate change risk as part of our strategy will leave operations on our estates and our supply chains, exposed. We may not meet legislative or customer requirements, stakeholder expectations and we will not be correctly positioned in a decarbonised future. For more details see our Net-Zero plan on page 47 and the TCFD section on page 50.	Negative impact on the Group's market position, competitiveness, future growth.	We have a strong track-record of environmental stewardship but recognise that there is more we can do. We have developed a Net-Zero plan and are committed to target to achieve Net-Zero GHG emissions by 2050 or sooner. We have in place Global initiatives to ensure that we are embedding our Net-Zero plan; 1. Net-Zero operations (Scope 1 and 2) 2. Net-Zero upstream and downstream focus (Scope 3) 3. Delivery of critical internal and industry-wide enabling activities (e.g. cost of carbon, and remuneration incentives) 4. Co-create with our customers, invest in research and development and care for our environment We have also undertaken a comprehensive review of the risk of climate change to our business and have ensured that we embed climate change into our business-as-usual activities, integrating opportunities into our strategy and ensuring efficacy through leadership oversight with supporting tracking metrics. This is reported on page 50 aligned with the TCFD framework.	**Metrics** Reduction of GHG emissions Customer satisfaction Employee engagement TCFD outputs **Responsibility** Chief Finance Officer **Risk appetite** Balanced **Likelihood/Impact** Low/Medium **Proximity/Velocity** 3-5yrs/Low **Strategy** Global leverage Distinctive offerings Disruptive innovation

People			
Risk	**Impact**	**Mitigation**	
Identifying, attracting and retaining the right people now and in the future is essential to QinetiQ's success. There has been a significant change in expectation within the global workforce in terms of location, flexibility and baseline toolsets; this has been accelerated by the pandemic, and there is a risk that we fail to grow and adapt our ways of working in order to ensure that we attract, develop and retain the right capability to deliver excellence for our customers.	Negative impact on the Group's market position, competitiveness, future growth.	Our people are a core consideration in all of our strategic and operational planning. We are enhancing our Strategic Workforce Planning (SWP), the Early Careers Programme, D&I Plans, and career management tools. The HR function is developing a collaborative functional model for harnessing future capability requirements, assimilating existing structure, understanding better the skills gaps and capable of leading SWP strategic thinking. A high performance culture is central to our people strategy, supported by engagement, talent review and reward strategies; this is further enabled through our Smart Adaptive Working (SAW) guidance which has capitalised on the diverse ways that our people have worked. Each of our home countries has been able to adapt to trends an opportunities in their own localities; for example, a successful pilot of a four-day week in Australia.	**Metrics** Reward Growth Career Path **Responsibility** Group Human Resources Director **Risk appetite** Balanced **Likelihood/Impact** Medium/Medium **Proximity/Velocity** 1-2yrs/Medium **Strategy** Global leverage Distinctive offerings Disruptive innovation

Proximity – Risk proximity means how far away in time will the risk occur (if it materialises).

Velocity – Velocity refers to the time that elapses between the occurrence of an event and the point at which the QinetiQ first feels its effects.

Longer-term viability assessment

Assessing the prospects of the Group

An overview of the Group's growth strategy is provided on pages 18 to 21.

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 low-case, base-case and high-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.

The corporate planning process is underpinned by assessing scenarios and risks that encompass a wide spectrum of potential outcomes, both favourable and adverse. The sensitivity analysis undertaken by management explores the resilience of the Group to the potential impact of all the significant risks set out on pages 64 to 70, 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 (as described on pages 64-70) 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 108, 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.

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 2027. 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 while still providing an appropriate longer-term outlook.

Confirmation of longer-term viability

As noted on page 111, the Directors confirm that their assessment of the principal 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 2027.

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 1 to 35. The Group meets its day-to-day working capital requirements through its available cash funds and its bank facilities. The Chief Financial Officer's review on pages 36 to 39 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.

The market conditions in which the Group operates are expected to be challenging, as spending from key customers comes under pressure, however the Group enters the new year with a very strong balance sheet and a healthy order-book. After making enquiries, the Directors believe that the Group is well-positioned to manage its overall business risks successfully and 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 and uncertainties' section on pages 64 to 70. 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 sufficiently material to prevent the Group from continuing as a going concern for the next 12 months.

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.

The Board of Directors confirm that during the year under review, it has acted to promote the long-term success of the company for the benefit of the shareholders, while having due regard to matters set out in section 172(1)(a) to (f) of the Companies Act 2006, being:

s. 172(1) matter	Relevant disclosures
(a) The likely consequences of any decision in the long term	Company purpose – page 4 Business model – pages 16 to 17 Strategy – page 18 Dividend policy – page 39 Longer-term viability statement – page 71
(b) The interests of the company's employees	Improving the safety, health and wellbeing of our people – page 55 Engaging with our people – page 57 Developing our people – page 58 Rewarding and recognising our people – page 59 Non-financial information statement – page 74 Board employee engagement – page 93 Diversity and inclusion – page 56 and 104 to 105
(c) The need to foster the company's business relationships with suppliers, customers and others	Business ethics – doing business the right way – page 60 Anti-bribery and corruption – page 61 Human rights – page 61 Modern slavery – page 61 Supply chains – page 61 Supplier stakeholder management – page 61
(d) The impact of the company's operations on the community and the environment	Responding to climate change – pages 46 to 53 Greenhouse gas emissions and energy management – page 47 Investing in our community – page 56 TCFD disclosures – page 50
(e) The desirability of the company maintaining a reputation for high standards of business conduct	Stakeholder propositions – pages 10 to 11 Our sustainable business model – pages 10 to 11 Our values – page 18 Our culture – page 91 Our approach to responsible and sustainable business – page 48 Internal controls – page 108
(f) The need to act fairly between members of the company	Investor engagement – page 94 The Annual General Meeting – page 95

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. The main methods used by the Directors to perform their duties include:

- An annual strategy meeting which assesses the long-term sustainable success of the Group and our impact on key Stakeholders.
- The Board's risk management procedures identify the potential consequences of decisions in the short, medium and long term so that mitigation plans can be put in place to prevent, reduce or eliminate risks to our business and wider stakeholders (see pages 64 to 70).
- The Board sets the Group's purpose, values and strategy and ensures it is aligned with our culture (see page 90).
- Direct and indirect stakeholder engagement (see pages 26 and 92 to 93).
- External assurance is received through audits, stakeholder surveys and reports from brokers and advisers.
- Specific training for our Directors and senior managers (see page 107).
- Regularly scheduled Board presentations and reports, by way of example: customer engagement, risk register reports, health and 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.
- 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.
- 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 and CSR Committee and Remuneration Committee agenda items.

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.

Board activity and principal decisions in FY22

The principal decisions taken by the Board in FY22 are detailed on pages 87 to 89. These decisions cover a variety of topics, including the Group's response to COVID-19, our Environment, Health and Safety strategy and portfolio optimisation decisions. Due to the nature of these decisions, a variety of stakeholders had to be factored into the Board's discussions.

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	16
Policies	Non-financial information statement	74–75
Risk Management	Risk management	62–64
Principal risks	Risk management	64–70
Key Performance Indicators	Key performance indicators	40–43
ESG	Environmental Social Governance	44–61
Board Diversity Policy	Corporate Governance	104

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 (Page 60). There are details on ethical decision making and also how to seek help and raise concerns. 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 of our business, regulations and best practice.
Speak Up	Guidance for our employees and third parties on how to 'speak up' is provided within our Code of Conduct and our supplier Code of Conduct (both available on our website). Queries to our ethics email line are reported to the GLT monthly and an overview of the programme was presented to the Board. (See page 86). Confidential reporting is overseen by the Audit Committee, the process is described on page 95.
Health and safety	Our Health and Safety policy outlines our commitment to continuously improving standards of safety management and compliance. This is supported by our EHS Strategy (page 55). 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 (GLT) meetings and the Board Risk and Security Committee (see page 115). We track Lost Time Incidents (LIT) as a key non-financial KPI (page 42), which demonstrates an improvement in the LTI).
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 KPIs with monthly oversight by our GLT as well as regular oversight by the Board. Our Inclusion 2025 programme including an improvement in gender diversity, is described on pages 56 and 57 including relevant data and progress against the Board's Diversity and Inclusion Policy is described on page 104.

The environment

Policy statement	Description
Environmental management	We are committed to embedding an environmentally sustainable approach to business because we understand its importance to our business and our stakeholders (see pages 47 and 49). The effectiveness of our policy is governed through our assurance process and our six-monthly self certification. Environmental issues are part of a regular governance timetable, with oversight by the GLT and the Risk and Security Committee (page 115). We are certified to ISO 14001 in the UK and Canada and so are subject to external audit.
Energy management and climate change	Underpinning our ISO 50001 certified energy management system is our energy and carbon management policy, which creates the framework for energy management. On page 48 we show the positive improvement against our target. Our policy is part of regular governance review and self certification, as well as external audit, to ensure we are meeting certification requirements (see page 48). Our new Net-Zero plan has had oversight by the Board (page 89). Risks associated with climate change are on page 70.
Waste management	We recognise that reducing waste meets our sustainability goals, and improves efficiency. On page 49 we outline the progress against our target. The effectiveness is governed via our assurance processes and KPI with monthly oversight by our GLT as well as regular oversight by the Risk and Security 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, which enable us to make a positive difference in the community (page 56). 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 Early Careers Team 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. The tax strategy also has oversight by the Audit Committee (page 112).
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.

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. Our policies ensure we meet all statutory requirements. We monitor the application of these policies through our business assurance processes and regular self assessment and with leadership oversight (GLT and Board). We believe that this integrated approach is effective in ensuring our business acts responsibly and respects human rights. (See page 61).
Modern slavery	We recognise our responsibility to comply with all relevant legislation, including The Modern Slavery Act 2015. 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. Our Modern Slavery and Human Trafficking statement is published on our website. The effectiveness is monitoring via our assurance programme and leadership oversight (GLT and Board). See page 61 for details of the programme.
Data Protection	Our data protection policy details how we manage the privacy and security of personal information. The effectiveness is monitoring via our assurance programme and leadership oversight (GLT 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. See page 61 and our website for more details.
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 policies. The effectiveness is monitoring via our assurance programme and leadership oversight (GLT and Board). See our website for more details.

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, which ensures we meet applicable statutory requirements, has significant senior oversight at GLT and Board level, is managed via our assurance processes and self-certification and there are regular internal audits. Details of our ABC programme are provided on page 60.
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 is designed to ensure we comply, which has GLT 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 GLT and Board oversight, is subject to our assurance process and self certification.

Corporate Governance

Governance framework

Statement of compliance with the 2018 UK Corporate Governance Code (the Code)

The Board is accountable to shareholders for its standards of governance and throughout the year the Board has applied and been compliant with the principles and provisions set out in the Code, with the exception of Provision 38 (alignment of Executive Directors' pension with those available to the employees). See page 123 for further information. The Code is publicly available at www.frc.org.uk.

Listed below are the Code principles, and details of where we have addressed them in this Annual Report.

1. Board Leadership and company purpose

Provides an overview of the activities undertaken by the Board in the year, how the Board has considered its s. 172(1) responsibilities and its governance framework

Code principle A
- Section 172(1) statement – pages 72 to 73 and 87 to 89
- Board of Directors – pages 82 to 84

Code principle B
- Our strategy – page 18
- Section 172(1) statement – pages 72 to 73 and 87 to 89
- Company purpose – page 90
- Culture – pages 91 to 92

Code principle C
- Strategic report – pages 1 to 75
- Audit Committee report – pages 109 to 114
- Risk & Security Committee report – pages 115 to 116

Code principle D
- Social – pages 54 to 59
- Stakeholder engagement – pages 92 to 95
- Section 172(1) statement – pages 68 to 69 and 87 to 89

Code principle E
- Social – pages 54 to 59
- Employee engagement – page 93
- Confidential reporting – page 95

2. Division of responsibilities

Explains the roles of the Board and its Directors

Code principle F
- Governance framework – page 81
- Division of responsibilities – pages 96 to 97

Code principle G
- Governance framework – page 81
- Board of Directors – pages 82 to 84
- Division of responsibilities pages – 96 to 97

Code principle H
- Section 172(1) statement – pages 72 to 73 and 87 to 89
- Time commitment – page 98

Code principle I
- Board and Committee processes – page 98

3. Composition, succession and evaluation

Sets out key processes, which ensure that the Board and its Committees can operate effectively

Code principle J
- Nominations Committee report – pages 100 to 107

Code principle K
- Board of Directors – pages 82 to 84
- Nominations Committee report – pages 100 to 107

Code principle L
- Director effectiveness – pages 106 to 107

4. Audit, risk and internal control

Explains the role of the Board, the Audit Committee and the Risk & Security Committee in ensuring the integrity of the financial statements and maintaining effective systems of internal controls

Code principle M
- Audit Committee report – pages 109 to 114

Code principle N
- Fair, balanced and understandable – page 111

Code principle O
- Risk management – page 108
- Audit Committee report – pages 109 to 114
- Risk & Security Committee report – pages 115 to 116

5. Remuneration

Describes the company's remuneration arrangements in respect of its Directors, how these have been implemented in FY22, and details of our remuneration policy

Code principle P
- Directors' remuneration report – pages 117 to 136

Code principle Q
- Directors' remuneration report – pages 117 to 136

Code principle R
- Directors' remuneration report – pages 117 to 136

An introduction from the Group Chair

Dear Shareholder,

I am pleased to present this year's corporate governance statement. This report provides a summary of the system of governance adopted by the company and will enable our shareholders to evaluate the manner in which the Code's principles and provisions have been applied by the company.

Board activities

FY22 saw QinetiQ delivering a good underlying operating performance at Group level. In particular the EMEA Services division strongly delivered on its strategy, winning larger long-term contracts, managing complex programmes effectively and delivering for its customers. However, our result was impacted by two short-term issues; a write-down on a large complex project and a weaker performance in the US, negatively impacted our share price in late 2021. The Board took swift actions to mitigate these issues, including a robust plan to ensure the best possible outcome on the large complex project, see page 87. The Nominations Committee was also able to apply the established Senior Management Succession Programme to assure that we appointed the best possible candidate to lead our US business, and in January we announced the appointment of Shawn Purvis as President and CEO of QinetiQ US, see more on page 88.

To navigate through these issues, we have called on the extensive skills and experience of the entire Board. Our robust governance framework, and how this is implemented, has been fundamental to our ability to do this successfully.

Stakeholder engagement – more important than ever

During the year the Board had to make a number of challenging decisions, which affected all our stakeholders in different ways, and we have sought to balance the needs of our many stakeholders throughout the year, be they employees, customers, suppliers, shareholders or regulators, while taking steps to secure the Group's longer term success. There has been a constant dialogue with all of the main stakeholder groups, and on behalf of the Board, I would like to take this opportunity to thank them all for their partnership during this challenging time. A fuller summary of the Board's activity during the year can be found on page 86, further information about the Group's stakeholder engagement can be found on pages 87 to 89, and 92 to 95.

Environmental, Social and Governance (ESG)

QinetiQ is proud to be acting as a catalyst, by driving and leading these important issues within our sector. During the year, the Board and I have had many discussions on how to best keep evolving our approach to ESG matters. As part of our regular business review, we are able to oversee and monitor management of ESG issues, which are being delivered through our Corporate Responsibility and Sustainability function. We are proud of the significant progress made to date on our ESG strategy, and we continue to support the business in its ambition to embed this further into corporate strategy and decision making.

An introduction from the Group Chair continued

To ensure that the Board can provide the appropriate oversight of ESG issues we have an established Climate Change Steering Committee, chaired by our CFO. In addition, in FY23, our Global Leadership Team will set up a dedicated ESG Committee, which will be chaired by our CEO, with the aim to provide further support to the business in this vital area.

Health and safety

At QinetiQ, safety and wellbeing remain our number one priority and our commitment to look after our people, customers and visitors is at the heart of our culture. The Board has, during the year, supported the management team in launching the Group Safety Improvement Programme, aimed at developing and implementing a robust safety management system that incorporates key lessons identified and improves our safety culture. Further information on this can be found on pages 54 to 59, and 91 to 92.

Culture

Promoting a culture of openness and debate in the boardroom is one of my key responsibilities as Group Chair, and as a Board we play an important leadership role in promoting the desired culture throughout the organisation. By spending time with the business and its people, the Board and 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, with a strong desire to learn and develop. However, our people have found this year challenging, with the continued impact of COVID-19 and the financial performance shock which required a short-term recovery plan. The company has spent considerable time over the last year supporting our people and getting the culture right, and we are continuing this journey.

Board and management succession

There have been a number of changes to the Board since the last Annual Report. David Smith stood down as Chief Financial Officer in November 2021, and we welcomed Carol Borg as his successor. Carol brings extensive financial and operational expertise in driving disciplined strategy execution. In addition, Larry Prior joined the Board as an Independent Non-executive Director in November 2021.

Succession planning for the Global Leadership Team (GLT) is on track, with the onboarding of Shawn Purvis as our US President and CEO, and the internal promotions of Amanda Nelson as Group Human Resources Director and Mike Sewart as Chief Technology and Operating Officer.

Ensuring a diverse culture on the Board and the GLT is crucial to improving effectiveness, encouraging constructive debate, delivering superior performance and enhancing the success of the company. We currently have a Board comprising 44.4% women and 33.3% women on the GLT. We continue to be committed to our gender and ethnic minority diversity targets for the Board, and the GLT.

Evaluating the Board's performance

Central to setting the correct tone is the review of the Board's own performance. This year we carried out an external assessment, which was conducted by Tom Bonham-Carter of The Effective Board LLP. The positive outcomes of this were well received, and in the spirit of continuous improvement, we also identified areas to work on. Please see pages 105 to 107 for further information.

The suite of evaluation actions from the previous year, alongside progress against these are set out on page 106.

Remuneration

This year was the second year of the Directors' Remuneration Policy that was approved by shareholders at the AGM in 2020 (the Policy). The Board's Remuneration Committee has during the year focused on ensuring that the Policy is continuing to operate as intended to reward, retain and incentivise appropriately the Executive Directors who are driving the company's success. It has done so by seeking to ensure that the company's remuneration schemes and their outcomes for Executive Directors continue to be transparent, aligned with the company's strategy and aligned with the interests of, and returns delivered to, shareholders.

Annual General Meeting

We are delighted this year to again welcome shareholders to our AGM. The AGM will be held at 11:00 on Thursday 21 July 2022 at the office of Ashurst LLP, London Fruit and Wool Exchange, Duval Square, London E1 6PW. Further details will be provided in the Notice of AGM and on www.QinetiQ.com.

Conclusion

I would like to take this opportunity to express my gratitude to all employees of QinetiQ, the CEO and his executive team, and my fellow Directors for all their hard work during the year.

Neil Johnson
Non-executive Group Chair

Board leadership and company purpose

Board leadership and company purpose

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.

Shareholders

Group Chair

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, while 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

Reviews and monitors the Group's financial accounting and reporting processes and the integrity of published financial statements. Reviews the Group's system of internal control, including the effectiveness of its internal audit function and the independence and effectiveness of its external auditor.

See pages 109 to 114 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 100 to 107 for Committee Report

Remuneration Committee

Determines and recommends to the Board the framework for the remuneration of the Group Chair, CEO, CFO and GLT. Oversees workforce remuneration and workforce policy.

See pages 117 to 136 `for Committee Report

Risk & Security Committee

To provide scrutiny and assurance to the Board, that the required standards of risk management, security, health, safety and environment within the UK, and internationally, are achieved.

See pages 115 to 116 for Committee

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 Group Chair, 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 GLT meets twice a month. 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.

Board of Directors – an experienced and balanced Board

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

Committee membership key

A Audit N Nominations R Remuneration RS Risk & Security Committee Chair

A N R RS

Neil Johnson
Group Chair
Nationality: British

Skills, competence and experience:
Neil's former CEO experience and current roles as a plc Chair 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 Chair of Motability Operations, Centaur Media plc and Hostmore Group plc.

Other appointments:
Chair of Unbound Group plc, and Deputy Chair and Senior Independent Non-executive Director of the Business Growth Fund.

A N R RS

Steve Wadey
Chief Executive Officer
Nationality: British

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 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. He was also Chair of the Defence Industry Liaison Board of the UK Department for International Trade, Defence and Security Exports.

Other appointments:
Co-Chair of UK Defence Growth Partnership and Climate Change and Sustainability steering group with UK MOD.

A N R RS

Carol Borg
Chief Financial Officer
Nationality: Australian

Skills, competence and experience:
Carol brings a wealth of global financial expertise and Environmental, Social and Governance (ESG) leadership to the role. Leading key interventions in working capital management, new market entry and establishment, risk management, insurance and business continuity, finance process maturation and shared service centre implementation, she has a deep international knowledge of operational execution, performance management, financial reporting, risk management, strategy and governance; all of which makes her a true strategic finance and commercial business partner.

Carol has held various senior roles in international businesses, most recently in a founder-led renewable business as the Chief Financial Officer of Lightsource bp, a global solar developer. Prior to that she held various positions at Vestas, a global wind turbine manufacturer, the most recent being the position as Regional Chief Financial Officer of Vestas' Southern Europe, Middle East and North Africa (MENA) and Latin America operations (spanning manufacturing, sales, construction and after-sales service).

Other appointments:
N/A

A N R RS

Michael Harper
Deputy Chair and Senior Independent Non-executive Director
Nationality: British

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, among 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 Chair of Ricardo plc, Vitec Group plc, and BBA Aviation plc, having previously been its CEO. Michael's previous appointments include Senior Independent Director of Catlin Group Limited, Non-executive Director of Williams plc and the Aerospace Technology Institute, and CEO of Kidde plc.

Other appointments:
N/A

A N R RS

Lynn Brubaker
Independent Non-executive Director
Nationality: American

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), the Hexcel Corporation 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.

A N R RS

Shonaid Jemmett-Page
Independent Non-executive Director
Nationality: British

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 her extensive financial experience, enables her to successfully chair the Audit Committee.

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 Chair of Greencoat UK Wind plc and Cordiant Digital Infrastructure Limited, Senior Independent Director of ClearBank Ltd and Non-executive Director of Aviva plc.

A N R RS

General Sir Gordon Messenger
Independent Non-executive Director
Nationality: British

Skills, competence and experience:
Gordon brings vast experience from the armed forces having served for 37 years as a Royal Marine. Throughout his military career he served in key appointments in various UK and NATO Headquarters, overseeing the planning and execution of UK and coalition military and humanitarian relief operations worldwide. He most recently served as Vice Chief of the Defence Staff, a position he held for three years until his retirement in 2019.

His unique experience enables him to provide invaluable insight in his role as the Chair of the Risk & Security Committee.

Other appointments:
UK Member of the international Defence Reform Advisory Board for Ukraine, Board member of the UK Health Security Agency, and Her Majesty's Constable of the Tower of London (designate).

A N R RS

Lawrence (Larry) Prior III
Independent Non-executive Director
Nationality: American

Skills, competence and experience:
Larry brings a wealth of experience as an experienced executive and non-executive from a breadth of sectors including aerospace, defence and government services, IT, and cyber and security. This, combined with his global and US focus, make him ideal to support QinetiQ's progress in becoming an integrated global defence and security company.

Larry is currently an Operating Executive for the Carlyle Group. His was previously the President and Chief Executive Officer of CSRA, Inc. where he led a spinout from CSC, a merger with SRA and an IPO on the NYSE in 2015. The company was acquired by General Dynamics in 2018. Before that he was Executive Vice President and General Manager of CSC's North American Public Sector (NPS) business, providing next-generation technology solutions and mission services to the US Department of Defense, Intelligence Community and FedCiv sectors.

Other appointments:
Operating executive for the Carlyle Group, including Non-executive Director of CNSI, Non-executive Director and Chair of the Audit Committee of KLDiscovery Inc, and Chair of Two Six Technologies; and independent Director of Shift5.

A N R RS

Susan Searle
Independent Non-executive Director
Nationality: British

Skills, competence and experience:
Susan brings to the Board essential experience of investing in growing technology businesses, acquisitions and exploitation of new technologies. Her extensive experience as a plc Remuneration Committee Chair enables her to efficiently and valuably chair the QinetiQ 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, and held a variety of commercial and business development roles with Shell Chemicals, the Bank of Nova Scotia, Montech (Australia), and Signet Group plc. Previously Susan was the Senior Independent Director and Remuneration Committee Chair of Horizon Discovery Group plc, and Chair of Mercia Asset Management plc and Schroder UK Public Private Trust plc.

Other appointments:
Senior Independent Non-executive Director and Chair of the Remuneration Committee of Benchmark Holdings plc, and Chair of Greenback Recycling Technologies Ltd.

A N R RS

Jon Messent
Company Secretary
and Group General Counsel
Nationality: British

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 Secretary.

Other appointments:
N/A

Committee membership key

A Audit N Nominations R Remuneration RS Risk & Security Committee Chair

Board activity – the key business and activities of the Board during the year were as follows:

Topic	Key activities	
Strategy and operations	• Reviewed and considered the company's purpose, values and strategy. See more on pages 18 to 21 and page 90 • Approved the FY23 component of the Group's five year Integrated Strategic Business Plan (ISBP). See more on page 18 • In-depth reviews of business strategy and performance • In-depth reviews of M&A pipeline and specific opportunities • Reviewed and approved material bid, contract and M&A proposals, divestments and assessed performance against these	• Received updates from each of the Group's Business and Function Units on their performance vs strategy and budget, and their priorities and initiatives • Received reports and discussed the Group's Digital and Transformation strategy and investments • Monitored the economic, legislative and geo-political landscape, particularly as regards to the COVID-19 pandemic and political climate in Ukraine
Financial performance	• Approved the company's annual budget, business plan and KPIs, and monitored performance against them. See more on pages 40 to 43 • Reviewed and approved the Group's full and half-year results and interim trading updates • Approved the full year and half-year dividends • Approved the company's Annual Report, including its fair, balanced and understandable nature	• Reviewed and confirmed the Group's viability statement and going concern status • Reviewed the Group's capital, debt and other liquidity arrangements • Approved the Group's tax strategy and treasury policy • Considered and approved material bids, acquisitions, contracts, expenditure and guarantees
Internal control and risk management	• Reviewed and approved the Group's risk appetite and reviewed the Group's principal and emerging risks, and the processes for identifying, and actions to mitigate these • Received reports from the Chair of the Risk & Security Committee on its activities • Received reports from the Chair of the Audit Committee on its activities and assessments	• Reviewed and validated the effectiveness of the Group's system of internal control • Approved amendments to the Group's delegated authorities framework • Reviewed and approved confidential reporting policies • Reviewed the reports on confidential reporting (of which the process is further described on page 95)
Leadership, people and culture	• Received recommendations from the Nominations Committee on the appointment of new Directors, the re-election of Directors and other advice regarding the structure, size and composition of the Board • Reviewed and actioned succession plans for the Board and senior management, having regard to skills, experience and diversity	• Received reports from the Chair of the Remuneration Committee on its activities, recommendations regarding remuneration strategy and decisions regarding the Group Chair's, executive Director's and senior management pay, and reviewed and approved Non-executive Director fees • Reviewed human capital reports, including updates on talent development programmes and diversity and inclusion programmes
Engagement, environment and community	• Undertook an annual review of the Group's stakeholders – who they are, methods of engagement, outcome and feedback. See more on pages 2 to 29, and 92 to 95 • Reviewed feedback from investors and analysts and the output of engagement with major shareholders and other stakeholders • Reviewed workforce engagement activities and outcomes, including the results of the Peakon surveys and received reports on the Group Chair's workforce engagement activities	• Reviewed regular reports on our approach to ESG issues, see more on page 89 • Reviewed the activities of, and approved a financial commitment to, the company's charitable and community initiatives • Reviewed and approved the Group Modern Slavery Statement, published on www.QinetiQ.com
Governance and legal	• Approved the Group's s. 172(1) statement. See more on pages 72 to 73 and 87 to 89 • Approved the Notice of the AGM • Undertook an annual compliance review of the Code and DTR7	• Reviewed the results of the internal Board and Committee effectiveness evaluations • Reviewed and approved matters reserved to the Board and its Committees' terms of reference • Approved the Group's annual Modern Slavery and Human Trafficking statement

Board decision making

In making decisions, the Board of Directors are cognisant of all their legal duties, including their duty under s. 172(1), see pages 72 to 73, in the way that is most likely to promote the success of the company for the benefit of its members as a whole and to have regard (among other matters) to the factors set out therein. Examples of some of the most important decisions taken by the Board during the year of reporting, and an explanation of which factors the Board had regard to when reaching such decisions, are set out below.

1. Complex Project – write down

Background – During the year this complex project faced increased risk exposure, as technical issues and a delay on system development arose. In October QinetiQ issued a trading update outlining the issues on the programme. Following this, for the first half-year results we included a write-down associated with this project, reducing orders by £22.5m, revenue by £8.0m and underlying operating profit by £14.5m. We also presented further information on the complex project and QinetiQ's wider contract portfolio in order to provide investors with greater understanding of the discrete nature of this particular project. In January's third quarter trading update, we updated the market that discussions with the customer now indicated contract closure as the most likely outcome, bringing certainty to our exposure, which remained consistent with the £14.5m profit write-down fully contained in our FY22 first half results. Following the trading update in October, the QinetiQ share price reduced by up to 26% (15 December 2021), primarily reflecting market concerns of potential write-down value increases or portfolio contagion. Since then our shares have largely recovered, supported by subsequent trading updates and our full year results which demonstrated closure of the project in-line with the initial £14.5m profit impact given.

Board discussion – During the year the Board was kept up to date on the progress of this project via updates from the CEO at each Board meeting, and from the CFO at each Audit Committee and Risk and Security Committee meeting. By ensuring that QinetiQ's corporate governance framework and governance procedures were adhered to (capturing: risk assessments; financial reviews; and discussions with the customer and suppliers), the Board was able to challenge the management team and provide advice where necessary, and also ensuring that the necessary lessons learned exercises were held and considered.

Board stakeholder considerations and impact

- Shareholders/investors – Trading updates sought to provide increasingly transparent and up-to-date information throughout the year, though full details of the project could not be disclosed due to commercial sensitives. In addition, the management and investor relation team kept an open and continuous dialogue with investors, helping to restore market confidence by providing clarity, supporting information, and ensuring investor understanding of the remedial steps being taken by the company.
- Customer – The project team kept constant and open dialogue with the customer, ensuring the best possible outcome for both parties.

Outcome and next steps – The contract has now been fully closed and we have mitigated all future risk exposure. The financial impact remains consistent with and contained within the £14.5m write down in our first half results. Our current global order book does not have us working with this supplier nor does this product exist elsewhere in our portfolio. The Board will ensure that lessons learnt from this event are implemented into operational and risk management going forward.

2. M&A – incomplete acquisition

Background – Our M&A work maintains a focus on developing our US inorganic growth strategy, and during the year QinetiQ pursued an opportunity to acquire a sizeable company in the US. Unfortunately this attempt was unsuccessful.

Board discussion – The Board held several phone calls and meetings throughout the process, providing guidance and challenge on the opportunity's strategic fit, investment returns and integration considerations. A summary of the lessons learned from the outcome was also presented to the Board.

Board stakeholder considerations and impact – The Board was regularly kept up to date of the potential transaction's impact on investors, customers, and employees.

- Employees – integration; incentivisation; development and succession issues for management and staff
- Customers – business development opportunities with existing and new customers
- Investors – implications for the Group's forward funding, capital structure and forecast investor returns

Outcome and next steps – Following this unsuccessful bid, we have further refined our strategy to accelerate our future growth. As a result, we have reinforced our M&A pipeline development activity to explore further opportunities to grow our US market position. As a business, we learned an extraordinary amount through this process and have demonstrated that we can credibly contemplate a deal of equivalent scale.

Board leadership and company purpose

3. Health and Safety

Background – QinetiQ's Environment, Health and Safety (EHS) strategy sets the direction for how we look after ourselves, each other and the world around us. One of the areas on which it focuses on is ensuring that we continuously improve; learning from experience and strengthening our approach to safety and wellbeing. In achieving this we place an emphasis on leadership. Our most senior people are required to lead the way and role model the behaviours we expect of ourselves and each other. However, the MOD Pendine incident (see more on page 55), has demonstrated that we need to do more.

Board discussion – The Board, led by the Risk & Security Committee, gave the action to the Global Leadership Team to establish a Safety Improvement Programme (SIP) to drive a step-change in our safety culture. As such we developed a new risk assessment process and supporting material, which will improve the way safety risk assessments are carried out across the company.

Board stakeholder considerations and impact – The Risk & Security Committee, led by its Chair Gordon Messenger, closely monitored and guided the management team throughout the process.

Employees – The Committee gave the action to engage safety experts DuPont, to give an independent view of QinetiQ's safety arrangements and culture, and to advise on best-practice improvements. The feedback will be used to define our refreshed approach to our safety culture where we will be involving all our people at every step of the process, and establishing an environment where it is safe to take a proactive approach, raising issues and concerns and owning the solution (psychological safety).

Outcome and next steps – Changing a culture takes time and we are taking a systematic approach, doing it properly, learning as we go, drawing on external expertise and adapting our plan as needed. We are committed to making the necessary change "stick". The SIP is the mechanism by which we are driving this improvement across the whole company. The two primary outcomes of the SIP will be a revised QinetiQ Safety Management System (SMS) and a programme of continuous safety culture improvements.

In the short-term, we are focusing on areas where we can make an immediate impact:

- Our risk assessment process.
- Introducing a new global incident reporting tool.
- Continued learning and improvement from our Safe for Life culture surveys.
- Undertaking an in-depth review of our global systems, processes and culture.

4. US – leadership reorganisation operational performance challenges and customer focus shift

Background – US foreign policy has shifted significantly in recent years, which has been amplified by recent events to counteract the near-peer adversaries of the West and NATO allies. The US administration is in the process of responding to challenges that remain and are growing regarding China and also from an increasingly assertive Russia. These changes follow what has been a challenging time within the US defence and security market. The challenging situation with the US defence budget through 2021 and 2022, coincident with the rapid draw-down from Afghanistan, created delays and uncertainty in funding, especially in the areas of research, development and prototyping, where QinetiQ US is particularly strong as an innovation partner to several US customers. As a consequence, these delays, compounded with residual supply-chain issues related to COVID-19, created operational performance challenges for the US business, and impacted its ability to contract and deliver products and services to the US armed forces.

Board discussion – The CEO and CFO provided ongoing direct support to the US management team by way of regular visits to the US office throughout the year. The Nominations Committee oversaw the process of recruiting a new US management team, specifically selected to enhance organic and acquisition-based approach to growth.

Board stakeholder considerations and impact:

Employees – Due to the challenges the US business went through a necessary employee rationalisation programme was implemented.

Outcome and next steps – With the recruitment of Shawn Purvis as US CEO and President, and a revised leadership team, the US business is well placed to solidify the current business through further corporate integration, expand business with current customers and partners, and dock in strategically aligned acquisitions.

5. Environment, Social and Governance – particular focus on climate change and Net Zero Plan

Background – During FY22 the Board confirmed priorities to support the objectives of our Corporate Responsibility and Sustainability (CR&S) Strategy, addressing the key Environmental, Social and Governance (ESG) aspects.

Board discussion – A key aspect of our evolved strategy is a strong and increasing focus on ESG factors. The Board seeks to grow the company in a responsible and sustainable way for the benefit of all stakeholders. Our CR&S strategy is designed to meet stakeholder expectations across ESG themes, aligned with our business strategy. There has been particular focus on climate change this year to meet new requirements, including:

- Net-Zero Plan – Good progress during the year, with candidate targets developed. Underpinning this we mapped our Scope 3 emissions, developed a new carbon calculator and undertook significant employee engagement, including blogs, webinars and the "December Climate Change Challenge", where employees from across the company shared their ideas in daily blogs, ranging from e-waste, travel and lighting to radiator reflectors.
- TCFD (Taskforce on Climate-Related Financial Disclosures) – A risk assessment was performed during the year, aimed at working with key stakeholders to identify any material risks, and also to develop a sustainable methodology, so that this approach, to understand our resilience to climate change, becomes embedded in our standard risk processes.
- Defence Suppliers Forum (DSF) Climate Change Steering Group – Under DSF QinetiQ have taken a leading role in delivering the first phase of the programme, including producing a Code of Practice for the Defence Sector and some research papers, through three joint industry MOD working groups.
- Publication of our first Carbon Reduction Plan.
- The strategy also addresses other key areas such as diversity and inclusion (Inclusion 2025 strategy, see more on page 56), ethics, and community investment.

Board stakeholder considerations and impact – The Board was continuously kept up to date of investors', customers', and employees' views. A summary of the key considerations which informed the Board's decision making were:

- Climate change and Net-Zero – The transition to Net-Zero is of material interest to society (with particular focus by investors, customers and employees). The Board supported a new Net-Zero strategy (see page 47), which will be implemented in FY23, and see programmes to reduce our greenhouse gas emissions across our business and embedded in our strategy.
- Customers – Our customers, including the UK MOD, has clearly indicated the importance of climate change, and so we have actively engaged directly, via the DSF programme, to understand how we can support their wider objectives by way of leading (Steve Wadey acting as the industry Chair) and mobilising across the sector.
- Employees – Through COVID-19 we have changed the way we work and have engaged with employees to understand how we can best deliver for our customers. We have developed an adaptive working model, to support our performance and inclusive culture.
- Shareholders and debt providers – QinetiQ's ESG strategy has been transparently reported and subject to discussions and support in investor meetings.

Outcome and next steps – As part of the 2021 strategy review, the Board agreed the importance of continuing to identify and invest in sustainable solutions for defence and commercial customers, and also in ESG matters as a whole for our employees and shareholders. A dedicated team has been established to ensure the delivery of our Net-Zero plan, and we will continue to engage with stakeholders to ensure they are informed and involved.

Board leadership and company purpose

Supplementary information

The Board has seven scheduled meetings, held over two days, for Board and Committee business throughout the year. Additional Board sub-Committee meetings and conference calls are held between the scheduled meetings as required. The table below sets out the Board and Committee membership and attendance by members at meetings held in FY22.

Board and Committee attendance – 1 April 2021 to 31 March 2022

Members	Board	Audit Committee	Nominations Committee	Remuneration Committee	Risk & Security Committee
Lynn Brubaker	7/7	4/4	4/4	5/5	4/4
Carol Borg[1]	4/7	–	–	–	2/4
Michael Harper[2]	7/7	3/4	4/4	4/5	3/4
Shonaid Jemmett-Page[3]	7/7	4/4	4/4	4/5	4/4
Neil Johnson	7/7	–	4/4	5/5	4/4
General Sir Gordon Messenger	7/7	4/4	4/4	5/5	4/4
Larry Prior[4]	5/7	3/4	3/4	3/5	2/4
Susan Searle	7/7	4/4	4/4	5/5	4/4
David Smith[5]	5/7	–	–	–	2/4
Steve Wadey	7/7	–	–	–	4/4

1 Carol Borg was appointed to the Board on 11 October 2021.
2 Michael Harper was unable to attend the Audit Committee, Remuneration Committee and Risk & Security Committee meetings on 8 November 2021 due to a conflict with a prior commitment.
3 Shonaid Jemmet-Page was unable to attend the Remuneration Committee meeting on 26 January 2022 due to a conflict with a prior commitment.
4 Larry Prior was appointed to the Board on 2 August 2021.
5 David Smith resigned from the Board on 30 November 2021.

The significance of our purpose, values and culture

The Board has reviewed and articulated the company's purpose to ensure it captures the Board's current view of the company and its role in society. Our purpose communicates the Group's strategic direction and intentions to our employees, occupiers and wider stakeholders. Owing to its importance, it is reconfirmed on an annual basis to ensure it continues to reflect our strategy, values and desired culture.

Our Vision	to be the chosen partner around the world for mission-critical solutions, innovating for our customers' advantage
QinetiQ's ethos is defined within our purpose	to protect lives, defending sovereign capabilities and securing the vital interests of our customers
This is demonstrated through our dedication and commitment to our mission	through responsible and ethical leadership we strive to be a good employer and partner, while applying our unique technical expertise across the product lifecycle helping our customer to create, test and use defence and security capabilities
Underpinned by our values	Integrity, collaboration and performance
Re-imagined through our culture	A high performance and inclusive work environment where employees are engaged, empowered and clear about how they can contribute to Our Purpose

Our culture

Our values make clear our priorities and form the foundations of the company's culture.

Integrity	Trusted to do the right thing at all times, we take pride in our decisions, and work to create a sustainable and responsible business. We are responsible and accountable for all our actions. We take personal responsibility to do the right thing, demonstrating this individually and as an organisation in our decisions, behaviour and day-to-day actions. We actively support each other to meet the highest ethical and professional standards
Collaboration	The chosen partner for customers and industry colleagues, we are a diverse and inclusive community with a common purpose; every contribution is valued. Delivering value through partnership and teamwork, we actively collaborate with our colleagues, customers and industry partners to bring together the best thinking, the smartest talent, breadth and depth in capability to our work. We know that working together is the best way to meet our customers' needs
Performance	Customer focused and highly responsive, providing operational excellence and assuring safe and secure delivery. 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. This includes being accountable for getting things right the first time, safely, securely and in a cost effective way. Taking an innovative and responsive approach to create an outstanding customer experience, we try to go the extra mile and act with courage

The annual Recognition Gala and Thank Q Awards are strong evidence of how we live by our values:

The Recognition Gala	An annual event where people from across the global business have nominated their colleagues for demonstrating behaviours, which exemplify our values. The exceptional number and quality of nominations received each year is a testament to how our people live by our values. The nominations process, award event and publication of awards winners across the Group also serve to remind people of our values and what they mean in practice
Saying Thank Q	Thank Q recognises the efforts of our people that reflect our values, behaviours and capabilities for going above and beyond and making a difference. This can be done by: • Saying Thank Q via our Global Portal community group • A more personal touch through giving someone a Thank Q card • Nominate someone or a team for a Thank Q award to receive a voucher for going above and beyond

Board leadership and company purpose

While the Recognition Gala and Thank Q programmes raise awareness of and recognise and reward the behaviours that demonstrate our values, there are many other input actions which contribute to the creation of a healthy corporate culture. These include:

- Our corporate policies, reviewed and approved by the Board, which set a clear expectation, and mandate, for every member of the workforce to perform the company's business with integrity and in accordance with applicable laws, including anti-bribery and corruption, anti-slavery and human trafficking, data protection and confidential reporting policies and procedures
- Fair and transparent employee policies and practices which ensure that employees' rights are respected in accordance with applicable laws and employment contracts, together with a number of programmes and initiatives which support the health and wellbeing of our employees, develop talent and promote diversity
- Supplier protocols and procedures which seek to ensure that our key suppliers operate their businesses and respect their employees' rights in the same way that we do
- The application and monthly assessment by business and functional executive teams and the Global Leadership Team of safety and operational KPIs to enable management to monitor and drive continuous improvements in safety, reliability and efficiency of our services
- The work of Group support functions prepare and advise upon the Group's policies, procedures and standards at every level and location of the business around the world, including dedicated safety and operational excellence teams, finance, legal and governance team, procurement, HR function, and the Group internal audit function

In addition, we as a Board, use a number of other methods to understand and monitor the company's culture and assess whether our employees reflect our values. These include:

- Reviews, in the Boardroom, of the outcomes of the Peakon surveys, customer satisfaction scores and updates on confidential reporting. These gives us insights into what the company does well and what could be improved, as well as any particular areas of concern
- The employee interaction with the Global Employee Voice (GEV), discussing the issues which matter most to our employees
- Directors' attendance at various company events, such as:
  - Quarterly virtual Global Employee Roadshows
  - Monthly virtual Global Engagement Network (GEN) events, delivered by the Global Leadership Team
  - The Annual Recognition Gala

Through feedback from all of these monitoring activities, the Board is satisfied that the company's culture is aligned with our values. Where the Peakon surveys, workforce engagement events or other interactions between Directors and employees or other stakeholders have revealed matters that can be improved upon or have flagged concerns, the Board has discussed these and is content that management is putting action plans in place that are designed to drive improvements or address those concerns.

Safety culture

QinetiQ's Environment, Health and Safety (EHS) strategy sets the direction for how we look after ourselves, each other and the world around us. Our culture journey, including safety culture, is constantly progressing and adapting. During the year the Board established a GLT-led Safety Improvement Programme (SIP) to drive a step-change in our safety culture. This is working in conjunction with the already established Safety For Life programme.

Stakeholder engagement

Engagement and collaboration through our value chain is essential. Partnering with our stakeholders, understanding their challenges and managing risks, we can find solutions for our shared success, sustain our business and benefit all our stakeholders. We have aligned our strategic priorities with the requirements and needs of our stakeholders to enable delivery of profitable, sustainable value. The Board recognises that it has a duty to act in the best interest of the company for the benefit of its shareholders, as well as considering other stakeholder interests. In its decision-making, the Board considers all relevant factors, including:

- How the decision would align with the Group's over-reaching purpose
- The likely short-, medium- and long-term consequences of the decision
- The value created for our investors
- The enhancement of our performance created by the decision
- The potential impacts on our people, local communities and environment of making the decision
- The need to create strong, mutually-beneficial customer and supplier relationships
- The Group's commitment to business ethics

This section 172(1) statement on pages 72 to 73 explains how the Directors have had regard to the matters set out in section 172(1)(a) to (f) Companies Act 2006, when performing their duty under section 172. The Board aims to promote the success of the company for the benefit of its shareholders as a whole, taking into account the long-term consequences of its decisions while giving due consideration to the interests of the company's stakeholders (including employees, customers, suppliers, shareholders, as well as the environment and local communities which are impacted by our operations), while also considering the importance of maintaining our reputation for high standards of business conduct. Examples of what that has looked like in practice over the past year can be found as follows:

Shareholders	Pages 26, 94, 95
Employees	Pages 26, 93
Customers/suppliers	Pages 26
Environment	Pages 44 to 53
Social	Pages 54 to 59

Further information about how the Directors have accounted for stakeholders in their decision making is set out on pages 87 to 89.

Employee engagement

We have experienced, diverse and dedicated employees which are recognised as a key asset of our business and who drive our success. The Group has a long-standing commitment to the importance and value of employee engagement. See more on pages 26, 54 to 59, and 93.

The Board recognises the value of engaging directly with employees to ensure an understanding of their views and inform its decision-making in considering employee interests. Under normal circumstances the Board holds a number of its meetings at different company sites, both in the UK and globally, to take the opportunity to meet with the employees in person. However, this has not been possible during the year due to the safety measures associated with the COVID-19 pandemic. The process set out below describes how the Board continued to be able to effectively gain the views of the employees throughout the year.

How we engage with our employees

Dedicated Non-Executive Director	Neil Johnson is the dedicated Non-executive Director for gathering the views of the employees	• Two meetings with the Global Employee Voice (GEV) • Attends the Global Recognition Gala and also Global Employee Roadshows • Reports back to the Board
Global Employee Voice (GEV)	The GEV is a global forum that acts as the collective voice of all QinetiQ employees. All businesses and functions each have a member of the GEV, acting as their own representative. Australia, Belgium, Canada, Germany and the US also have their own GEVs, with a direct link to the UK See more on pages 57 to 58	• Regular contact with Neil Johnson • Two meetings with Susan Searl, the Chair of the Remuneration Committee • Regular meetings with the Group Function Director Human Resources, who reports to the Board on culture, employee and people strategy, and employee engagement
Global Employee Roadshows	Delivered quarterly by the Global Leadership Team, the Global Employee Roadshows give an update on the progress we are making against our vision and strategy, and provide an understanding of our key priorities for the future	• Employees have the opportunity to ask questions, either in writing or live • Reported back to the Board by the CEO
Monthly virtual Global Engagement Network (GEN) events – delivered by the Global Leadership Team	The GEN includes approximately 400 senior leaders from across the Group, selected for their sphere of influence and critical role within our Company. The sessions provide a monthly leader's update and the opportunity to discuss employees' wellbeing and topics critical to driving high performance and growth	• The members of the GEN feedback to their teams by way of Q–Talks, team meetings and one-to-one meetings
Monthly virtual Q–Talks	Delivered by Business or Function Global Engagement Network leaders, with the purpose of keeping employees up-to-date with what is currently important across QinetiQ	• A mechanism accessible for employees to get a thorough understanding of what is happening in the company and also to provide individual feedback
Peakon Employee Engagement surveys	Quarterly surveys enabling the Board and the Leadership team to immediately assess employees' engagement throughout the Group See more on pages 57 to 58	• After each survey, the Director of Organisation Development has a meeting with the CEO where they discuss the results, trends, and any matters for concern • The CEO feeds back to his fellow Board members at each Board meeting
Global Portal – our intranet	A platform where all employees can access our polices and be kept fully informed of the latest Group news	• Enables employees to ask questions and discuss topics internally
Confidential Reporting	Our confidential reporting includes an anonymous reporting line for employees to raise any concerns with escalations to the Board as necessary	• Reported to the Board at each Board meeting
How does it work?	• By using a number of different employee engagement mechanism ensuring flexibility • By having a direct link to the Board via the purposefully designated Non-executive Director • By way of a dedicated forum to relay the voice of the employees • By regularly reporting to the Board on culture, people strategy, and employee engagement • By drawing on each individual Board member's unique experience as business leaders	

Shareholder engagement

Timeline

2021

May
- Full year results announcement
- Analyst briefings
- Full year results investor roadshow

June
- Annual report published

July
- Governance meetings ahead of AGM
- Trading update and analyst briefings
- Virtual AGM
- Announcement of CFO succession

August

September
- Group Chair meetings with shareholders
- Announcement US CEO appointment

October
- Q2 post-close trading update

November
- Interim results announcement
- Analyst briefings
- Interim results investor roadshow

December

2022

January
- Q3 Trading update and analyst briefings

February

March
- Net Zero plan published

April
- Q4 trading update and analyst briefings
- Investor Seminar

Approach

The Board is committed to communicating in an open and transparent manner with all shareholders, and places a clear importance on shareholder engagement. The Investor Relations programme is managed by the Investor Relations team, who provide day-to-day contact with investors. This is complemented by engagement with the CEO and CFO, who regularly attend meetings with institutional investors. In addition, the Group Chair and other Non-executive Directors make themselves available to discuss matters such as governance, ESG factors, remuneration and other relevant topics. The Board is also kept up to date on shareholders' views and concerns through regular Board papers, presentations and feedback from the Investor Relations team.

The AGM provides an opportunity for shareholders to engage directly with the Board and receive an update on business performance. The company's results presentations and other investor events are also webcast live, and made readily available on the company's website, enabling a wider audience to access them.

Activities during the year

During FY22 the CEO, CFO and Investor Relations team collectively met with over 50% of the share register and hosted a number of meetings with non-shareholders. This contact was conducted during routine roadshows after results announcements, ad-hoc roadshows and at various conferences. The Group's Chair, Neil Johnson, engaged with a number of shareholders on governance related matters and the Chair of the Remuneration Committee, Susan Searle, engaged with shareholders ahead of the AGM on remuneration matters.

This year has seen increased investor engagement, with many seeing our share price weakness in late-2021 and overall market sentiment towards defence stock improving in early-2022 as a good opportunity to invest. We continue to be proactive in investor engagement, both with our existing shareholders and prospective new shareholders.

Constructive use of the Annual General Meeting (AGM)

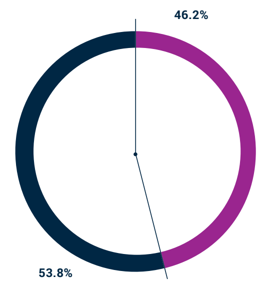
The Notice of AGM and related papers will, unless otherwise noted, be sent to shareholders at least 20 working days before the meeting. For those shareholders who have elected to receive communications electronically, notice is given of the availability of the documents via www.QinetiQ.com. This year's AGM will be held at 11am on Thursday, 21 July 2022 at the offices of Ashurst LLP, London Fruit and Wool Exchange, 1 Duval Square, London E1 6PW.

Any updates to the arrangements for the conduct of the meeting will be communicated via www.QinetiQ.com.

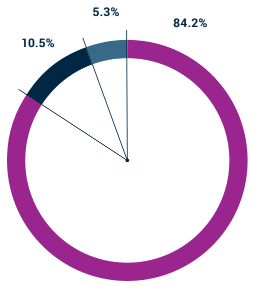
Confidential reporting process

QinetiQ has in place a confidential reporting process, which is detailed on the company's intranet and in its Code of Conduct. 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 reported to the Board at each of its meetings. The Board reviewed the effectiveness of the Group's confidential reporting process, provided challenge and advice on the matter, and was satisfied that the process in place is fit for purpose.

Investors met: By type



Investors met: By investor location



Division of responsibilities

Role of the Board

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

- Provides challenge, advice and support to management
- Drives informed, collaborative and accountable decision-making
- Creates long-term sustainable success and value for our shareholders, having regard to all interests of our stakeholders

Roles and responsibilities

The Board has agreed a clear division of responsibilities between the Group Chair and the CEO. Other Directors and the Company Secretary's roles are also clearly defined to assist in enhancing the effectiveness of the Board. A summary is set out below:

Group Chair Neil Johnson	• Provides overall leadership and ensures effectiveness of the Board • Sets the agenda, character and tone of the Board meetings and discussions • Maintains an effective working relationship with the CEO • Leads the annual performance evaluation of the Board, its Committees and ensures that each Non-executive Director makes an effective contribution
Deputy Chair Michael Harper	• Maintains a close dialogue with the Group Chair and CEO • Supports and deputises for the Group Chair as required
CEO Steve Wadey	• Develops the Group's strategy for consideration and approval by the Board and provides effective leadership of the Global Leadership Team in its delivery of strategy • Develops the Group's business model and manages the Group's operations • Overseas the development and implementation by the Global Leadership Team's corporate, safety and environmental policies and standards • Establishes and services relationships with key stakeholders • Reinforces the Group's values and sets expected employee behaviours • Communicates (with the CFO) the Group's financial performance and strategic progress to investors and analysts • Ensure the Board is kept fully appraised of the Group's operational and safety performance, risks and opportunities that may affect or contribute to the delivery of the strategy
CFO Carol Borg	• Responsible for the financial stewardship of the Group's resources through appropriate accounting, financial and other internal controls • Directs and manages the Group's finance, tax, treasury, risk management, legal and governance, insurance and internal audit functions, and climate-change initiatives • Communicates (with the CEO) the Group's financial performance and strategic progress to investors and analysts
Senior Independent Non-Executive Director Michael Harper	• Acts as sounding board for the Group Chair and a trusted intermediary for the other Directors • Available to shareholders to discuss any concerns that cannot be resolved through the normal Group Chair or CEO channels • Leads the Board in the annual performance evaluation of the Group Chair and in developing the long-term plans for the Group Chair's succession • Meets with the Non-executive Directors without the Group Chair present at least annually, and as required, to discuss Board matters
Independent Non-Executive Directors Lynn Brubaker, Michael Harper, Shonaid Jemmett-Page, Gordon Messenger, Larry Prior and Susan Searle	• Monitor and scrutinise the Group's performance against its strategic goals and financial plans • Provide an objective perspective on the Board's deliberations and decision-making, drawing on their own collective broad experience and individual expertise and insights • Monitor and assesses the Group's culture, use appropriate and effective means to engage with the employees and acquire an understanding of other stakeholders' views • Asses the effectiveness, support and constructively challenge the Executive Directors • Play a lead role in the functioning of the Board's Committees
Company Secretary Jon Messent	• Provides advice and support to the Board, its Committees, the Group Chair and other Directors individually as required, primarily in relation to corporate governance matters, and Non-executive Directors' training and development needs • Responsible with the Group Chair for setting the agenda for Board and Committee meetings and for high quality and timely information and communication between the Board and its Committees, and between the Directors and senior management as required • Ensures that Board and Committee procedures are complied with

Composition, succession and evaluation

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 the Global Leadership team during the year.

Independence

A majority of the Board is comprised of independent Non-Executive Directors. The independence of the Non-Executive Directors is considered annually by the Nominations Committee, using the independence criteria set out in Provision 10 of the Code. The Group Chair was independent upon his appointment in April 2019 and continues to use objective judgement in his leadership of the Board.

As part of this process, the Board keeps under review the length of tenure of all Directors, as this is a factor when assessing independence. The independence of Michael Harper, Susan Searle and Lynn Brubaker, who all have served on the Board for more than six years, was subject to a rigorous review by the Nominations Committee in March 2022. When making this assessment, in particular for Michael, who has served on the Board since November 2011, the Nominations Committee based its decision on the fact that all continue to demonstrate integrity and independence in their advice and challenge. Michael, Susan and Lynn were not in attendance during the review and the Nominations Committee remains satisfied that the length of their tenures has not impacted on their respective levels of independence or their respective contributions.

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 their 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 Non-executive Directors' commitment is reviewed as part of the Board and Director evaluation.

The Group Chair 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. 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.

Shonaid Jemmett-Page holds appointments in four other companies, two of which she is the Chair, i.e. Greencoat UK Wind plc and Cordiant Digital Infrastructure Limited, both of which are investment trusts rather than full operating companies. In addition, the latter and ClearBank Limited are non-listed companies. Therefore by their nature, the time requirements for these roles are not as significant as at a FTSE 250 operating company such as QinetiQ. In December 2021 Shonaid was appointed as a Non-executive Director of Aviva plc. Before her appointment the Group Chair reviewed her current commitments and contribution to the QinetiQ Board, and he confirms that during the year Shonaid has provided significant input and advice at QinetiQ's Board and Committee meetings, in particular in her role as the Audit Committee Chair. He is therefore confident and satisfied that Shonaid has the time and availability to commit fully to her role on the QinetiQ Board.

Board and Committee processes

The Board has a formal schedule of matters reserved for its approval, which includes (but is not limited to) : strategy; risk appetite and review of Group-wide principal and emerging risks; major M&A, contracts and bids; share capital, debt financing and other liquidity matters; financial results and budgets; key policies; Board and Committee membership; and governance. Other matters, responsibilities and authorities have been delegated by the Board to its standing Committees, comprising Nominations, Audit, Risk and Security, Remuneration and Disclosure. Any matters outside of the schedule and the responsibility of the Committees, fall within the authority of the CEO and/or CFO. The schedule of matters reserved to the Board and the terms of reference of each Committee, which are reviewed and approved by the Board annually, can be found on the company's website at www.QinetiQ.com.

The Group Chair and the Company Secretary are responsible, in consultation with the CEO and the Chairs of the Committees, for maintaining a scheduled 12-month programme of business for the Board and its Committees, with flexibility for additional business to be discussed as required. The programme ensures that all necessary matters are covered and appropriate time is given for discussion and, if thought fit, approval of relevant business. At each scheduled Board meeting, the Board rigorously reviews updates from the Executive Directors on Group and divisional safety, operating and financial performance, investor relations, and from the Group General Counsel and Company Secretary on legal compliance and corporate governance. Other regular Board agenda items include strategic proposals (including those relating to M&A, major contract bids and capital allocation), transformation and digital programme, risk management (including reviews of risk appetite and Group-level risks), tax and treasury updates, pension updates, human capital updates (including on employee relations, talent development and diversity promotion), and stakeholder engagement. Senior management and external advisers regularly attend both Board and Committee meetings, where detailed discussions on specific matters on which their input or advice is needed. The Board also seeks to hear external viewpoints inside and outside the Boardroom, including from customers, suppliers and experts in areas relevant to the company's strategy.

In advance of each Board and Committee meeting, Directors receive via a secure web portal high quality briefings, prepared by the Executive Directors, senior management, the Company Secretary and/or external advisers where appropriate, on the agenda items to be discussed. The secure web portal also gives Directors immediate access to a range of other resources, including previous meeting papers, minutes, financial reports, business presentations, investor reports, company policies and governance guidelines, and details of Board and Committee procedures. If a Director is unable to attend a meeting due to illness or exceptional circumstances, they will still receive all supporting papers in advance of the meeting and are directed to discuss with, and provide input, opinion and voting instructions to, the Group Chair or relevant Committee Chair on the business to be considered at that meeting.

The Board has access to the Company Secretary for support and advice as required, and the company operates a policy which allows Directors to obtain, at the company's expense, independent professional advice where required to enable them to fulfil their duties effectively. In addition to Board and Committee meetings, the Non-executive Directors hold private meetings without the Executive Directors present, including to discuss Executive Director performance. There are also opportunities during the year for Directors to have informal discussions outside the Boardroom, either between themselves or with senior management or external advisers.

Conflict of interest

The Board operates a policy to identify and manage situations declared by the Directors (in accordance with their legal duty to do so) in which they or their connected persons have, or may have, an actual or potential conflict of interest with the company. 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. No Director conflict of interest currently exists.

Composition, succession and evaluation

Nominations Committee report

Dear fellow shareholder

I am pleased to present the Nominations Committee Report. The Committee's ambition is to ensure we have the best people governing our business today and a competitive diverse talent in the pipeline able to govern the business tomorrow. The best people will have the necessary experience and skills to shape and support the company's strategy, including bringing diverse perspectives on strategic decisions in a way that complements and reflects the knowledge and skills of the company's business.

This was a busy year for the Committee as we continued implementing the succession plans we have previously developed to maintain the effectiveness of the Board and its Committees, having regard to the company's strategic priorities.

You can read more further down in this report about the appointment process of the Directors appointed during the year and also about the development of our talented senior management team.

Michael Harper has served on the Board since November 2011. During the year he has been instrumental to the Board in his roles as Deputy Chair and Senior Independent Director. Further information about Michael's independence assessment review can be found on page 98.

I hope you find the information in this report about the Committee's work helpful and I will be pleased to answer any questions you have about it at this year's AGM.

Neil Johnson
Committee Chair

QinetiQ aims to have the best people governing our business today and a competitive and diverse talent pipeline able to govern the business tomorrow."

Key responsibilities:

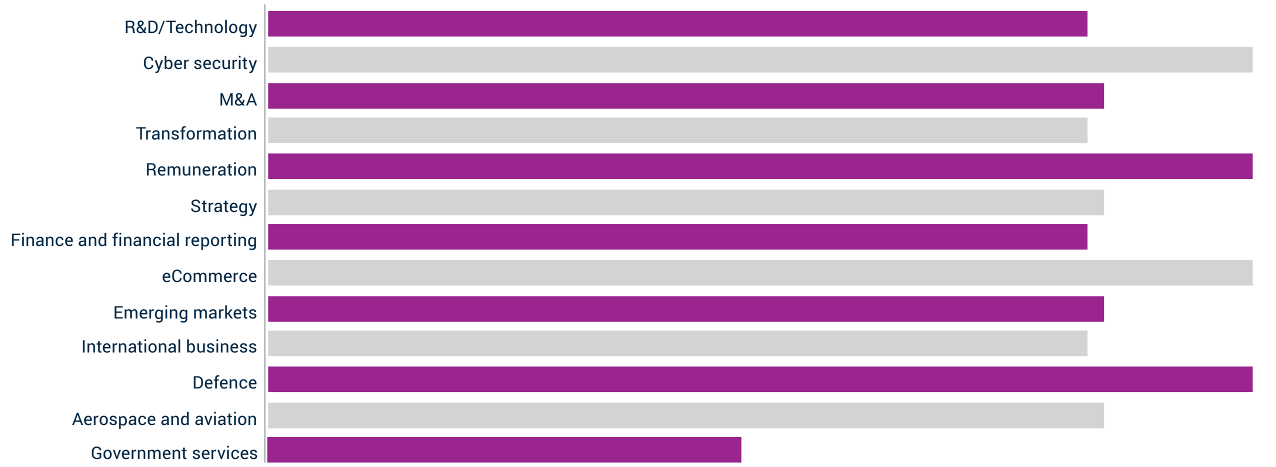
- Keep under review the structure, size and composition of the Board
- Succession planning for Directors and other senior Executives
- Keep under review the leadership needs of the organisation, both Executive and Non-executive, with a view to ensure the continued ability of the organisation to compete 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

FY22 activity highlights:

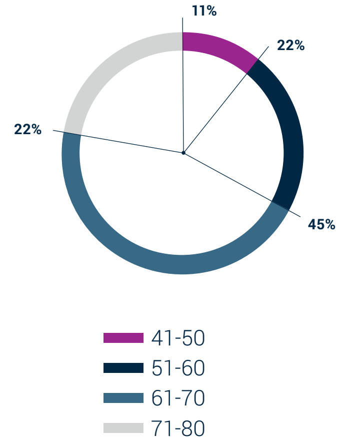
- Reviewed the structure, size and composition of the Board and its Committees, including the skills, experience, independence and diversity of its members, in anticipation of Non-executive Director changes to the Board and its Committees
- Led the process to recruit a new CFO and a new Non-executive Director
- Reviewed the Board and senior management succession plans, including via a review of potential internal successors and other high potential talent for executive and senior management positions
- Reviewed the Board's Diversity and Inclusion Policy and the company's inclusion initiatives

Skills and experience

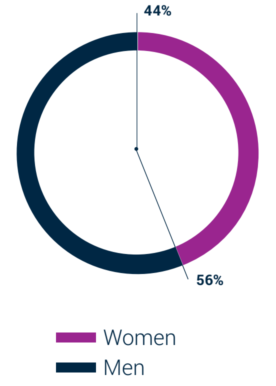
The below bar chart demonstrates the skills and experience of the Board members:



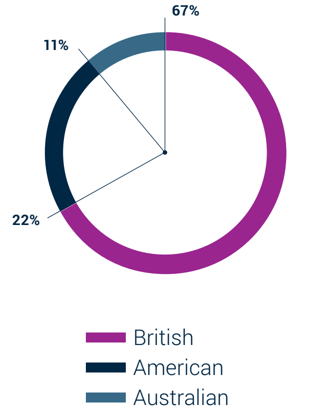
Board members – Age



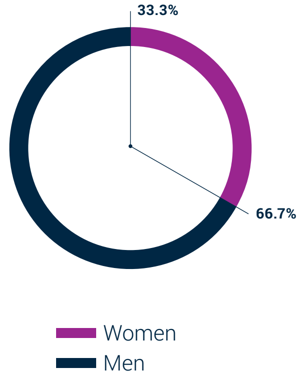
Board members – Gender balance



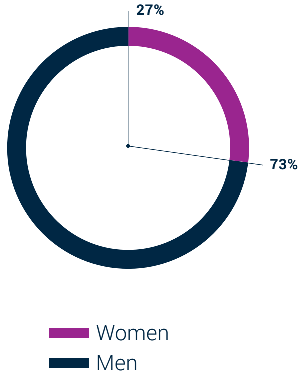
Board members – Nationality



Global Leadership Team – Gender balance



Direct reports to the GLT – Gender balance



Composition, succession and evaluation

Succession planning

Board and Committees

The Committee annually reviews the composition of the Board and its Committees and the Nominations Committee expects to continue to implement its succession plans for the Board and its Committees in 2022, 2023 and beyond. To ensure that we continue to recruit only the candidates of the highest standard, that we continue to make progress towards our diversity and inclusion targets, and that we have the right mix of an experienced Board, yet with a fresh perspective, we use the process outlined below. Following this year's review the Committee is satisfied that we have an appropriate mix of skills, knowledge and experience to operate effectively.

Process step	Action	Outcome/impact
Identifying current and future needs and skills gaps	The Committee maintains and regularly reviews a matrix of the Directors' experience and skills to ensure that the Board and its Committees are composed of individuals who have the right experience and skills to enable them to shape (and, in the case of the Executive Directors, deliver) the company's strategy and to monitor and assess the effectiveness of the company's control environment and management of risk. The matrix considers the following: • Diversity, including age, gender and ethnicity (see more on page 101) • Background, professional skills and experience (see more on pages 82 to 85 and 101) • The number and balance of Executive and Non-executive Directors • Length of tenure (see more on page 103) • Independence (see more on page 98)	• The appointment of Carol Borg as CFO. Carol's appointment to the Board brought vast experience of both operational and financial management, including extensive experience as a strategic business partner in diverse and complex international organisations • The appointment of Larry Prior to the Board' increased the Board's general maturity by way of Larry's wealth of experience as an executive and non-executive from a breadth of sectors including aerospace, defence and government services, IT, and cyber and security. This, combined with his global and US focus, make him ideal to support QinetiQ's progress in becoming an integrated global defence and security company
Ensuring that we get access to the best candidates	• Regularly reviewing the recruitment agencies that we use and ensure that they are best placed to find QinetiQ the right mix of candidates capturing the clear benefits of greater diversity. In addition, we pick the best suited agency for the specific role currently recruited for.	• MWM Consulting Ltd (who has no other connection to the Group) was appointed to assist with the recruitment of Carol Borg, and Russel Reynolds Associates (who has no other connection to the Group) was used for the recruitment of Larry Prior.
Ensuring accountability and success of the Board's performance	• Annual Board effectiveness and performance evaluation, using an external provider every three years. See more on pages 105 to 107 • Annual review of the Group Chair's performance led by the Senior Independent Director. See more on page 107 • Annual independence review of the Non-executive Directors. See more on page 107 • Continued assessment of the Non-executive Directors' time commitment. See more on pages 98 • Policy on Board members' appointments to other Boards • Annual performance review of the CEO and CFO, supplemented by the Group Chair's and Non-executive Directors' continual assessment of their performance. See more on page 106 to 107 • A thorough induction programme for new Directors. See more on page 107 • Annual training for the Board as a whole and on an individual basis. See more on page 107	• The FY22 Board effectiveness review concluded that the Board has been effective, engaged with and helpful to the organisation • A summary of the Board's decision making, considering s. 172(1) can be found on 87 to 89

• The effectiveness of the Committee's succession plans is demonstrated by the new Director appointments in FY22, having enhanced the Board's experience and skills, and increased the Board's gender diversity from 37.5% to 44.4%

The process that the Committee has established, together with the particular considerations it takes into account, in identifying and nominating Director candidates is set out below.

A sub-Committee of the Nominations Committee is appointed to oversee the recruitment and appointment process

A tender process identifies the most suitable recruitment agency to conduct the search and prepare candidate specifications

The sub-Committee reviews the list of candidates and narrows down to a short-list of those who best meet the company's requirements, considering the following:

- **Background, skills and experience**
- **Independence and other commitments**
- **Diversity to complement the company's own diversity**
- **Other individual attributes to widen the Board's overall knowledge, providing challenge and further support**

The sub-Committee conducts initial interviews with the candidates on the short-list and identifies preferred candidates

Interviews between other Board members, including the CEO and CFO, and the preferred candidates

Nominations Committee recommends to the Board which of the preferred candidates best fulfils the Board's and its Committees' needs

Non-executive Directors' length of service

Name	Appointment date	6-year date	9-year date
Michael Harper	22 Nov 2011	22 Nov 2017	22 Nov 2020
Susan Searle	14 Mar 2014	14 Mar 2020	14 Mar 2023
Lynn Brubaker	27 Jan 2016	27 Jan 2022	27 Jan 2025
Neil Johnson	2 April 2019	2 April 2025	2 April 2028
Shonaid Jemmett-Page	19 May 2020	19 May 2026	19 May 2029
Gordon Messenger	12 Oct 2020	12 Oct 2026	12 Oct 2029
Larry Prior	2 Aug 2021	2 Aug 2027	2 Aug 2030
% of Directors	1 – 3 years: 43%	4 – 6 years: 14%	7 – 9 years: 43%

Composition, succession and evaluation

Senior management succession planning programme

The Committee, has undertaken its usual programme of senior management succession planning. Senior management for this purpose includes the members of the GLT, as well as those talented individuals who have demonstrated the potential for promotion to higher or broader positions in the Group's senior management structure.

The programme includes an annual review of such senior managers' experience and skills and their progress and notable achievements to ascertain their potential for further career progression. The Committee also keeps the performance of potential successors to Executive Director roles under regular review throughout the year during Board interactions and when we visit the company's operations. This gives us the opportunity to observe senior managers' working practices and relationships with their stakeholders first-hand. Our review complements the Executive Directors' assessment of these individuals' performance through a formal process of annual reviews, and continual feedback and support. This programme enables the Committee to identify any gaps in the senior management succession pipeline and any requirements for senior managers' further development.

The Board's senior management succession plans were put into action through the promotion of Amanda Nelson to Group Functional Director of Human Resources, and Mike Sewart as Chief Technology and Operating Officer. In January Shawn Purvis was appointed President and CEO of QinetiQ US. She has vast experience in the US defence and intelligence industry, and a long track record of transformational and inspirational leadership, driving performance in complex organisations and delivering large scale acquisition integration.

In FY23, with effect from 1 July 2022, a new smaller QinetiQ Leadership Team (QLT) will be implemented, which will be fundamental in QinetiQ delivering the next phase of sustainable growth and to create a safe and secure environment for employees to thrive in. As part of the implementation of the new QLT, the Committee was delighted to oversee the internal promotion of Mike Sewart to Chief Technology and Operating Officer.

Board and company commitment to diversity

The Board is committed to ensuring diversity, in all aspects (including as regards to gender, ethnic and social background), at Board and senior management level, and throughout the company's employees. This is because we believe diversity can:

- Improve decision-making at all levels of the business by ensuring diverse perspectives
- Attract and retain the best talent by developing a culture of inclusion where all individuals are respected and supported to reach their full potential
- Better serve our customers, other stakeholders and the communities in which we operate by ensuring that the diversity of our workforce demographic is representative of the diversity of such stakeholders

This commitment is aligned with our values (see more on page 90), which in turn support our strategy of growth by retaining and winning business through having the best talent delivering the best service for our customers. Our commitment is confirmed in the Board's Diversity and Inclusion Policy, of which the key points are:

- To maintain at least 33% female representation on the Board
- To ensure that its membership reflects the diversity of the geographies and customers that the Group serves
- To respect the differences of its members, and value and encourage the diversity of thought that such differences can bring in each case within the context of Board members having, between them, the experience and skills required to support the development, oversight and delivery of the company's strategy

We are pleased to have seen the positive benefits to these initiatives, which have resulted in improvements in gender diversity and representation of people from ethnic minorities at a number of levels of the business, including:

- Female representation on the Board has increased from 37.5% in 2021 to 44.4% in 2022
- Female CFO
- Two female Committee Chairs
- Female representation on the GLT has increased from 27% in 2021 to 33.3% in 2022
- Female representations of the direct reports to the GLT has increased from 24% to 27%, and remains a key area of focus
- A member of the GLT comes from an ethnic minority background

Currently all members of the Board are from a white background , however the Committee continues to be dedicated to accomplish the targets set by the Hampton Alexander Review, Parker Review and the new Listing Rules in relation to gender and ethnic diversity at board and executive management level. The Committee will continue to keep this under review to ensure progress against the targets, as set out in the Board Diversity Policy. We believe that our established and effective process, as outlined above, will help us achieve and maintain these important targets in the near future. 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 ethnic backgrounds, while we remain focused on recruiting the best candidate for any role based on merit.

The employee Diversity & Inclusion (D&I) policy

Pages 56 to 57 describes the progress of our Diversity and Inclusion Programme in relation to employees and other diversity policies and procedures of the company.

QinetiQ's D&I policy can be found on www.QinetiQ.com and outlines our approach to promoting D&I in the workplace. The effectiveness of the policy is governed via our assurance processes and KPIs with monthly oversight by our executive, and is underpinned by our Inclusion Strategy to be delivered by 2025. To help us reach our goals we have put various tools in place, including; global employee mandatory training on inclusion, a collective leadership objective on inclusion, and a D&I champion and network forum. The D&I champions and network leads meet regularly and the aim of the forum is:

- Promoting the core themes as well as the wider aspect of diversity across QinetiQ
- Encouraging education and awareness among our employees
- Providing support for our colleagues
- Creating an environment where we can all be our true selves at work
- Contributing to and influence policy on D&I

The role of the champions is to:

- To be a focal point and leader on D&I for our businesses and functions
- To actively lead the internal D&I Steering Group in our functions
- To be a role model and to promote and raise awareness of the benefits of D&I in our business or functions
- To promote D&I as an integral element of business planning
- To be the representative from the business or function on the Group D&I Council
- To engage regularly with the CR&S Director (the Group lead on D&I) to discuss progress and agree plans
- To support corporate initiatives, e.g. – communicating notable dates, data gathering and reporting
- To promote the benefits of mandatory and additional D&I training
- To be the contact point for D&I ideas, issues, concerns and to escalate appropriately
- To identify and challenge any barriers and resistance to embracing the D&I programme
- To facilitate sharing of best practice both internally and externally
- To promote and celebrate good behaviours and ideas

During the year we have already seen significant increase in employee activity and engagement around D&I. We are confident that this will continue in 2023 and beyond, and have an overall positive effect on our D&I landscape.

Director effectiveness

A performance evaluation of the Board, its Committees and the individual Directors is conducted annually within a three-year cycle, by an external evaluation in the first year of the cycle, followed by two successive internal evaluations. As illustrated by the chart below, FY22 was the first year of the cycle and an external evaluation was undertaken by Tom Bonham Carter of The Effective Board LLP. Neither has any other connection to the Group.

Year 1
FY22 – External evaluation by selected independent consultants (specific basis and approach agreed)

Year 2
FY23 – Internal evaluation to focus on reviewing core effectiveness and areas identified for development from the Year 1 external evaluation

Year 3
FY24 Internal Evaluation to focus on reviewing the effectiveness of new initiatives and progress on areas identified for development from the Year 2 internal evaluation

Composition, succession and evaluation

Directors' effectiveness

The principal sources of data used to assess the effectiveness of the Board and its Committees were interviews conducted with each Board member, the Company Secretary and a selection of members of the senior management team.

The questions were designed to understand whether the Directors have thoroughly discussed and agreed the use of the shareholders' funds (what, where, when, how and why) to ensure the company is successful while managing the risks inherent in the strategy, plans and the operating environment. This was then augmented by an assessment of how effective the Board is in ensuring that the executive team implements the strategy and plans and manages all the other activities of the company including engaging with all the stakeholders.

For the individual Directors, there were questions on each directors contribution, the manner in which he or 'she contributes and any suggestions for improvements. Finally, there were questions on the effectiveness of the Board's four Committees which included asking if each Committee fulfilled its terms of reference and how each Committee could improve.

Directors' views were also sought on how well the Board and its Committees had addressed the areas for development identified in the previous year's internal evaluation.

The Company Secretary, in consultation with the Group Chair and Committee Chairs, analysed the results of the evaluation by reference to the scores given and the specific observations made, commendations given or improvements suggested, following which such results were presented to and discussed by the Board and its Committees.

The overall outcomes of the evaluations were positive, demonstrating that the Board and each of its Committees continue to function effectively with a high level of probity, integrity and independence, through the mediums of both open and challenging debate in meetings, and appropriate engagement outside of meetings.

The key strengths and areas for further attention identified by the FY22 Board and Committee evaluation are shown below:

Key strengths	Areas for further attention
Effective implementation of the strategy	To review its programme of monitoring each business unit
Clarity of the company's purpose, vision, and mission as well as its strategy	In light of section 172, to review the company's suppliers and how the company engages with them
The Board works well as a unit, with Board discussions being constructive and the Executive Directors being transparent to the Board and open to advice.	To continue to monitor, oversee and challenge the company's safety culture

When comparing the outcome of the FY22 evaluation against the principal areas identified for further attention in the FY21 evaluation, the following progress can be noted:

Areas for further attention	Progress during the year
By way of using Board briefing meetings to aid understanding and focus discussion, and constructive challenge during scheduled Board meetings	The Board has successfully held a number of discussions between Board meetings
The ESG strategy	The ESG strategy has evolved significantly during the year, see more on pages 44 to 61
Further support to management in its work on the Digital and Data Transformation Programme	This has been and continues to be an area of focus for the Board. Major progress has been achieved, and the implementation process is continuing to plan

The Group Chair's individual performance

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

The Directors' individual performances

The Group Chair, Neil Johnson, 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, Neil Johnson confirmed to the Nominations Committee that all Directors, have during the year demonstrated clear commitment to their roles.

Director induction

On joining the Board, whether in an Executive or Non-executive role, each Director undertakes an induction programme covering subject areas relevant to the requirements of their role. This programme is designed to fast-track a new Director's understanding of the Group's purpose, values, strategy and operations, thereby equipping them to perform their role.

Details of the induction programme, organised by the Company Secretary in conjunction with the Group Chair, for the two new Non-executive Directors who joined the Board since the last publication of the last Annual Report, is illustrated by the diagram below:

Background reading material, including previous Board and Committee books, investor and strategy presentations, relevant Company procedures and Board policies

▼

Meetings with the Group Chair, Executive Directors and members of senior management

▼

Guidance on corporate governance arrangements, including the Board and Committee agendas and procedures, Board succession planning and Board evaluation – provided by the Company Secretary

▼

When safe, visits to Company sites, meeting with senior local management

▼

Meetings with the Chair of the Committees, external auditors and external remuneration advisers

Visiting MOD Butec

During the year Shonaid Jemmett-Page and Gordon Messenger visited MOD Butec as part of their induction. The experience provided Shonaid and Gordon with an opportunity to understand 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.

Ongoing Director training

The Directors have the opportunity to participate in an ongoing training programme organised by the Company Secretary. This include the Company Secretary keeping the Board briefed on relevant regulatory changes, and external training. During the year PwC briefed the Board twice on forthcoming changes to the external audit and governance environment.

Audit, risk and internal control

Frameworks for risk management and internal control

The Board is responsible for promoting the long-term success of the company for the benefit of shareholders, as well as taking account of other stakeholders including employees and customers. This includes ensuring that an appropriate and proportionate system of internal control is in place throughout the Group. To discharge this responsibility, the Board has established frameworks for risk management and internal control using a Three Lines Model, see page 63, and reserves for itself the setting of the Group's risk appetite. In-depth monitoring of the establishment and operation of prudent and effective controls in order to assess and manage risks associated with the Group's operations is delegated to the Audit Committee, complemented by the work by the Risk & Security Committee. However, the Board retains ultimate responsibility for the Group's systems of internal control and risk management and has reviewed their effectiveness during the year.

The frameworks for risk management and internal control play a key role in the management of risks that may impact the fulfilment of the Board's objectives. They are designed to identify and manage, rather than eliminate, the risk of the Group failing to achieve its business objectives and can only provide reasonable and not absolute assurance against material misstatement or losses. The frameworks are regularly reviewed and were in place for the financial year under review and up to the date of this report. They help ensure the Group complies with the Financial Reporting Council's (FRC) guidance on Risk Management, Internal Controls and related financial and business reporting.

After having been discussed by the Audit Committee and the Risk & Security Committee, the Board, conducts a robust six-monthly assessment of the Group's emerging and principal risks. The assessments included those emerging risks that could impact the Group's business model and future performance and therefore required management prioritisation and action. Specifically the Board considered the principal risks facing the company when approving the Group business plan. During the year, the Risk & Security Committee received updates on a number of emerging risks and associated mitigating actions by management. Emerging risks were also taken into account in the design of scenarios which are intended to stress test the Group's five-year strategic business plan, recovery plan, climate change impacts, decisions on the return of capital to shareholders and operational resilience. The company's approach to risk and risk management together with the principal risks that face the Group are explained within the risk section of the Strategic report.

Enterprise Risk Management

Our Enterprise Risk Management (ERM) is designed to consistently identify, measure, manage, monitor and report the principal risks to the achievement of the Group's business objectives and is embedded throughout the Group. It is codified through risk policies and business standards which set out the risk strategy, appetite, framework and minimum requirements and controls for the Group's worldwide operations. Group reporting manuals in relation to International Financial Reporting Standards (IFRS) reporting requirements and a Financial Reporting Control Framework (FRCF) are in place across the Group. The ERM relates to the preparation of reliable financial reporting, covering both IFRS, and local statutory reporting activity. The ERM process follows a risk-based approach, with management identification, assessment (documentation and testing), remediation (as required), reporting and certification over key financial reporting related controls.

Board oversight of risk management

The Board's delegated responsibilities regarding oversight of risk management and the approach to internal controls are set out on pages 63 to 70. There are good working relationships between the Board committees, and they provide regular reports to the Board on their activities and escalate significant matters where appropriate. The responsibilities and activities of each Board committee are set out in the committee reports.

Self assessment and certification model

Each business unit Managing and Functional Director is required to make a declaration that their business unit's governance, and system of internal controls are effective and are fit for purpose for their business and that they are kept under review throughout the year. Any material risks not previously identified, control weaknesses or non-compliance with the Group's risk policies or local delegations of authority must be highlighted as part of this process. The effectiveness assessment draws on the regular cycle of assurance activity carried out during the year, as well as the results of the annual assessment process. The details of key failings or weaknesses are reported to the Risk and Security Committee and the Board on a regular basis and are summarised annually to enable them to carry out an effectiveness assessment.

Internal financial controls

Internal financial controls are the systems that the Group employs to support the Board in discharging its responsibilities for financial matters and the financial reporting process.

The main elements include:

- Assessment by Internal Audit of the effectiveness of operational controls
- Clear terms of reference setting out the duties of the Board and its Committees, with delegation to management in all locations
- Group Finance and Group Treasury manuals outlining accounting policies, processes and controls
- Weekly, monthly and annual reporting cycles, including targets approved by the Board and regular forecast updates
- Leadership teams reviewing results against forecast and agreed performance metrics and targets with overall performance reviewed at region and Group levels
- Specific reporting systems covering treasury operations, major investment projects and legal and insurance activities, which are reviewed by the Board and its Committees on a regular basis
- Confidential reporting procedures allowing individuals to report fraud or financial irregularities and other matters of concern
- Data protection policies to detect breaches and other issues

"The main tasks of the Audit Committee continue to be the oversight of a robust system of internal controls and risk management across the business."

Audit Committee report

Dear Shareholder,

I am pleased to present the report of the Audit Committee on the work carried out by the Committee during FY22. These pages outline how the Committee discharged the responsibilities delegated to it by the Board over the course of the year, and the key topics it considered in doing so.

The main tasks of the Audit Committee continue to be the oversight of a robust system of internal controls and risk management across the business, encompassing both financial and increasingly non-financial risks and ensuring the integrity of the Annual Report and Accounts and other reporting. The particular areas for focus, which are addressed by the internal audit plan, the approach of the external auditors and "deep dive" reviews are determined by the needs of the business and the risks it faces. The full terms of reference of the Audit Committee can be found at www.QinetiQ.com.

We foster an ethos of continuous improvement and I am proud of the progress we have made this year in building an integrated risk and control framework across the business, aligning the activities under the Three Lines Model in response to major risks, see page 63 for further details. This has meant a close working relationship between the risk management function and internal audit, the second and third lines. Matt Guy, our Head of Internal audit, explains how he reviewed the Three Lines Model in relation to fraud risk across the business in the Internal Audit section below on page 112.

During the year, a large and complex project ran into difficulty and required provisioning and disclosure. The Committee kept this matter under constant review to ensure provisioning and disclosure were appropriate. The year-end position is discussed in detail in the Significant Judgements section on pages 110 to 111. In addition, we will ensure that lessons are learned from this event.

The US is an area of focus for the business and therefore for the Committee, and this year has seen the appointment of two strong leaders in the senior positions of President and CEO of QinetiQ US, and also its CFO. We need to ensure that there is a robust system of internal control and risk management which is commensurate with our growth ambitions. To this end, the Group Audit Committee is working closely with the US Audit Committee, with the Group Chair speaking regularly, and the internal audit plan includes a review of the US control environment.

Finally the Committee has embraced the relevant aspects of the quickly evolving ESG agenda, including target setting, assurance and reporting. The TCFD reporting, on pages 50 to 53, was reviewed and challenged by the Committee.

I would like to thank David Smith, the former CFO, who gave great support to this Committee over many years, and I welcome Carol Borg who is already bringing fresh perspectives to the work of the Committee and more widely.

I hope you find the information in this report about the Committee's work helpful and I will be pleased to answer any questions you have about it at this year's AGM.

Shonaid Jemmett–Page
Audit Committee Chair

Activities during the year

Financial reporting:

Key uncertainties and judgements/estimates

Specific issues addressed by the Committee for the year ended 31 March 2022 include the following items of significant judgement.

Issue	Key uncertainties and judgements	Review and challenge by the Committee	Conclusion
Impairment of goodwill and acquired intangibles German and US Technology Solutions goodwill impairment assessment	The Group holds goodwill on its balance sheet in respect of various Cash Generating Units (CGUs). An impairment review has been undertaken confirming that sufficient headroom (the gap between the assessed net present value of future cash flows and the carrying value of net operating assets) exists in respect of these CGUs and no impairment is required. However, there is a low level of headroom in respect of the QinetiQ Germany and US Technology Solutions CGUs and applying a reasonable level of sensitivity to the assumptions would lead to an impairment.	The Committee reviewed the outputs of management's annual impairment testing exercise, noting the use of external advisors to prepare the technical assumptions (discount rates, long term-inflation) which have also been verified as appropriate by the external auditors. The Committee had lengthy discussions with management and the external audit team, specifically challenging revenue and profit estimated to be delivered through key opportunities not yet under contract.	The Committee acknowledged that there was a wide range of outcomes to the impairment test which is very sensitive to outer year cash flows. On challenging management, and a review of the challenge presented by the external auditors, the Committee concluded that no impairments need to be recorded in year. The risk of future impairment in Germany should a key contract not be successfully re-tendered when it comes up for renewal should be (and has been) disclosed in the financial statements.
Contract accounting Large complex contract	During the first half the Group experienced technical issues and delay on system development for a complex service contract. The contract has now expired and judgements are required as to the recoverable value of contract assets.	The Committee received commentary from management on the recoverability of advance payments to suppliers and assessed the carrying value of assets at the balance sheet date.	The Committee concluded that management's best estimates of the carrying value of contract assets were appropriate and that the contract loss was likely to be limited to the £14.5m previously disclosed externally, with no material exposure. It was appropriate not to record an asset for additional amounts potentially recoverable from the customer and supplier.
Long-term contract accounting Risk assessment on key contracts	The Group has a large number of contracts which span multiple periods and are accounted for on a percentage of completion basis in accordance with IFRS 15. Long-term contract accounting requires a number of judgements and management estimates to be made, particularly in calculating the forecast costs to complete the contract.	The Committee received commentary from both management and the external auditors in respect of the most significant contracts being delivered by the Group and discussed the main financial assumptions (including level of risk reserves and the use of Monte-Carlo modelling).	The Committee concluded that management's best estimates were reasonable.
Provisions and contingent liabilities Pendine provision	The Group holds provisions in respect of legal, regulatory and environmental issues. Judgement is required in determining whether provisions are required. Specifically, a provision is held in respect of a serious incident at the MOD range at Pendine in the prior financial year.	The key judgements considered by the Committee were: (i) QinetiQ will be prosecuted, found guilty and be subject to financial penalties; (ii) the quantum of the liability in respect of such penalties; (iii) that insurance will cover the cost of any civil damages (with a provision of £16.0m being recorded together with an Other Receivable).	The Committee concluded that management's best estimates were reasonable.

Issue	Key uncertainties and judgements	Review and challenge by the Committee	Conclusion
Capitalisation of assets Capitalisation of digital cloud-computing investments	QinetiQ has made (and plans to continue to make) significant investment in digital tools. Capitalisation of intangible assets such as these is covered by the accounting standard IAS 38 'Intangible Assets' but there is no specific standard in respect of 'Cloud computing costs'. New guidance has, however, been issued by the IASB's International Financial Reporting Interpretations Committee (IFRIC) in respect of configuration and customisation costs in a cloud-computing arrangement. Judgement is required as to whether the cost of such investments should be capitalised or expensed (or potentially treated as a prepayment).	The Committee noted the 'Agenda decision' issued by the IFRIC during the financial year and agreed that the IFRIC's interpretation should now be matched by the Group's interpretation. Management's assessment of the new guidance and how this was reflected in the financial statements was discussed at length. The change in accounting policy impacts the financials reported in the prior year and judgement is required as to whether the size of such adjustments are sufficiently material to require a restatement of the prior year comparatives (as opposed to a cumulative catch-up adjustment in the current year).	The Committee concluded that: • The impact of the change in accounting policy is sufficiently material to require a prior year restatement. • It is appropriate to expense costs in respect of configuration activity for software tools provided through a Software as a Service arrangement. • It is appropriate to classify such costs as a specific adjusting item (noting that over the course of the Group's digital transformation programme these would otherwise cause significant fluctuations in underlying profit not representative of in-year performance – being irregular, long-term investments).

Going concern and viability statements

Following 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. In reaching its conclusion, the Committee reviewed the five-year forecast, the stress tests applied to it and the mitigating actions available to the company. The viability statement and the going concern statement can be found in full on page 71, including the process on how the process was conducted.

Fair, balanced and understandable

In accordance with the Code, the Board has established processes to ensure that all reports and information 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.

As such, the Audit Committee was requested to provide advice to the Board on whether the FY22 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 established process, the Committee reflected on the information it had received and its discussions throughout the year. The review is a well-established and documented process involving senior management and the core reporting team. 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.

The Board considers that the Annual Report and Accounts 2022, 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.

Audit, risk and internal control
continued

The Audit Committee risk management responsibilities

The Group's system of internal control has been in place for the year under review and is up to the date of approval of the Annual Report. Over the year the Audit Committee has discharged its commitment to monitor the integrity of the of the Group's published financial information, providing the appropriate challenge to any significant judgements and estimates made by management. Furthermore, the Committee has evaluated the adequacy, robustness and effectiveness of the Group's internal financial and other controls. In addition, the Committee has provided support to the Board in evaluating the adequacy, robustness and effectiveness of the Group's risk management systems, for identifying, managing and mitigating principal risk, and identifying and mitigating, where possible, emerging risks. Finally, the Committee has reviewed the Group's policies, processes and controls for the detection and prevention of fraud and for compliance with applicable laws, regulations and codes of conduct and has approved the activities, reviewed the findings and assessed the effectiveness of the Group's internal audit function.

Report from US on internal controls

During the year Internal Audit commissioned a review of the internal financial controls relating to several business cycles and an assessment of the control environment in QinetiQ's US businesses. The review found that, as is common with many growing business at this stage of maturity, additional formality in respect of evidencing and documentation of controls is required. Management has accepted the findings and Internal Audit will monitor progress of implementing the remeditation actions.

Task Force on Climate-related Financial Disclosures (TCFD)

QinetiQ has committed to implement the recommendations of TCFD in full, and this is our first disclosure of these important issues. We are devoted to developing a business model that is consistent with the objectives of the Paris Agreement, and therefore reduce our Scope 1 and 2 emissions by 2050. Further details can be found on page 48. The Committee reviewed the proposed disclosures and challenged assumptions and judgements therein.

Prevention and detection of fraud

The Committee reviews the effectiveness of the control environment annually, which includes considering the risk of fraud. In addition, the Committee discusses with the internal and external auditors any findings on the quality of the organisation's anti-fraud systems and controls. At each Committee meeting during the year, the Committee members individually confirmed that they were not aware of any case of fraud within the Group at that point in time.

Treasury strategy and compliance

The Group maintains a treasury policy which sets the approved level and nature of the Group's debt and hedging facilities, and the headroom to be maintained under them. The Committee regularly reviews the treasury policy, approved changes to it where appropriate and monitored the Group's compliance with it.

Tax strategy and compliance

The Committee reviewed and approved the company's tax strategy to ensure that it remained appropriate. The Committee also received updates from management about the Group's tax affairs, including the status of any tax audits and tax compliance matters.

Quality of income

The Committee reviewed the quality of income generated during the year. This entailed assessing the sustainability of income or whether it was generated from one-off items such as provision releases. The assessment informs the Committee's work on whether the accounts are fair, balanced and understandable, and whether any adjustments should be considered in remuneration calculations.

Internal audit

The Group Internal Audit function is independent of the business, operating under the third line as part of QinetiQ's adoption of the Three Lines Model (see page 63 for further details). Internal Audit work closely with other functions providing assurance to help develop a robust system of risk management and internal control, and also to ensure there remains a collaborative approach to assurance across the business and that plans are complementary.

Internal Audit reports directly to the Audit Committee, formally reporting four times during the year. The Audit Committee approves the annual audit plan, monitor progress, and assess the overall effectiveness of the audit process. The plan aims to ensure that all significant financial and non-financial risks are reviewed within a rolling three-year period.

The audit plan for the year was built around a number of priorities including the development of an internal controls framework, assessing the progress of key change programmes, and a focus on some specific elements of IT and security, including software licences. In addition, there has been a review of key operational and financial controls in the US businesses.

As commonly happens the audit plan was updated throughout the year, including changes to reflect risks that were identified or concerns which were raised. This led to reviews over purchasing cards and staff expenses being added to the FY22 audit plan.

Based on the results of the audit and assurance activity in the year the control environment is considered to be effective, with an open culture of continuous improvement demonstrated by the business.

Internal Audit will also continue to develop the assurance map of the business, reporting twice a year to the Audit Committee on specific risk areas in order to build the Group wide view of assurance and the effectiveness of the assurance activities. During the year there was a deep dive on fraud risk across the Group, reviewing and assessing the assurance provided under the three lines.

The Audit Committee has assessed the effectiveness of the Group Internal Audit function by way of an annual survey and questionnaire completed by members of the Audit Committee, the external auditors, and a selection of management across the business. The outcome was that the function remains effective, with a number of scores improving over the year. There were also opportunities identified to develop the team with specialist knowledge needed for specific audit assignments.

Looking forward to the forthcoming financial year there are priorities for the audit plan that include delivering assurance over key improvement programmes in the areas of safety and IT, as well as focusing efforts to ensure all businesses within QinetiQ have a common base level of effective internal financial controls.

External audit

PwC audit scope

Reflecting the changing composition of the Group, the FY22 Audit Scope also included QinetiQ Australia, contributing £94.3m to the Group revenue in FY22. The scope also includes full scope reporting from QinetiQ Inc. (C5ISR) and QinetiQ Limited, which remains consistent with the historic audit scope. The scope for Foster Miller Inc. (Technology Solutions) also remains consistent with the prior year with audit procedures being performed over Inventory, Revenue and associated balances only. The Committee viewed it appropriate for the audit scope to be updated to provide sufficient audit coverage over the consolidated financial statements.

Non-audit work and auditor independence

The Audit Committee is responsible for QinetiQ's policy, the Code of Practice, on non-audit services and the approval of non-audit services. The Code of Practice is applicable to all employees and sets out the principles for regulating the award of non-audit work to the external auditor.

In order to safeguard the auditor's independence and objectivity, and in accordance with the 2019 FRC's ethical standard, QinetiQ does not engage PwC for any non-audit services except where it is work that they must, or are clearly best suited to, perform. Accordingly, the company's policy for the engagement of the auditor to undertake non-audit services broadly limit these to audit-related services such as reporting to lenders and grant providers, where there is a requirement by law or regulation to perform the work. All other non-audit services are considered on a case-by-case basis in light of the requirements of the ethical standards and in compliance with the company's own policy.

The Audit Committee approves the terms of all audit services as well as permitted audit-related and non-audit services in advance. 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 former PwC employee may be appointed to a senior position within the QinetiQ group without the prior approval of the CFO.

Consideration of breach of 70% rule on auditors' fees

During the year PwC assisted on the Group work connected to the M&A incomplete acquisition, further details can be found on page 87, resulting in that PwC's fees for non-audit services in FY22 exceeded the permitted 70% fee cap. In advance of providing support on this M&A project, PwC had obtained a waiver from the FRC along with approval from the Audit Committee Chair. The Committee considered that PwC's independent advice on the matter would support and enhance QinetiQ's approach to risk management and due diligence which would lead to the creation of shareholder return and value.

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 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.

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

	2022 £'000	2022 £'m	% of audit fee	2021 £'000	2021 £'m	% of audit fee
Audit fees	**1,112**	**1.1**		**1,087**	**1.1**	
Non-audit:						
Audit-related assurance services	91	0.1	8%	84	0.1	8%
Other assurance services	570	0.6	51%	40	0.0	3%
Total non-audit fees	**660**	**0.7**	**59%**	**124**	**0.1**	**11%**
% of three year average audit fees	77%					

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 learnings to be fed into the current year's planning process. This took the form of questionnaires completed by members of the Group and divisional finance teams, and was supplemented by feedback from the Executive Directors and members of the Committee, together with consideration of the FRC's latest Audit Quality Inspection Report on PwC. The evaluation confirmed that PwC continues to perform its audit work to a high standard, in particular as a result of its comprehension of the company's business, control processes and the matters on which significant accounting judgements or estimates are required and its appropriate validation or challenge of management's views.

Audit appointment and partner succession

PwC was appointed as auditor of the Group at the 2018 AGM following a tender process. Since then the external audit engagement partner has been Julian Gray, Senior Statutory Auditor, who has now concluded his fifth year as the Group's audit lead partner. As the time line for the mandatory appointment of a new external audit lead partner is five years, John Ellis of PwC has been identified and appointed as the new PwC lead partner to manage the external audit team going forward. The external audit contract will be put out to tender at least every 10 years, and the Committee considers that it would be appropriate to conduct an external audit tender by no later than 2028.

The Committee and the Board will be recommending PwC's re-appointment at the 2022 AGM.

Audit Committee structure

The Audit Committee is comprised entirely of independent Non-executive Directors and is chaired by Shonaid Jemmett-Page, who is considered by the Board to fulfil the Code requirement of recent and relevant experience from the financial sector.

The Board considers the members of the Audit Committee to be independent and, in accordance with the Code, the Board concludes that the Committee as a whole possesses competence relevant to the Group's sector, having a range of financial and commercial experience in the industry and the commercial environment in which QinetiQ operates. The Group Chair, CEO, CFO, Group Financial Controller, Group Head of Internal Audit, Group Director Risk and Governance and representatives of the external auditor attended all Committee meetings by invitation during the year.

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

Audit Committee effectiveness review

The evaluation of the effectiveness of the Committee was conducted alongside the Board effectiveness review. See more on pages 105 to 107. The outcome of the evaluation confirmed that the Committee continues to operate highly effectively and determined that Committee members have good oversight of, and are able to raise appropriate challenges in respect of, important financial matters, such as management's significant accounting judgements and the implementation of new accounting standards.

Looking ahead

Looking ahead, the Committee is continuing to monitor the developments following the consultation published by the Government in March on proposals for significant reform of audit and corporate reporting.

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.

"The safety and wellbeing of our employees, customers and partners, remains the company's number one priority."

Risk & Security Committee report

Dear Shareholder,

I am pleased to present our Risk & Security Committee report for FY22, which describes our activities and areas of focus during the year.

The Risk & Security Committee risk management responsibilities

The Risk & Security Committee provides further scrutiny, and assurance to the Board, that the required standards in risk management, security, health and safety, within the UK and internationally, are achieved. This includes driving continuous improvement ensuring that the organisation fulfils its statutory requirements and duty of care. This assists the Board in reviewing and assessing the Group's risk management systems.

Risk profile of the Group

During the year, the Committee has focused on reducing the Group's risk profile. The review of the Group Risk Register, which is described further on pages 62 to 70, continues to be fundamental for the Committee to undertake its duties. The Risk Register contains details of the company's principal risks and uncertainties, their impact on the company and how they are managed.

Security profile of the Group

One of our core responsibilities is to oversee the Group's physical and non-physical security systems. Our future success will be reliant on our ability to exploit and operate technology at pace while still retaining the exacting levels of security required by our customers and partners.

Now more than ever, the Committee understands that emphasis has to be placed on the need for a robust, international security capability, which leverages our Group wide capability and experience.

The Committee members and I have, together with the Group Functional Director Business Transformation and Services, Group Director Security, the Business Services Director and Group Director Risk and Governance, developed a schedule of security related agenda items, ensuring that the Committee will be able to oversee this important subject, as well as the risks facing the Group. World events have potentially heightened our risk, particularly in cyberspace, and we must be vigilant and innovative to ensure we remain ahead of the ever-evolving threats.

FY23 action plan

- Continue to monitor progress of the company's wider technology and cyber security transformation
- Continue to increase focus on risk reporting and accountability for risk throughout the Group, both for its UK businesses as well as its global businesses
- Continue the implementation of a Global Security Strategy to emphasise the importance of security and to drive a culture of heightened security awareness across the Group
- Continue to ensure that we are recruiting, building and retaining the right workforce skills and talent to drive our physical and non-physical security focus

I hope you find the information in this report about the Committee's work helpful and I will be pleased to answer any questions you have about it at this year's AGM.

General Sir Gordon Messenger
Risk & Security Committee Chair

Key highlights FY22

- A key initiative during the year in our Integrated Strategic Business Plan (ISBP) FY22 was to improve our cyber incidence resilience
- Launch of the Safety Improvement Programme (SIP) to drive a step-change in our safety culture; ensuring we have the right processes, tools and systems; the skills-set and mind-set needed (physical safety). Moreover, to establish an environment where it is safe to take a proactive approach, raising issues and concerns and owning the solution (psychological safety)
- Focused on the risk management processes in the Group's international businesses

Key responsibilities

The Committee primary functions are:

- To oversee the sound operation of the Group's risk management systems
- The ongoing review of the Group's principal and emerging risks (see pages 62 to 70)
- To oversee the Group's physical and non-physical security systems, including monitoring security exposures and security culture, and considering emerging security issues
- Continue to ensure that health and safety risks are being effectively managed across the Group
- To oversee the Group's second line assurance activity over the first line compliance activity taking place across the Group's functions and businesses
- To monitor adherence to the generic MOD compliance system
- To review the Group's policies, processes and controls for the detection and prevention of bribery and modern slavery and compliance with applicable laws, regulations and codes of conduct

Risk management

The Board assumes ultimate responsibility for the effective management of risk across the Group, determining its risk appetite and ensuring that each business area implements appropriate internal controls. The Group's risk management systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. These systems are also designed to be sufficiently agile to respond to changes in circumstances, such as the impact of COVID-19.

Risk & Security Committee structure

All members of the Board are members of the Risk & Security Committee, which is chaired by Gordon Messenger. The Group Functional Director Business Transformation and Services, the Group Director Security, the Group IT Services Director, the Group Director Risk and Governance and the Group Head of Internal Audit attended all Committee meetings by invitation.

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's 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 Global Leadership Team and monthly performance reviews feed into the Group strategy at the Executive and Board level. The risk management and risk monitoring processes are divided as following:

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 and Environmental Performance • Internal Audit reports • International business governance • Anti-bribery and corruption

Security management

The Committee is assured by the progress made by the Group in the year, although, with the ever-increasing incidence and sophistication of cyber attacks and the consequent need for the Group to remain vigilant, the Committee expects security to remain one of its key areas of focus. A Security Culture Survey, conducted by the Group Security team covering the whole Group and aimed at understanding the security maturity levels across four areas; information, physical, cyber and personnel security, proved invaluable in identifying areas for focus, both domestically and internationally.

"The response of the Executive Directors, the GLT and all of our employees to the profit challenges in the second half of the year was outstanding."

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

Dear Shareholder,

As the Group Chair outlined in his statement on page 12, FY22 was a challenging year for the company; our good underlying performance was impacted by two discrete short-term profit issues. The impact of these issues has been contained and I am confident that FY23 will see a return to sustainable profit growth.

The response of the Executive Directors, the Global Leadership Team (GLT) and all of our employees to the profit challenges in the second half of the year was outstanding. Orders and revenue both saw strong growth over FY22 to create a sound platform for the future.

Incentive out-turn for FY22

The annual contribution to the Bonus Banking Plan (BBP) for FY22 for the CEO, the new CFO (Carol Borg) and the former CFO (David Smith) is 71.4%, 69.4% and 69.4% of the maximum respectively, recognising their personal performance during a year when the company delivered stretch orders and cash performance; with the disappointing profit performance recognised by a 0% outturn for this element (which had a 25% weighting).

The FY22 contingent share award under the Deferred Share Plan (DSP) will be made at 60.2% of the maximum reflecting above target revenue growth in-year. This DSP award will not vest in full unless the performance hurdle is met in FY25.

The FY22 CEO single figure on page 123 is lower than FY21 largely due to the smaller BBP contribution. The FY22 single figure includes the second award under the DSP based on FY19 performance, which I am pleased to confirm has now ceased to be contingent as the performance underpin has been met; that is, our FY22 profit performance of £137.4m exceeded that delivered in FY19 of £124.9m[1]. The FY19 DSP vests as shares which must be retained for a further two years.

The Committee considered the FY22 BBP and DSP outturns in detail from the perspective of our key stakeholders (shareholders, customers and employees) and agreed that it was appropriate not to exercise the discretion available to amend the outcome; that is, no adjustment was made to incentive targets or outcomes.

CFO succession

FY22 saw the retirement of our CFO, David Smith. I would personally like to thank David for the support he provided to the work of the Remuneration Committee.

Carol Borg joined QinetiQ in October 2021 taking over as CFO effective 1 December 2021. Carol brings a strong focus on Environmental, Social and Governance (ESG) issues to QinetiQ which will support the work of the Remuneration Committee as such issues are of increasing importance to the company and key stakeholders; this is reflected in our approach to incentives.

The Remuneration Committee considered and approved the Good Leaver retirement terms for David and the appointment terms for Carol as detailed on page 130. Also, following the approval of his remuneration terms in FY21, Sam Lewis joined the GLT in April 2021 as Group Business Development Director. Two further critical roles were appointed to the GLT in FY22 for which the Committee appoved the remuneration terms - Shawn Purvis as President and CEO of our US business and Amanda Nelson as Group HR Director. At the end of FY22, the Committee also approved the remuneration terms for Mike Sewart as Chief Technology and Operating Officer, effective April 2022.

Implementation for FY23

The Bonus Banking Plan for FY23 is based on the same financial metrics as in FY22 (orders, profit and cash) with stretch targets set against the delivery of the Integrated Strategic Business Plan (ISBP). Financial metrics have a 70% weighting for FY23 (previously 75%) and non-financial targets have a 30% weighting (previously 25%) based on the achievement of individual, common and collective goals. Payment for target performance is 50% of the maximum.

The changes for FY23 in terms of the weightings for the financial and non-financial elements of the BBP provide for an enhanced focus on ESG measures and a reduction in the cash metric (20% weighting for FY23, was 25% previously).

1. Restated in FY20 for a change in accounting policy.

The Committee considered return on investment as an annual incentive metric and is monitoring it for potential future use. At this time it is not considered appropriate as it may not drive the right behaviours at this point in the company investment cycle.

In support of the ISBP, the FY23 DSP strategic growth performance measure is revenue growth across the Group excluding in-year acquisitions, as per FY21 and FY22. Underpins ensure that FY23 profit margins are strong and Group operating profitability must be at least equal to FY23 performance in FY26 for full vesting.

Employee engagement and reward

QinetiQ's employees are key to the delivery of our ambitious growth strategy. Our employees have been outstanding this year, demonstrating extraordinary agility, focus, commitment and drive to continue to deliver to our customers.

The CEO and the Group HR Director have held regular discussions with our Global Employee Voice on reward matters. The people section on page 54 details our employee engagement activity.

I met with the Chair and other representatives of the Global Employee Voice during the year and I found the discussions very helpful in terms of understanding employee views. I understand that they have also found the meetings helpful and 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 payment if the company achieves a level of operating profit within a predetermined range from target to stretch. For FY22 I am disappointed that the profit target for AEIS payment was not achieved; however I am pleased that the CEO and the GLT chose to pay a discretionary award of £500 to all employees to reflect the way our employees rose to the challenge of the profit issues and ensured that other key performance metrics were delivered.

The AEIS is a key element of the company's Rewarding for Performance framework and aligns employees and shareholder interests by incentivising and rewarding profitable growth. The company will operate the AEIS again for FY23 and thereafter. Looking forward, the company will increase investment significantly in FY23 in our enhanced global reward strategy and wider employee offering.

The Directors' Remuneration Policy and pensions

The Directors' Remuneration Policy was presented for the triennial binding vote at the AGM in July 2020 and the Committee noted that we received a 87% vote in favour of the Policy and, at the July 2021 AGM, a 94% vote in favour of the Directors' Remuneration Report for FY21.

The Policy approved at the 2020 AGM confirmed that incumbent Executive Directors' pension allowances would be reduced to the UK employee level (10.5% of salary) over the three-year life of the 2023 Policy. This reduction from 20% to 10.5% has been brought forward for the CEO to be effective from 1 January 2023, and the new CFO received a 10.5% pension allowance on her appointment.

The Committee acknowledges that the incentive plans can appear complex as we have received this feedback from shareholders and new hires. Over the coming year the Committee will conduct a full review of the incentive approach in preparation for the Policy vote at the 2023 AGM, with the overall aim of simplification.

Conclusion

Supporting leadership to drive the response to the profit issues and implementing the Directors' Remuneration Policy in the interests of shareholders were the primary areas of focus of the Remuneration Committee in FY22. The Committee believes that we have a talented GLT that deal with issues with commitment and integrity. As the company continues to grow and expand internationally we need to be mindful of our global competitive environment and the increasing levels of responsibility.

FY22 was a challenging year for QinetiQ, delivering growth in orders and revenue, but with a disappointing profit performance. The Remuneration Committee carefully scrutinises financial performance as it relates to incentive payments. The Committee considered a discretionary adjustment to the scheme outturns but this facility was not used. We are satisfied that payments are appropriate and fair, reflecting overall performance delivered in FY22 and in consideration of the profit challenges. The Committee was pleased to note the share price response (£3.42 close on 29 April 2022) to the 20 April 2022 trading update which confirmed that the profit write-downs were fully contained in our first half results.

As we look to FY23, we anticipate that the company will return to the trajectory of sustainable organic profit growth which we delivered for six years prior to FY22.

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 Report at the AGM on 21 July 2022.

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
20 May 2022

Remuneration at a glance

Components, alignment, application and changes

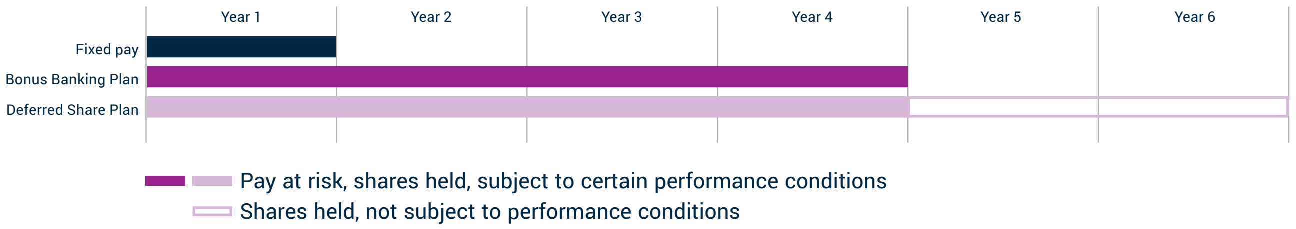
F Annual fixed pay	Link to strategy	Application in FY23
Salary Executive Directors' base salaries are set on appointment and reviewed annually, or when there is a change in position or responsibility. Typically, base salaries will be increased by a similar percentage to the average pay increase for all 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%, as will existing ones effective January 2023, to align with the UK workforce.

M Medium-term variable pay (one to four Years)	Link to strategy	Application in FY23
The Bonus Banking Plan (BBP) The BBP is a partially deferred annual bonus scheme where a maximum award of 200% of salary is available. 70% weighted on financial metrics (for FY23 orders, operating profit and operating cash flow) and 30% weighted on non-financial metrics (key strategic, operational and personal goals). 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 70% 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; some reweighting of metrics to provide a greater focus on ESG.

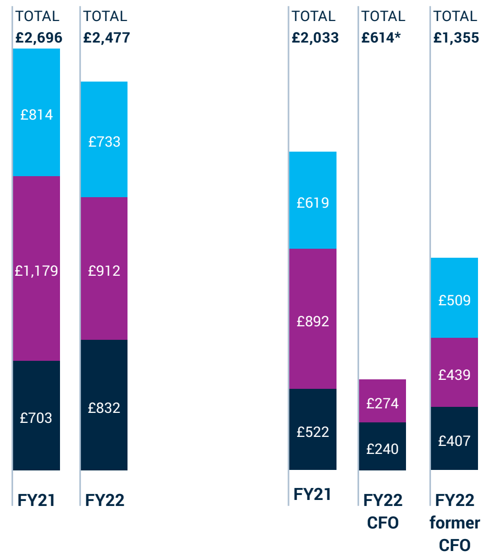
L Long-term variable pay (one to six years)	Link to strategy	Application in FY23
The Deferred Share Plan (DSP) The DSP is a long-term incentive scheme that provides a contingent share award up to a maximum of 125% of salary for success against an annual metric aligned with QinetiQ's long-term strategic growth plan. Initial entry into 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 period before DSP shares vest, and then 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.

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.



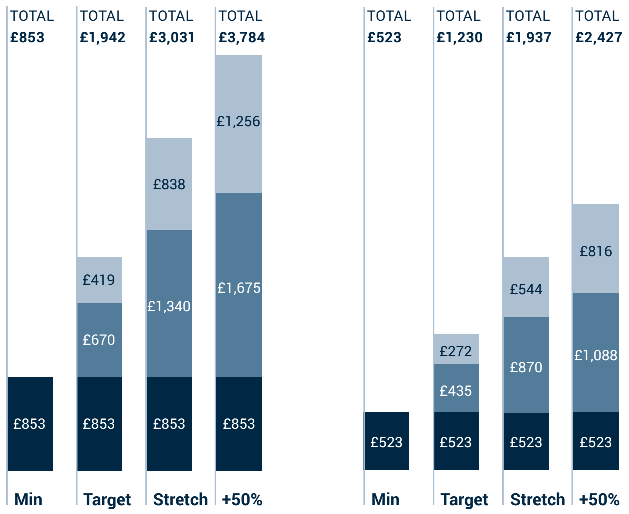
Single Figure FY22
(£'000)



Key
- Fixed pay
- Medium-term variable pay
- Long-term variable pay

* Including the £100,000 'Other' payment, see page 123

Illustration of FY23 potential
(£'000)



Minimum – Fixed pay (FY23 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)

Key
- Fixed pay
- Medium-term variable pay
- Long-term variable pay

Remuneration in context
Our remuneration principles

Flexible	Stretching	Aligned
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.	Targets are set by the Committee to ensure executives are incentivised to outperform, while delivering sustainable levels of performance.	While 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.

Summary Directors' Remuneration Policy

The Directors' Remuneration Policy was approved by shareholders at the AGM on 14 July 2020. The full Policy is provided in the Corporate Governance section on the company's website, and it will remain in effect until the 2023 AGM. When developing the Policy, the Committee was mindful of the six factors as set out in the Code: clarity, simplicity, proportionality, predictability, alignment of culture and risk. A summary of the Policy is set out below:

Element	Policy summary description	Maximum opportunity
Base salary	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 • when the Committee determines a benchmarking exercise is appropriate, salaries within the ranges paid by the companies in the comparator groups used for remuneration benchmarking	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.
Pension	The company provides a non-consolidated pension contribution allowance in line with practice relative to its comparators.	Any new Executive Directors will have a maximum contribution of 10.5% which is the level available to UK employees. The allowance paid to the CEO will reduce to 10.5% effective 1 January 2023.
Benefits	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.	Benefit values can vary year-on-year depending on premiums and the maximum is the cost of providing the relevant benefits.
Incentive Plan	The Incentive Plan supports the company's objectives by: • allowing the setting of annual targets based on the strategic objectives at that time; and • providing substantial deferral in shares and ongoing adjustment by requiring a threshold level of performance to be achieved during the deferral period. The Incentive Plan consists of two elements: **Bonus Banking Plan (BBP)** Annual contributions are earned based on the satisfaction of the performance conditions. Contributions are made for three years with payments made over four years. Half the value of a participant's bonus account is paid out annually for three years with 100% of the residual value paid out at the end of year four. Half of the unpaid balance of a participant's bonus account is at risk of annual forfeiture. **Deferred Share Plan (DSP)** Deferred share-based element earned based on the satisfaction of pre-grant annual performance assessment, which is subject to a three-year vesting period and a further two-year holding period. A minimum 50% of the unvested award will lapse after three years if a performance underpin, set annually by the Committee, is not achieved.	Maximum 325% of salary (200% of salary under the Bonus Banking Plan and 125% of salary under the Deferred Share Plan). **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	Policy summary description	Maximum opportunity
Shareholding requirements	Executives have five years to accumulate the required shareholding by retaining at least 50% of the post-tax vested shares from company incentive plans. 300% of base salary for the CEO. 200% of base salary for the CFO. On cessation of employment, Executive Directors are required to maintain a shareholding of 100% of salary for one year post-cessation, then 50% of salary for a further one year.	n/a
Chairman and Non-executive Directors		
Fees	Fees are reviewed annually based on equivalent roles in the comparator group used to review salaries paid to the Executive Directors.	The fees for Non-executive Directors and the Group Chairman are broadly set at a competitive level against the comparator group.

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 2022.

Audited information

Executive Directors' single total figure of remuneration

Executive Director	Year	Salary £'000	Benefits £'000	Pension £'000	Total fixed pay	Bonus Banking Plan £'000	Deferred Share Plan £'000	Other £'000	Total variable pay	Total remuneration £'000
Steve Wadey (CEO)	2022	639	65	128	832	912	733	–	1,645	2,477
	2021	512	68	123	703	1,179	814	–	1,993	2,696
Carol Borg (CFO)	2022	199	20	21	240	274	–	100	374	614
(Appointed 11 October 2021)	2021	–	–	–	–	–	–	–	–	–
David Smith (Former CFO)	2022	315	29	63	407	439	509	–	948	1,355
(Retired 30 November 2021)	2021	392	37	93	522	892	619	–	1,511	2,033

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.

The 'Other' payment to the CFO is a payment in part compensation for performance-based annual bonus lost on resigning from her former employer as detailed on page 130.

Fixed pay

Salary

Salaries are reviewed effective 1 July, which is the same timing for the rest of the UK employee population. There was no base salary review in FY21 as part of the response to COVID-19 and both the CEO and former CFO entered into a voluntary salary waiver for six months of the year of £104,450 and £74,450 respectively. Carol Borg was appointed on a salary of £420,000.

	Salary as at 1 April 2021 £'000	Increase in the year	Salary as at 1 July 2021 £'000	FY22 salary actually paid £'000
CEO	616	5.0%	647	639
CFO	–	–	–	199
Former CFO	466	2.5%	478	315

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
CEO	28	19	18	65
CFO	11	6	3	20
Former CFO	8	9	12	29

Pensions

The Executive Directors did not participate in the QinetiQ pension scheme for FY22 and have not done so in prior years. The pension figure consists of cash in lieu of pension equating to 20% of base salary for the CEO and the former CFO and 10.5% of base salary for the CFO.

	Cash in lieu of pension £'000	Total in lieu of pension £'000
CEO	128	128
CFO	21	21
Former CFO	63	63

Bonus Banking Plan

The Bonus Banking Plan operates on a three-year performance cycle mirroring the financial year, with a four-year payment cycle, i.e. running from 1 April to 31 March. FY22 represents the second year of cycle 3 as detailed on page 126.

Each year any incentive award earned is added to the total plan balance, with 50% of the total plan balance being paid in cash in June after the FY. The remaining 50% is held in the plan in notional shares. In year four, the total remaining plan balance is paid in shares.

	BBP cycle 3 balance brought forward £'000	Dividend equivalent payment £'000	BBP award in year £'000	June 2022 payment in cash (50% value) £'000	BBP cycle 3 balance carried forward £'000
CEO	553	13	912	739	739
CFO	–	–	274	137	137
Former CFO	419	10	439	868	-

Deferred Share Plan

The FY21 DSP figures represent the actual vesting of the of the FY18 award replacing the estimate provided last year. The share price at vesting was 348.9p and the FY21 figure includes £43,274 and £32,923 paid to the CEO and former CFO respectively as income in respect of a dividend equivalent payments.

The FY19 Deferred Share Plan award achieved the performance underpin based on FY22 profit exceeding that in FY19 (£124.9m) and, therefore, the shares ceased to be contingent and are disclosed in the single figure for FY22. The 100% vesting refers to the shares which have passed the underpin of those initially granted based on FY19 performance, which was 93.4% of the maximum available. The share value used is the 3-month average to 31 March 2022 (280.4p) and the estimated value includes CEO £49,461 and former CFO £34,331 as dividend equivalent payments.

	FY19 Shares Awarded	Vesting %	Shares Vesting	Estimated value £'000
CEO	243,650	100%	243,650	733
Former CFO (pro-rata)	184,401	100%	169,118	509

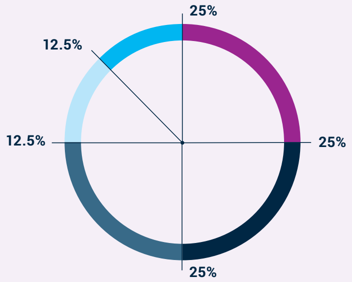
Bonus Banking Plan

FY22 performance measures and operation

For the year ended 31 March 2022 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 2022, the CEO, former CFO 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.



Audited information

FY22 performance outcomes

	Weighting (%)	Threshold	Target	Stretch	Actual	% of maximum reward achieved	CEO contribution	CFO contribution	Former CFO
CEO/CFO financial performance measures:									
Orders[1]	25%	£975.0m	£1,100.0m	£1,225.0m	£1,226.6m	100%	£319,561	£98,959	£158,190
Underlying operating profit[1,2]	25%	£137.5m	£150.0m	£162.5m	£137.4m	0%	£0	£0	£0
Underlying net cash flow from operations[1,2]	25%	£152.5m	£165.0m	£177.5m	£215.3m	100%	£319,561	£98,959	£158,190
CEO/CFO collective goals (as detailed on page 125): • Performance against key stretching objectives	12.5%	40%	50%	100%	85%	85%	£135,813	£42,058	£67,231
CEO personal goals • Performance against stretching goals relating to growth and leadership	12.5%	40%	50%	100%	86%	86%	£137,411		
CFO personal goals • Performance against stretching goals - strategic, growth and operational	12.5%	40%	50%	100%	70%	70%		£34,636	
Former CFO personal goals • Performance against stretching goals - strategic, growth and operational	12.5%	40%	50%	100%	70%	70%			£55,367
CEO overall result						71.4%	£912,346		
CFO overall result (pro-rated)						69.4%		£274,612	
Former CFO overall result (pro-rated)						69.4%			£438,978

1 Performance measures exclude the contribution from businesses acquired during the year and have been adjusted for disposals during the year.

2 Definition of underlying measures and performance can be found in the glossary on page 207.

Collective and personal goals (25.0% weighting)

Measures	FY22 Performance	Outcome (% maximum)
Collective goals (12.5% weighting)		
Safety and security culture – 40% weighting	Stretch performance levels were met to improve safety and security through high visibility safety and security tours and leading safety and security engagements.	
Employee engagement – 30% weighting	Employee engagement fell slightly in FY22 as measured by the independent Peakon tool. Leaders delivered diversity and inclusion events and interventions with strong feedback.	
Productivity and efficiency –30% weighting	Leaders achieved stretch performance levels to simplify processes, drive innovation, improve productivity of our facilities, implement collaborative actions and improve ESG across the Group.	
Total		85%

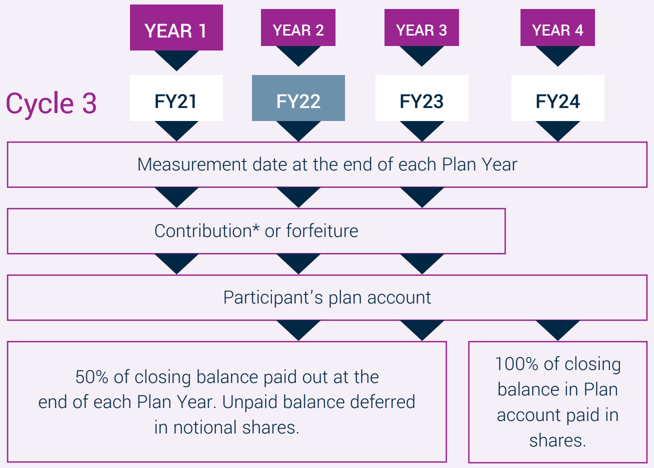
Personal goals (12.5% weighting)

Measures	FY22 Performance	Outcome (% maximum)
CEO		
Growth	Active management of the portfolio to drive higher margins and strengthen strategy implementation through acquisitions and global campaigns. Deliver US integration and return the US business to profitable growth.	
Leadership	Establish a GLT for FY23 that reflects diversity and provides the capability required to fulfil global ambitions with succession plan implemented. Improve ESG focus including publishing Net Zero Plan and improving safety focus and culture.	
Total		86%
CFO		
Strategic	Deliver minimum result at company level.	
Growth	Agree FY23 budget with improved process for UK recoveries.	
Operational	Deliver new model for Group Assurance and Audit.	
Total		70%
Former CFO		
Strategic	Deliver on financial commitments.	
Growth	Explore innovative ways to lead growth.	
Operational	Adopt best practice operating model for Finance team.	
Total		70%

How the plan operates

- The Plan operates on a fixed three-year performance cycle with a four-year vesting cycle. FY22 represents year two of Cycle 3. 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 in cash 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 FY22

Cycle 3

	Notional shares on account at start of Plan year 2 (1 April 2021)	30-day average share price to 31 March 2022 (p)	Share value as at measurement date (£)	Bonus plan contribution for Plan year 2 (£)	Dividend equivalent payment (£)	Bonus pool total value as at measurement date (£)	Gross payment in cash for Plan year 2 (£)	Bonus pool total value after cash payment (£)	Notional shares on account at end of Plan year 2 (31March 2022)
CEO	183,140	302.1	553,266	912,346	12,820	1,478,432	(739,216)	739,216	244,692
CFO	–	302.1	–	274,612	–	274,612	(137,306)	137,306	45,450
Former CFO	138,544	302.1	418,541	438,978	9,698	867,217	(867,217)	–	–

Forfeiture

For BBP Cycle 3 the CEO and former 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 the level determined by the Remuneration Committee at the start of the year of £124.9m for FY22. FY22 Group underlying operating profit was £137.4m (excluding contribution from acquisitions) therefore no notional shares were forfeited.

The BBP Cycle 3 notional shares held by the former CFO as at 31 March 2022 will be paid as cash in June 2022 based on the notional share price over March 2022. The pro-rata FY22 BBP payment to the former CFO will be paid in cash in June 2022 with no deferred element.

Discretion

For BBP Cycle 3, for the year ended 31 March 2022, targets were largely achieved providing a contribution of 71.4% of the maximum award for the CEO and 69.4% for both the CFO and former CFO. CEO £912,346, CFO £274,612 and former CFO £438,978 has been reported in the single figure table which represents the contributions to the plan related to FY22 performance. No discretion was applied to these contributions as the Committee considers them appropriate reflecting Group performance. In reviewing the BBP out-turn the Remuneration Committee was mindful of the wider stakeholder experience across the financial year.

Deferred Share Plan (DSP)

Scheme interests awarded during the financial year ended 31 March 2022

The Deferred Share Plan was first approved by shareholders at the 2017 AGM and further approved as a key element of the Directors' Remuneration Policy at the 2020 AGM. A maximum award of 125% of salary may be made to Executive Directors 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. FY21 DSP contingent shares granted in the year are detailed on page 129. The FY21 award was 97.3% of the maximum available.

Setting performance targets FY22

The FY22 DSP performance measure was group revenue excluding in-year acquisitions. Calibration was set with a maximum of 125% of salary available for achieving stretch and 50% of the maximum payable at target performance. The performance targets were set by the Remuneration Committee so as to be stretching.

Audited information

FY22 performance outcome

The FY22 Deferred Share Plan award was measured against Group revenue with the following calibration.

Measure	Weighting	Threshold	Target	Stretch	Actual	% Max award achieved	% Salary awarded	Total £'000
Group Revenue								
CEO	100%	£1,200m	£1,300m	£1,400m	£1,320.4m	60.2%	75.3%	£480,939
CFO[1]								£148,933
Former CFO[2]								£59,699

1 As an in-year joiner, pro-rated 172/365 days to reflect the portion of FY22 served.

2 As a good leaver, pro-rated 244/1,460 days to reflect the portion of the 4-year performance period served.

The FY22 DSP award was also subject to a pre-grant performance underpin that FY22 profit margins are higher than 10%, which was achieved. Group revenue achieved at £1,320.4m was between the Target and Stretch levels of performance resulting in a FY22 DSP contingent award of shares at 60.2% of the maximum available.

The FY22 DSP award will be subject to a further performance underpin before vesting:

- Group underlying profit out-turn for FY22 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 FY22 DSP award, this will be the actual underlying operating profit £137.4m for FY22 which must be achieved in FY25.

The FY22 DSP award which vests based on the achievement of the FY25 performance underpin must be held as shares for a further two years.

The FY19 DSP award achieved the performance underpin based on FY22 profit exceeding that in FY19 (£124.9m) and, therefore, the shares ceased to be contingent and will be released on 28 June 2022. Had the FY22 profit not been greater than FY19, 50% of the DSP award would have lapsed. The net shares vesting from the FY19 DSP must be retained for a further two years for continuing Executive Directors. The value of this award is shown in the single figure table, in line with the reporting regulations, calculated as CEO £683,195 and former CFO £474,207 based on the share amounts due to vest of 243,650 and 169,118 (pro-rata) respectively and a share price of 280.4p (3-month average to 31 March 2022). The cash in lieu of dividends payment on these awards at vesting included in the single figure table is estimated at CEO £49,461 and former CFO £34,331. Actual share values at vesting and the cash payment in lieu of dividends will be reported in a restated FY22 single figure in the FY23 DRR.

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 has achieved his shareholding requirement and currently holds actual shares equivalent to 359% of base salary using a share price of 280.4p (three-month average to 31 March 2022).

The CFO was appointed during 2021 and does not currently meet the minimum shareholding requirement; with a current holding of actual shares equivalent to 0% of base salary.

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 2022
Steve Wadey	829,280	476,396	588	1,306,264
Carol Borg (Appointed 11 October 2022)	–	193,199	–	193,199
David Smith (Resigned 30 November 2021)	426,428	242,561	533	669,522
Michael Harper	45,000	–	–	45,000
Susan Searle	48,300	–	–	48,300
Lynn Brubaker	25,000	–	–	25,000
Neil Johnson	100,000	–	–	100,000
Ian Mason (Resigned 26 April 2021)	10,000	–	–	10,000
Shonaid Jemmett-Page	7,000	–	–	7,000
General Sir Gordon Messenger	–	–	–	–
Lawrence Prior III (Appointed 2 August 2021)	–	–	–	–

Shares beneficially owned comprise shares purchased under the Share Incentive Plan (SIP) and shares owned by the Director and any connected persons. SIP matching shares are identified as shares not subject to performance conditions.

On 11 April 2022 Steve Wadey purchased 61 shares, then on 9 May 2022 he purchased 55 shares, through his participation in the SIP. There have been no other changes to the shares shown above between 31 March 2022 and 20 May 2022.

Shares subject to performance conditions comprise awards made under the Deferred Share Plan which remain contingent subject to the performance underpin as detailed on page 127. The Compensation Share Plan award to Carol Borg is only subject to continued employment.

Notional shares held by the CEO and CFO in the BBP Cycle 3 do not appear in the table above as they are not actual shares at 20 May 2022. However, in reviewing compliance with the shareholding requirement, the net of tax value of notional shares (i.e. 51.75% in the UK) of the 50% of the BBP balance which is not subject to forfeiture is included within the calculation.

Audited information

Total scheme interests summary

Total scheme interests, including those awarded during the financial year ended 31 March 2022, are as follows.

Plan name	Date of grant	Number 1 April 2021	Granted in year (maximum potential of awards)	Vested in year	Lapsed in year	Number 31 March 2022	Share price on date of grant	Vest date
Steve Wadey								
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
DSP 2021[1]	25 Jun 21	–	232,746	–	–	232,746	321.9	25 Jun 24
		464,435	232,746	220,785	–	476,396		
David Smith								
DSP 2018	8 Jun 18	167,975	–	167,975	–	–	206.0	8 Jun 21
DSP 2019	28 Jun 19	184,401	–	–	15,283	169,118	304.0	28Jun 22
DSP 2021[1]	25 Jun 21	–	176,070	–	102,627	73,443	321.9	25 Jun 24
		352,376	176,070	167,975	117,910	242,561		
Carol Borg								
Compensation Share Plan	5 Jan 22	–	193,199	–	–	193,199	258.8	5 Jan 25
		–	193,199	–	–	193,199		

1. The FY21 DSP contingent share award granted on 25 June 2021 at a share price of 321.9p (30-day average to 31 March 2021) is calculated on awards of 97.3% of the maximum (121.6% of salary) with a face value of £749,210 and £566,773 for the CEO and former CFO respectively. If the FY21 Group underlying profit (£150.0m) is not achieved in FY24, a minimum of 50% of the award will lapse.

The contingent share award for the FY22 DSP will be granted in June 2022. The Committee estimates that 159,198 contingent shares will be awarded to Steve Wadey, 49,299 to Carol Borg and 19,761 to David Smith (both the latter awards pro-rata for length of service). This is calculated based on awards of 75.3% of salary and a share price of 302.1p (30-day average to 31 March 2022).

As part of the package approved by the Remuneration Committee for Carol Borg at recruitment, it was agreed that she would receive a share award in part compensation for share awards which were forfeited on resigning from her former employer. On 5 January 2022 Carol was granted an award over 193,199 shares which will vest in 3 years. The QinetiQ share price used was the average closing price over the 30 days prior to the award with a value at grant of £500,000. The award was structured as a conditional award granted under a one-off arrangement and will lapse in the event of Carol's cessation of service ahead of the award's vesting date, save for good leaver treatment. The award is limited to settlement with existing shares sourced from the company's employee benefit trust (no new issue or treasury shares will be used in relation to the award). Exceptionally, the award may be cash settled but there is no intention to do so. The award includes a dividend equivalent entitlement by reference to the value of dividends with record dates arising during the vesting period. Market standard terms apply in respect of scope for the company to make appropriate adjustments to the award in the event of a variation of share capital or in the event of demerger, payment of special dividend or similar event materially affecting the price of shares. Best practice malus and clawback terms apply. The award is not pensionable. The award was granted under Listing Rule 9.4.2(2) to implement terms agreed to facilitate Carol's recruitment as an Executive Director; the unusual nature of the awards forfeited meant that they could not be replicated by the QinetiQ DSP. No advantageous amendment to the terms of the award (except for minor administrative changes) will be made without prior shareholder approval in general meeting.

The average 3-month market share price to 31 March 2022 of the FY19 DSP was 280.4p, leading to an estimated loss of £57,501 and £39,912 for the CEO and former CFO respectively based on share price depreciation of the shares due to vest on 28 June 2022.

There have been no other changes to the interests shown above between 31 March 2022 and 20 May 2022.

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.

Audited information continued

CFO succession

David Smith retired from the role of CFO effective 30 November 2021, succeeded by Carol Borg effective 1 December 2021 having joined the company as CFO Designate on 11 October 2021 to enable a smooth transition of responsibilities.

Carol Borg was appointed on a base salary of £420,000. Her appointment terms also included a grant of restricted stock with a value of £500,000, deemed to be less than the value of long-term incentives forfeited on resigning, and a cash payment for annual bonus lost with her former employer for the 2021 financial year, capped at £100,000.

David Smith received his normal remuneration until retirement with no payment for loss of office. On 1 December 2021 David entered into a Friend of QinetiQ agreement with the company which is a contract for occasional consultancy which the company provides to selected former employees to retain their expertise and skills on an 'as needed' basis. The agreement with David provides no guarantee of future work and has no impact on the treatment of his incentives.

The Remuneration Committee determined that Good Leaver status be provided to David as regards BBP and DSP participation including -

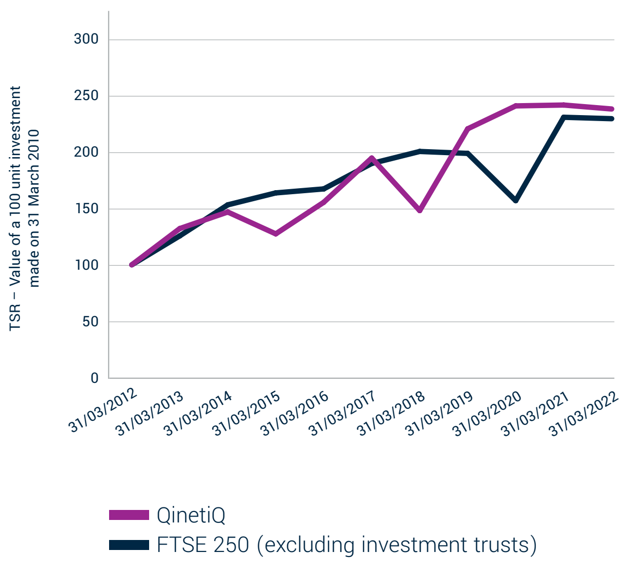
a) FY22 BBP paid on a pro-rata basis, subject to performance, in cash in June 2022 with no deferred element.
b) FY22 Cycle 3 account balance released as cash in June 2022 based on the notional share price averaged over March 2022.
c) FY19 and FY21 DSP awards will be preserved on a pro-rata basis and will remain available to vest subject to the achievement of the performance underpins.
d) The FY22 DSP will be awarded on a pro-rata basis in June 2022, vesting on June 2025, subject to the achievement of the performance underpin.

David will be required to maintain a shareholding in line with the Directors' Remuneration Policy.

Performance review

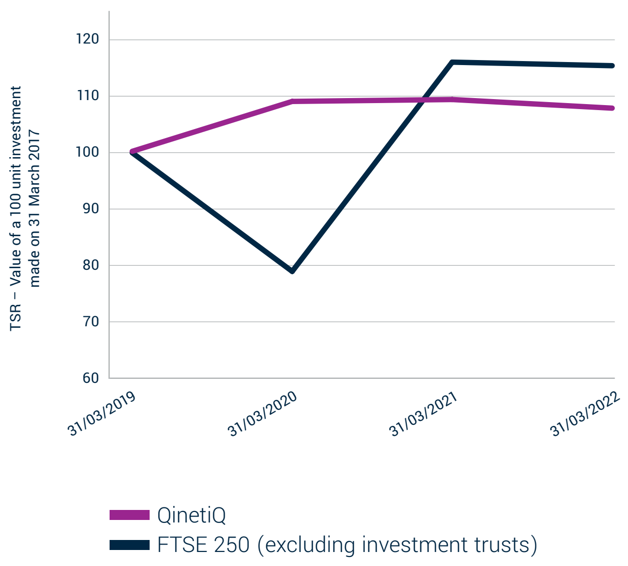
The ten-year and three-year charts show the company's Total Shareholder Return over the period from 31 March 2012 to 31 March 2022 and 31 March 2019 to 31 March 2022 compared with the FTSE 250 (excluding investment trusts) over the same period based on spot values. The Committee has chosen to demonstrate the company's performance against this index as it is the index in which the company is listed.

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 2012 to 31 March 2022):

Year ended 31 March	CEO	Salary/fees	Single figure	Annual bonus (% of maximum)	Long-term incentives (% of maximum vesting)
2022	Steve Wadey	639,121	2,477,069	71.4%	100.0%
2021	Steve Wadey	511,550	2,695,414	95.7%	100.0%
2020	Steve Wadey	610,357	1,978,247	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%

CEO pay ratio

The calculation below is based on the FY22 single figure for the CEO of £2,477,069 and similar calculations for the UK workforce (i.e. 'Option A' as defined by the Companies (Miscellaneous Reporting) Regulations 2018). The Remuneration Committee chose Option A as it is the approach generally favoured by investors and GC100. The calculations for the UK workforce were performed as at 31 March 2022.

Total remuneration

Ratio of the CEO's pay to UK employees

Year	25th percentile	Median	75th percentile
FY22	67 : 1	49 : 1	37 : 1
FY21	70 : 1	52 : 1	39 : 1
FY20	56 : 1	41 : 1	31 : 1

The CEO pay ratios have reduced between FY21 and FY22. The primary reason for this is the lower CEO single figure for FY22 due to the lower BBP outturn.

Year on year movements in the CEO pay ratio are likely to be volatile due to the wide range of incentive outcomes for the CEO single figure, but the Remuneration Committee does note the ratio and will monitor long-term trends.

Total pay of UK employees

£	25th percentile	Median	75th percentile
Total pay and benefits	£37,286	£50,831	£66,297
Salary component	£34,196	£44,910	£61,740

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 discretionary amount of £500 to all eligible employees for performance delivered in FY22 even though the profit target was not met.

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 leaders 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 FY22 the company element of the AEIS was paid at a discretionary level of £500 as the profit target was not met. The AEIS will be operated again in FY23 and thereafter.

The Committee reviews (but does not decide) the general reward policy for all employees and any significant changes proposed. Alignment with the workforce is delivered through the Rewarding for Performance framework, including a transparent and consistent approach to the annual salary review, the AEIS to drive company and personal performance, recognition schemes and market competitive benefits in our countries. For FY23 the company has agreed significant investment in the employee offering across the Group.

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 2022 and the preceding year. Amounts in brackets were waived in FY21.

	Salary/fees £'000		Benefits £'000		Committee Chair fees £'000		US/UK attendance fee £'000		Single figure £'000	
Non-executive Director	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Lynn Brubaker	54	46 (7)	5	2	–	–	6	3	65	51
Admiral Sir James Burnell-Nugent (Resigned 31 December 2020)	–	33 (7)	–	–	–	6 (1)	–	–	–	39
Michael Harper	54	46 (7)	1	–	10	9 (1)	–	–	65	55
Shonaid Jemmett-Page (Appointed 19 May 2020)	54	41 (3)	1	–	12	7 (1)	–	–	67	48
Neil Johnson	250	219 (31)	3	–	–	–	–	–	253	219
Ian Mason (Resigned 26 April 2021)	4	46 (7)	–	–	–	–	–	–	4	46
General Sir Gordon Messenger (Appointed 12 October 2020)	54	25	1	–	14	–	–	–	69	25
Paul Murray (Resigned 14 July 2020)	–	17 (5)	–	–	–	2 (1)	–	–	–	19
Lawrence Prior III (Appointed 2 August 2021)	36	–	2	–	7	–	3	–	48	–
Susan Searle	54	46 (7)	1	–	12	9 (1)	–	–	67	55

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.

The Committee Chair fee paid to General Sir Gordon Messenger in FY22 includes a true-up of £2,000 of unpaid Committee Chair fees for FY21 due to an administrative error by the company. Lynn Brubaker and Larry Prior are US residents and are 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 is a payment of £10,000 as Senior Independent Director, and that for Larry Prior is a payment of £10,000 as the senior US Non-executive director.

Percentage change in Directors' remuneration

The following table compares the percentage change in each of the Director's salary/fees, bonus and benefits to the average percentage change in salary, bonus and benefits for a comparison group (4,000 employees) in the UK business in service between 1 April 2021 and 31 March 2022. The analysis only includes Directors who served for the whole of FY22 and FY21 and is impacted by the temporary salary/fee sacrifice in FY21.

	% change between FY22 and FY21			% change between FY21 and FY20		
	Salary/fees	Benefits	Annual bonus	Salary/fees	Benefits	Annual bonus
Steve Wadey	24.9%	-4.3%	-22.7%	-16.2%	35.9%	10.3%
David Smith	–	–	–	-15.2%	0%	11.1%
Carol Borg	–	–	–	–	–	–
Neil Johnson	14.3%	100%	–	17.1%	-100%	–
Michael Harper	18.4%	100%	–	-15.9%	0%	–
Susan Searle	21.2%	100%	–	-6.8%	-100%	–
Ian Mason	–	–	–	-9.8%	-100%	–
General Sir Gordon Messenger	–	–	–	–	–	–
Lawrence Prior III	–	–	–	–	–	–
Shonaid Jemmett-Page	–	–	–	–	–	–
Lynn Brubaker	33.0%	127.5%	–	-35.5%	-77.8%	–
Average UK employee	2.9%	10.9%	-38.2%	1.2%	-1.2%	62.2%

1 UK employees were chosen in order to avoid the impact of exchange rate movements over the year. QinetiQ Group plc has no employees so QinetiQ Group Ltd employees were used.

The reduction in salary and fees which the Board implemented as a waiver for six months in FY21 impacted the analysis above, as did the reduced travel and physical meeting attendance as the benefits paid to Non-executive Directors are largely travel and subsistence expenses incurred in relation to the execution of their duties with the company that are considered by HMRC to be taxable.

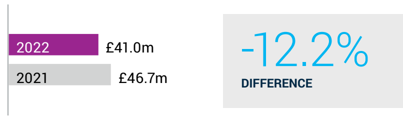
Relative importance of spend on pay

The graph below shows actual spend on all employee remuneration, shareholder dividends and buy-backs and any other significant use of profit and cash within the previous two financial years.

Total employee remuneration

Share-based profit distribution

Dividend cash payment plus purchase of own shares (see page 151).



Other significant profit distribution

There were no other significant profit distributions in 2021 or 2022.

Gender related pay

QinetiQ is subject to gender pay reporting for UK employees and a copy of our latest report is available on the company's website.

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 100).

Director	Date appointed	Arrangement	Notice period
Lynn Brubaker	27 January 2016	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.	–
Shonaid Jemmett-Page	19 May 2020	Initial term of three years from date of appointment, subject to annual reappointment at the AGM.	–
Neil Johnson	02 April 2019	Initial term of three years from date of appointment, subject to annual reappointment at the AGM.	–
General Sir Gordon Messenger	12 October 2020	Initial term of three years from date of appointment, subject to annual reappointment at the AGM.	–
Lawrence Prior III	2 August 2021	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, subject to annual reappointment at the AGM.	–
Carol Borg	11 October 2021	Service contract	12 months
Steve Wadey	27 April 2015	Service contract	12 months

Implementation of Policy for the year ended 31 March 2022

Fees

Non-executive Directors' fees were reviewed effective 1 July 2021, the last increase being in July 2019, and are now as follows –

- Basic fee £55,000 (previously £52,000)
- Committee Chair fee £12,000 (previously £10,000)
- Senior Independent Director fee £10,000 (no change)

The Non-executive Group Chairman receives a fee of £250,000 per annum which has not been adjusted since appointment.

Fees are reviewed in line with Policy. In FY21 a voluntary fee waiver was implemented for six months as detailed on page 132.

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 and CFO do not hold any Non-executive Directorships in other companies.

	Fees effective 1 July 2021 £
Group Chairman	250,000
Basic fee for UK Non-executive Director	55,000
Additional fee for chairing a Committee	12,000
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 2023

At the 11 May 2022 meeting of the Remuneration Committee, base salary increases of 3.6% (to £670,000p.a.) and 3.6% (to £435,000p.a.) were approved for the CEO and CFO respectively, effective 1 July 2022. Both salary reviews are aligned with the Rewarding for Performance guidance used for all UK employees which included a 4.0% budget for the July 2022 salary review.

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 FY23 acquisitions)	Relative weighting(%)
Bonus Banking Plan	Underlying operating profit	25.0%
Target performance 100% of base salary	Underlying net cash flow from operations	20.0%
Stretch performance 200% of base salary	Orders	25.0%
	Common, ESG and Personal goals	30.0%

For FY23 the Remuneration Committee agreed to reduce the weighting of Bonus Banking Plan financial metrics to 70% (previously 75%) by reducing the cash metric to 20% (previously 25%). This enables an increased focus on ESG goals as part of the non-financial metrics with a 30% weighting (previously 25%).

For FY23, the Remuneration Committee set the target level of performance at 50% of stretch for the financial measures, collective and personal goals. 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 FY23 the strategic growth performance measure is revenue growth (excluding in-year acquisitions) across the Group to incentivise our senior leaders globally to collaborate across the Group to deliver sustainable profitable growth, as per FY22. There will be a pre-grant margin underpin to ensure that profit performance remains strong in FY23.

Performance metrics have been set for FY23 based on the ISBP FY23. 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 the rewards overall to executives are balanced and fair in the context of the shareholder journey.

The FY23 DSP award will be subject to a performance underpin before vesting:

- Group underlying profit out-turn for FY23 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 FY23 DSP award, this will be the actual underlying operating profit (£m) for FY23 which must be achieved in FY26.

Awards of contingent shares will be made in June 2023 based on FY23 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.

Remuneration Committee meetings, activities and decisions FY22

The following table provides a summary of all the key activities during the year. The attendance at each meeting is detailed on page 90. The membership of the Remuneration Committee in FY22 was Susan Searle (Chair), Michael Harper, Neil Johnson, Lynn Brubaker, Ian Mason (resigned 26 April 2021), General Sir Gordon Messenger, Shonaid Jemmett-Page and Lawrence Prior III (joined 2 August 2021).

Base salary	Incentives	Share awards	Governance	Salaries and Resourcing
May 2021	Review of FY21 Company performance and final results for BBP and DSP	Approval of FY18 DSP Performance underpin and vesting FY21 DSP awards	Market update Approve Directors' Remuneration Report.	GLT base salary reviews
July 2021			AGM preparation	CFO succession
November 2021	FY22 half-year forecast		Market update Review of GLT shareholdings Review of company reward practices Review of Terms of Reference	Terms of a GLT-level appointment
January 2022	'Blue Sky' session in preparation for the 2023 AGM Directors' Remuneration Policy vote			
March 2022	FY22 provisional results FY23 target setting	FY19 DSP provisional vesting	2023 Directors' Remuneration Policy vote	

Remuneration Committee effectiveness review

In 2022 the effectiveness review was conducted by The Effective Board LLP. This process is described further on page 80.

Remuneration consultants

The Committee appointed FIT Remuneration Consultants LLP, 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 after a competitive tendering exercise. Fees paid during the year for services provided were £55,000 determined on a fixed-fee annual retainer basis, with fees agreed in advance for out-of-scope work, if any. FIT provided no additional services to the company during the year and the Committee is satisfied that the advice received is independent and objective.

Statement of voting

Annual Report on Remuneration – 2021

Votes for	436,288,423 (93.6%)
Votes against	29,698,657 (6.4%)
Total votes cast	465,987,080 (80.5% of share capital)
Abstained	10,345,055

Directors' Remuneration Policy – 2020

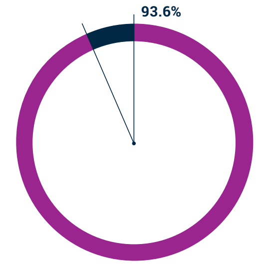
Votes for	393,525,108 (87.0%)
Votes against	59,006,721 (13.0%)
Total votes cast	452,570,726 (79.7% of share capital)
Abstained	19,408,696

Details on the voting on all resolutions at the 2022 AGM will be announced via the RNS and posted on the QinetiQ website after the AGM.

Susan Searle
Remuneration Committee Chair
20 May 2022

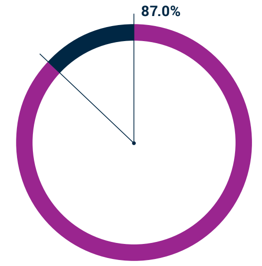
Directors' Remuneration Report 2021 % of votes

(%)



Directors' Remuneration Policy 2020 % of votes

(%)



Votes for
Votes against

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	78
Directors' details	82 – 84
Directors' conflicts of interest	99
Directors' interests in shares	128
Employees	54 – 59
Stakeholder engagement statement	92
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	174
Greenhouse gas emissions	46 – 49
Likely future developments in the business of the company or its subsidiaries	1 – 75
Results	36 – 39

Disclosure specifically required pursuant to the Companies (Miscellaneous Reporting) Regulations 2018 can be found on the following pages:

Statement in the Directors' Report summarising how Directors have engaged with employees and taken account of their interests	138
Statement in the Directors' Report about the corporate governance arrangements applied by the company	138
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	131
Illustration of the effect of future share price increases on executive pay outcomes in the Directors' Remuneration report	123

Management report

The Strategic report on pages 1 to 75 and the Directors' report, as detailed on pages 137 to 140, 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 £302.1m (FY21: £300.4m) of total R&D-related expenditure, of which £287.5m (FY21: £281.9m) was customer-funded work and £14.6m (FY21: £18.5m) was internally funded. Additionally, £3.4m (FY21: £2.6m) of late-stage development costs were capitalised and £2.1m (FY21: £2.4m) 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. 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 2022, the company had an allotted and fully paid up share capital of 578,757,121 ordinary shares of 1p each with an aggregate nominal value of £5.8m and one Special Share with a nominal value of £1. The ordinary share total includes 4,912,585 shares held by employee share trusts.

Details of the shares in issue during the financial year are shown in note 29 on page 182.

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.

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 29 on page 182.

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 2022, the Trust held 4,912,585 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. The below table has been adjusted to reflect notifications received under Section 793 of the 2006 Companies Act on 29 April 2022, that the following companies no longer meet the 3% threshold requirement under DTR5: Silchester International Investors LLP, Ninety One UK Ltd (formerly Investec), Ruane Cunniff & Goldfarb, abrdn plc (formerly Standard Life Aberdeen plc) and Norges Bank.

	At 31 March 2022	At 12 May 2022
Name of shareholder	% w issued share capital*	% of issued share capital*
Schroders	9.82%	9.98%
BlackRock. Inc.	7.73%	7.66%
GLG Partners LP	5.66%	5.79%
Liontrust Asset Management PLC	3.93%	3.93%

* 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. The qualifying third party indemnity was in force during the financial year and also at the date of approval of the financial statements. 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, of which £65m will mature on 27 September 2024 and £210m will mature on 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 119.

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 2021, the shareholders passed resolutions which authorised the Directors to allot relevant securities up to an aggregate nominal value of £3,857,994 (£1,928,997 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 2022 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 2022 AGM.

Annual General Meeting

The company's AGM will be held on Thursday 21 July 2022 at 11:00am at the office of Ashurst LLP, London Fruit and Wool Exchange, Duval Square, London E1 6PW.

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 in respect of the financial statements

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 Accounting Standards in conformity with the requirements of the Companies Act 2006 and the 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). Additionally, the Financial Conduct Authority's Disclosure Guidance and Transparency Rules require the Directors to prepare the Group Financial Statements in accordance with UK-adopted International Accounting Standards.

Under company law, 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 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 international accounting standards in conformity with the requirements of the Companies Act 2006 and UK-adopted International Accounting Standards 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 judgements 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's 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.

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

Each of the Directors, whose names and functions are listed on pages 82 and 84 confirm that, to the best of their knowledge:

- The Group financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to UK-adopted International Accounting Standards, give a true and fair view of the assets, liabilities, financial position and profit of the Group
- The Company Financial Statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities, financial position and profit of the company
- The Going concern statement on page 71 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.

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 2022.

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
20 May 2022

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 2022 and of the Group's profit and the Group's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- 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.

We have audited the financial statements, included within the Annual Report, which comprise: the Consolidated and Company balance sheet as at 31 March 2022; the Consolidated income statement, the Consolidated comprehensive income statement, the Consolidated cash flow statement, and the Consolidated and Company statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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.

Other than those disclosed in note 8, we have provided no non-audit services to the Company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- We conducted full scope audit work in the UK over QinetiQ Limited, in the US over QinetiQ Inc. (C5ISR), and in Australia over QinetiQ Pty Ltd based on their size or risk. This provides 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. (Technology Solutions) and QinetiQ Target Systems Limited to provide sufficient overall Group coverage.
- Additionally in Technology Solutions, we performed full scope financial statement line item audits over revenue and associated balances.
- We performed procedures over goodwill, intangible assets, share-based payments, pensions, IFRS 16 lease accounting, taxation and testing of the consolidation at a Group level.

Key audit matters

- Long-term contract accounting (Group).
- Impairment of goodwill and acquired intangibles (Group).
- Accounting for tax research and development expenditure credits (Group).
- Impairment of investments in subsidiary undertakings (Parent).

Materiality

- Overall Group materiality: £6,650,000 (2021: £6,400,000) based on approximately 5% of underlying profit before tax.
- Overall Company materiality: £5,000,000 (2021: £5,000,000) based on approximately 1% of total assets.
- Performance materiality: £5,000,000 (2021: £4,800,000) (Group) and £3,750,000 (2021: £3,750,000) (Company).

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.

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.

Provisions and contingent liabilities (Group) and the impact of COVID-19 (Group and parent), which were key audit matters last year, are no longer included because of a reduction in the level of estimation involved in the accounting for provisions and contingent liabilities and the limited impact from the pandemic on the operations and financial results of the Group and Company. Otherwise, the key audit matters below are consistent with last year.

Key activities	How our audit addressed the key audit matter
Long-term contract accounting (Group) Refer to page 110 (Report of the Audit Committee) and page 189 (note 36, Significant accounting policies – Revenue from contracts with customers) and page 154 (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 contract 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 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 certain key controls 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 audits. These detailed contract audits involved meeting with key financial and non-financial personnel throughout the year and at year end 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 calculated revenue recognised and agreed revenue, costs and associated balance sheet positions to the underlying general ledger. • We obtained evidence to corroborate management estimates and judgements, particularly around forecast costs to complete and risk contingencies. • We validated costs incurred allocated to contracts during the year to supporting documentation on a Group-wide basis. • We made enquiries as to the potential impact in delivery and forecast costs to complete arising from climate change risks. For remaining untested contracts, we selected a sample and performed testing over revenue and costs, 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 and consideration of recoverability of amounts recoverable on contract. Additional testing was performed, where not sufficiently covered by the above, over the contract asset and liability balance sheet positions. These have been sample tested and agreed to supporting documentation. No material exceptions were found.
Impairment of goodwill and acquired intangibles (Group) Refer to page 110 (Report of the Audit Committee), page 193 (note 36, Significant accounting policies – Impairment of goodwill and tangible, intangible and held for sale assets, page 162 (note 14, Goodwill) and page 164 (note 15, intangible assets). The Group has a material amount of goodwill and acquired intangible assets. There is a risk of impairment where the performance of the cash generating unit is behind expectation and does not support the value held on the balance sheet. Management performed a discounted cash flow analysis based on the Board-approved five-year strategic plan to assess whether the goodwill and acquired intangible assets are supported by future cash flow projections. This annual impairment review was performed as at 31 January 2022. No triggering events have been identified in the period to 31 March 2022 and therefore no additional impairment reviews have been performed. No impairment charge has been recognised during the year. Our audit focused on the risk that the carrying value of goodwill and acquired intangible assets could be overstated.	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 long-term growth rates and discount rates used in the impairment calculation, by comparing the Group's long-term growth rates and discount rates assumptions to external data, along with the mathematical accuracy of the model. We concluded that the Group's assumptions were materially appropriate. We confirmed that cash flows for the next 5 years, consistent with internal budgeting and strategic planning processes and the long term viability assessment, have been input to the model and that the underlying budgets and strategic plans have been approved by the Board. We challenged the cash flow projections used within the model by reference to current cash flows, analysis of management's historic forecasting accuracy, understanding future contract opportunities and through obtaining third party evidence where possible. We held discussions with financial and non-financial personnel, corroborating explanations to supporting documentation and seeking contradictory evidence, if available. We tested the sensitivity of the impairment calculations, changes in the underlying assumptions and concluded that no impairments are required, and that the sensitivity to key assumptions is sufficiently disclosed. We did not identify any indication of management bias and did not identify any impairment triggers which would require an updated impairment assessment in the intervening period to year end.

Key activities	How our audit addressed the key audit matter
Accounting for tax research and development expenditure credits (Group) Refer to page 191 (note 36, Significant accounting policies – Taxation) and page 159 (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.	We have reviewed management's accounting policy for RDEC and disclosure of its impact on the Group's underlying effective tax rate. Management has determined the RDEC should be accounted for under IAS 12, as opposed to IAS 20, and we consider the disclosures made are sufficient to enable the user of the accounts to identify and understand the impact of management's accounting policy.
Impairment of investment in subsidiary company (parent) Refer to page 202 (Accounting policies – Investments and note 2, Investments in subsidiary undertakings). The Company has investments of £515.2 million in its subsidiary undertakings. Annually, the Directors consider whether any events or circumstances have occurred that could indicate that the carrying amount of the investment in subsidiaries may not be recoverable. If such circumstances are identified, an impairment review is undertaken to establish whether the carrying amount of the investments exceeds its recoverable amount, being the higher of fair value less costs to sell or value in use. Impairment assessments of this nature require significant judgement and there is a risk that a potential impairment trigger may not be identified by management and in the event that there is an impairment trigger identified, there is a risk that the calculation of the recoverable amount of the investment is incorrect and therefore the value of the investment may be misstated. No such indicators of impairment have been identified.	We have evaluated management's consideration of impairment triggers through performing our own independent assessment which has included: • Assessing the overall financial performance of the Group to identify any indicators of impairment as a result of poor financial performance. • Considering other information gathered during the course of our audits of components and assessing whether there are any other indicators of impairment, as well as considering other factors that could indicate increased impairment risk such as regulatory change. • Considering the market capitalisation of the Group at year end and comparing this to the carrying value of the investments. We found that management's conclusion that there are no impairment triggers in the investments in subsidiaries carrying value was reasonable.

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.

We conducted full scope audit work over QinetiQ Limited, C5ISR and QinetiQ Pty Ltd, with QinetiQ Limited being the only component considered financially significant to the Group. The audit of QinetiQ Limited is performed in the UK and the audit of C5ISR and QinetiQ Pty Ltd are performed by our local PwC component teams based in the US and Australia, respectively. This provides sufficient coverage overall financial statement balances, except inventory and central balances audited by the Group team.

We performed additional procedures over inventory balances at two further entities to ensure sufficient coverage over that financial statement line item. QinetiQ Target Systems Limited is located within the UK and work was performed by the Group audit team. Technology Solutions is 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 Technology Solutions, located in the US, which was performed by our local PwC component team.

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 financial information of full scope components, QinetiQ Limited, C5ISR and QinetiQ Pty Ltd, accounted for 88% of consolidated Group revenue and 72% of underlying profit before taxation (on an absolute basis, excluding holding companies and consolidation entities).

The full scope audits plus the additional audit procedures over inventory in two other locations and revenue and associated balance sheet accounts within Technology Solutions, resulted in coverage of 92% of consolidated Group revenue and 92% of total Group assets.

The combination of the work referred to above, together with additional procedures performed at a Group level, including testing of significant journals posted within the consolidation, significant adjustments made to the financial statements, goodwill, intangible assets, share based-payments, pensions, IFRS 16 lease accounting and taxation, gave us the evidence required for our opinion on the financial statements as a whole.

Auditors' Report continued

The Group engagement leader discussed and agreed the audit plan with our component audit teams, in addition to agreeing the format and content of communications. We determined that the level of involvement we were able to have in the audit work at our reporting entities was sufficient, and appropriate audit evidence had been obtained, to enable us to form our opinion on the financial statements as a whole. We maintained regular dialogue throughout the audit process with our component audit teams through the use of video conferencing. We also supervised the work performed by all component teams through the review of component team working papers and we are comfortable that sufficient and appropriate procedures have been performed.

The Company audit was performed by the Group audit team. The Company is principally a holding Company and there are no branches or other locations to be considered when scoping the audit. There are no financial statement line items in scope for the Group audit. The Company is audited on a stand-alone basis, and hence, testing has been performed on all material financial statement line items.

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:

	Financial statements – Group	Financial statements – Company
Overall materiality	£6,650,000 (2021: £6,400,000).	£5,000,000 (2021: £5,000,000).
How we determined it	Approximately 5% of underlying profit before tax.	Approximately 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 on note 4 of the financial statements.	We believe that total assets is the primary measure used by shareholders in assessing the performance of this entity, and is a generally accepted auditing benchmark for a holding Company. This materiality relates to the audit of the Company 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 £4,300,000 and £6,317,500. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to approximately £5,000,000 (2021: £4,800,000) for the Group financial statements and £3,750,000 (2021: £3,750,000) for the Company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £332,500 (Group audit) (2021: £320,000) and £250,000 (Company audit) (2021: £250,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining management's Board-approved strategic plan for the five year period ended 31 March 2027. We held discussions with management to understand the budgeting process and the key assumptions made in the forecasting processes;
- Performed a comparison of the cash flow forecasts used in the going concern assessment to those in the strategic plan and, where applicable, compared these forecasts for consistency to those used elsewhere in the business, including for long-term contract accounting and impairment assessments;
- Assessing whether the stress testing performed by management appropriately considered the principal risks facing the business, and were adequate;
- Using our own knowledge from the audit and assessment of previous forecasting accuracy we calculated sensitivities to apply to management's cash flow forecasts, These procedures confirmed significant headroom in management's forecasts when performing severe but plausible sensitivities;
- Evaluating the feasibility of management's mitigating actions in response to the severe stress testing scenarios; and
- We assessed the adequacy of disclosures in the Going Concern statement on page 71, the audit committee report on page 109 and statements in note 36 of the Financial Statements and found these appropriately reflect our understanding of the process undertaken and the conclusion reached.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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, which includes reporting based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. 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 our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 March 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the 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.

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.

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the Group's and Company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Auditors' Report continued

Our review of the directors' statement regarding the longer-term viability of the Group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when 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.

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, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to 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 financial statements such as the Companies Act 2006 and relevant tax legislation. 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 regulations 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 reporting to relevant regulatory authorities;
- Challenging assumptions and judgements made by management in their significant accounting estimates and judgements, particularly in relation to the key audit matters above.
- Designing risk filters to search for journal entries, such as those posted with unusual account combinations or posted by members of senior management with a financial reporting oversight role, and testing those journals highlighted (if any); and
- Incorporating elements of unpredictability into the audit procedures performed.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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 obtained 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 5 years, covering the years ended 31 March 2018 to 31 March 2022.

Other matters

As required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

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

20 May 2022

Financial Statements

Consolidated income statement

For the year ended 31 March

All figures in £ million	Note	2022 Underlying*	2022 Specific adjusting Items*	2022 Total	2021 restated^ Underlying*	2021 restated^ Specific adjusting Items*	2021 restated^ Total
Revenue	2, 3	**1,320.4**	**–**	**1,320.4**	**1,278.2**	**–**	**1,278.2**
Other operating costs excluding depreciation and amortisation		(1,140.7)	(8.7)	(1,149.4)	(1,086.0)	(6.4)	(1,092.4)
Other income	2	9.8	0.7	10.5	9.9	0.1	10.0
EBITDA (earnings before interest, tax, depreciation and amortisation)		**189.5**	**(8.0)**	**181.5**	**202.1**	**(6.3)**	**195.8**
Depreciation and impairment of property, plant and equipment	3, 4, 16	(46.7)	(1.2)	(47.9)	(45.6)	(0.5)	(46.1)
Impairment of goodwill	4, 14	–	–	–	–	(25.4)	(25.4)
Amortisation and impairment of intangible assets	3, 4, 15	(5.4)	(10.7)	(16.1)	(4.7)	(10.9)	(15.6)
Operating profit/(loss)	3	**137.4**	**(19.9)**	**117.5**	**151.8**	**(43.1)**	**108.7**
(Loss)/gain on business divestments	13	–	(0.9)	(0.9)	–	28.4	28.4
Gain on sale of investments		–	–	–	–	0.3	0.3
Finance income	7	0.5	4.5	5.0	0.3	7.1	7.4
Finance expense	7	(1.9)	–	(1.9)	(2.2)	–	(2.2)
Profit/(loss) before tax	8	**136.0**	**(16.3)**	**119.7**	**149.9**	**(7.3)**	**142.6**
Taxation (charge)/income	9	(17.9)	(11.8)	(29.7)	(23.8)	3.1	(20.7)
Profit/(loss) for the year		**118.1**	**(28.1)**	**90.0**	**126.1**	**(4.2)**	**121.9**
Profit is attributable to							
Owners of the parent company		118.1	(28.1)	90.0	125.9	(4.2)	121.7
Non-controlling interests		–	–	–	0.2	–	0.2
Profit/(loss) for the year		**118.1**	**(28.1)**	**90.0**	**126.1**	**(4.2)**	**121.9**

Earnings per share for profit attributable to the owners of the parent company

All figures in pence	Note	2022 Underlying*	2022 Total	2021 restated^ Underlying*	2021 restated^ Total
Basic	10	20.6p	15.7p	22.1p	21.4p
Diluted	10	20.4p	15.5p	21.9p	21.1p

^ Prior year comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 38 for details.
* 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 on page 207. Also refer to notes 4 and 36 for details of 'specific adjusting items'.

Consolidated comprehensive income statement

For the year ended 31 March

All figures in £ million	2022	2021^
Profit for the year	**90.0**	**121.9**
Items that will not be reclassified to profit or loss:		
Actuarial gain/(loss) recognised in defined benefit pension schemes	144.0	(104.1)
Tax on items that will not be reclassified to profit and loss	(47.6)	19.8
Total items that will not be reclassified to profit or loss	**96.4**	**(84.3)**
Items that may be reclassified to profit or loss:		
Foreign currency translation gains/(losses) on foreign operations	5.6	(12.0)
Movement in deferred tax on foreign currency translation	(0.8)	0.8
Increase/(decrease) in the fair value of hedging derivatives	0.6	(1.0)
Movement in deferred tax on hedging derivatives	(0.1)	0.2
Total items that may be reclassified to profit or loss	**5.3**	**(12.0)**
Other comprehensive income/(expense) for the year, net of tax	**101.7**	**(96.3)**
Total comprehensive income for the year	**191.7**	**25.6**
Total comprehensive income is attributable to:		
Owners of the parent company	191.5	25.4
Non-controlling interests	0.2	0.2
Total comprehensive income for the year	**191.7**	**25.6**

^ Prior year comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 38 for details.

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 2021 – previously reported	5.7	40.8	147.6	(0.4)	(2.9)	698.6	**889.4**	0.3	**889.7**
Change in accounting policy – software implementation costs (note 38)	–	–	–	–	–	(4.8)	**(4.8)**	–	**(4.8)**
At 1 April 2021 - restated^	5.7	40.8	147.6	(0.4)	(2.9)	693.8	**884.6**	0.3	**884.9**
Profit for the year	–	–	–	–	–	90.0	**90.0**	–	**90.0**
Other comprehensive income for the year, net of tax	–	–	–	0.5	4.8	96.4	**101.7**	–	**101.7**
Purchase of own shares	–	–	–	–	–	(0.8)	**(0.8)**	–	**(0.8)**
Issues of new shares	0.1	–	–	–	–	–	**0.1**	–	**0.1**
Share-based payments	–	–	–	–	–	7.4	**7.4**	–	**7.4**
Deferred tax on share options	–	–	–	–	–	(0.3)	**(0.3)**	–	**(0.3)**
Fair value adjustment in respect of equity-based contingent consideration	–	–	–	–	–	0.7	**0.7**	–	**0.7**
Dividends	–	–	–	–	–	(40.2)	**(40.2)**	(0.1)	**(40.3)**
At 31 March 2022	**5.8**	**40.8**	**147.6**	**0.1**	**1.9**	**847.0**	**1,043.2**	**0.2**	**1,043.4**
At 31 March 2020 – previously reported	5.7	40.8	147.6	0.4	8.3	681.9	**884.7**	2.4	**887.1**
Change in accounting policy – software implementation costs (note 38)	–	–	–	–	–	(2.0)	**(2.0)**	–	**(2.0)**
At 1 April 2020 - restated^	5.7	40.8	147.6	0.4	8.3	679.9	**882.7**	2.4	**885.1**
Profit for the year	–	–	–	–	–	121.7	**121.7**	0.2	**121.9**
Other comprehensive expense for the year, net of tax	–	–	–	(0.8)	(11.2)	(84.3)	**(96.3)**	–	**(96.3)**
Purchase of own shares	–	–	–	–	–	(9.0)	**(9.0)**	–	**(9.0)**
Share-settled liabilities	–	–	–	–	–	13.7	**13.7**	–	**13.7**
Share-based payments	–	–	–	–	–	10.6	**10.6**	–	**10.6**
Deferred tax on share options	–	–	–	–	–	0.5	**0.5**	–	**0.5**
Transactions with NCI	–	–	–	–	–	(1.6)	**(1.6)**	(2.3)	**(3.9)**
Dividends	–	–	–	–	–	(37.7)	**(37.7)**	–	**(37.7)**
At 31 March 2021^	**5.7**	**40.8**	**147.6**	**(0.4)**	**(2.9)**	**693.8**	**884.6**	**0.3**	**884.9**

^ Prior year comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 38 for details.

Consolidated balance sheet

As at 31 March

All figures in £ million	Note	2022	2021*	2020*
Non-current assets				
Goodwill	14	149.4	145.5	180.8
Intangible assets	15	140.3	133.1	136.4
Property, plant and equipment	16	414.5	397.2	375.6
Other financial assets	24	0.5	0.8	1.0
Financial assets at fair value through profit and loss	13	–	0.9	–
Equity accounted investments	17	2.6	4.2	3.6
Retirement benefit surplus	28	362.2	214.3	309.7
Deferred tax asset	18	21.0	11.7	13.3
		1,090.5	**907.7**	**1,020.4**
Current assets				
Inventories	20	54.9	54.4	52.3
Other financial assets	24	0.6	0.9	6.7
Trade and other receivables	21	361.2	326.7	250.0
Current tax asset	19	1.4	0.7	0.2
Cash and cash equivalents	24	248.1	190.1	105.8
		666.2	**572.8**	**415.0**
Total assets		**1,756.7**	**1,480.5**	**1,435.4**
Current liabilities				
Trade and other payables	22	(462.7)	(411.7)	(379.8)
Current tax payable	19	(3.9)	(2.5)	(3.6)
Provisions	23	(21.1)	(4.2)	(1.8)
Other financial liabilities	24	(6.9)	(7.0)	(8.9)
		(494.6)	**(425.4)**	**(394.1)**
Non-current liabilities				
Deferred tax liability	18	(156.7)	(89.7)	(101.3)
Provisions	23	(6.0)	(7.8)	(9.7)
Other financial liabilities	24	(17.2)	(20.7)	(19.9)
Other payables	22	(38.8)	(52.0)	(25.3)
		(218.7)	**(170.2)**	**(156.2)**
Total liabilities		**(713.3)**	**(595.6)**	**(550.3)**
Net assets		**1,043.4**	**884.9**	**885.1**
Equity				
Ordinary shares	29	5.8	5.7	5.7
Capital redemption reserve		40.8	40.8	40.8
Share premium account		147.6	147.6	147.6
Hedging reserve		0.1	(0.4)	0.4
Translation reserve		1.9	(2.9)	8.3
Retained earnings		847.0	693.8	679.9
Capital and reserves attributable to shareholders of the parent company		**1,043.2**	**884.6**	**882.7**
Non-controlling interest		0.2	0.3	2.4
Total equity		**1,043.4**	**884.9**	**885.1**

* Prior year comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 38 for details.

The financial statements on pages 150 to 203 were approved by the Board of Directors and authorised for issue on 20 May 2022 and were signed on its behalf by:

Steve Wadey
Chief Executive Officer

Carol Borg
Chief Financial Officer

Consolidated cash flow statement

For the year ended 31 March

All figures in £ million	Note	2022	2021*
Underlying net cash inflow from operations	25	**215.3**	**199.0**
Less specific adjusting items: change in accounting policy in respect of software implementation	25	(1.9)	(3.6)
Less specific adjusting items: acquisition transaction costs	25	(3.7)	(1.0)
Net cash inflow from operations	25	**209.7**	**194.4**
Tax paid		(20.0)	(15.0)
Interest received		0.5	0.3
Interest paid		(1.5)	(1.7)
Net cash inflow from operating activities		**188.7**	**178.0**
Purchases of intangible assets	15	(21.4)	(10.9)
Purchases of property, plant and equipment	16	(62.9)	(65.0)
Proceeds from sale of property		1.5	0.1
Proceeds from disposal of businesses		–	54.4
Proceeds from disposal of investment		–	0.3
Dividends from joint ventures and associates		2.0	–
Acquisition of businesses	12	(0.8)	(28.5)
Net cash outflow from investing activities		**(81.6)**	**(49.6)**
Purchase of own shares		(0.8)	(9.0)
Dividends paid to shareholders	11	(40.2)	(37.7)
Payment of bank facility arrangement fee		-	(0.4)
Capital element of lease payments		(6.2)	(8.5)
Transaction with non-controlling interests		(0.1)	–
Net cash outflow from financing activities		**(47.3)**	**(55.6)**
Increase in cash and cash equivalents		**59.8**	**72.8**
Effect of foreign exchange changes on cash and cash equivalents		(1.8)	11.5
Cash and cash equivalents at beginning of the year		190.1	105.8
Cash and cash equivalents at end of the year	24	**248.1**	**190.1**

* Prior year comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 38 for details.

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

All figures in £ million	Note	2022	2021
Increase in cash and cash equivalents in the year		**59.8**	**72.8**
Add back net cash flows not impacting net cash		6.2	8.9
Increase in net cash resulting from cash flows		66.0	81.7
Lease liabilities derecognised on disposal of subsidiaries		–	1.9
Leases and debt recognised on acquisition		–	(1.3)
Net increase in lease obligations		(1.3)	(9.1)
Other movements including foreign exchange		(3.7)	6.2
Increase in net cash as defined by the Group		61.0	79.4
Net cash as defined by Group at the beginning of the year		164.1	84.7
Net cash as defined by Group at the end of the year	24	**225.1**	**164.1**
Less: non-cash net financial liabilities	24	23.0	26.0
Total cash and cash equivalents	24	**248.1**	**190.1**

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) A down-turn in trading in the Global Products segment (note 3 to the financial statement) driven by a £14.5m write-down on a complex project due to technical and supplier issues and challenges impacting revenue in the US business;
2) An increase in the value of the Group's defined benefit pension scheme (note 28).

For a detailed discussion of the Group's performance and financial position refer to the Strategic Report on pages 1 to 75.

2. Revenue from contracts with customers and other income

Revenue and other income is analysed as follows:

Revenue by category
For the year ended 31 March

All figures in £ million	2022	2021
Services contracts with customers	1,234.4	1,189.4
Sale of goods contracts with customers	82.9	83.0
Royalties and licences	3.1	5.8
Total revenue	**1,320.4**	**1,278.2**
Less: adjust current year for acquired businesses[1]	(2.6)	–
Less: adjust prior year for disposed businesses[1]	–	(16.8)
Adjust to constant prior year exchange rates	10.3	–
Total revenue on an organic, constant currency basis[2]	**1,328.1**	**1,261.4**
Organic revenue growth at constant currency[2]	*5%*	*10%*

[1] For the period of which there was no contribution in the equivalent period in the comparator year which was pre-ownership (for acquisitions) or post-ownership (for disposals) by the Group.

[2] Alternative performance measures are used to supplement the statutory figures. See page 207.

Other income

All figures in £ million	2022	2021
Share of associates' and joint ventures' profit after tax	0.3	0.7
Other income	9.5	9.2
Other income – underlying	**9.8**	**9.9**
Specific adjusting item: gain on sale of property (note 4)	0.7	0.1
Total other income	**10.5**	**10.0**

Revenue and profit after tax of associates and joint ventures was £12.2m and £0.4m respectively (2021: revenue of £12.6m and profit after tax of £1.1m). 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	2022	2021
US	153.0	215.6
Australia	98.2	77.9
Europe	76.9	88.2
Rest of world	30.4	38.7
International	**358.5**	**420.4**
United Kingdom	961.9	857.8
Total revenue	**1,320.4**	**1,278.2**
International revenue %	*27%*	*33%*
Revenue from 'home countries' (UK, US and Australia)	**1,213.1**	**1,151.3**
Home countries revenue %	*92%*	*90%*

Revenue by major customer type
For the year ended 31 March

All figures in £ million	2022	2021
UK government	881.7	794.6
US government	104.7	140.8
Other	334.0	342.8
Total revenue	**1,320.4**	**1,278.2**

'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	2023	2024	2025	2026+	Total
Total forecast revenue allocated to unsatisfied performance obligations	**897.8**	**564.7**	**426.0**	**940.3**	**2,828.8**

Management expects that 32% (£897.8m) of revenue allocated to unsatisfied contracts as of 31 March 2022 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	2022	2023	2024	2025+	Total
Total forecast revenue allocated to unsatisfied performance obligations	**800.5**	**523.9**	**395.9**	**1,223.8**	**2,944.1**

Revenue of £157.3m was recognised during the year that was previously unrecognised as at the previous year end and reported as a contract liability.

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; Air & Space, Cyber & Information and the International business.

Global Products combines all other business units not aggregated within EMEA Services, including the QinetiQ US business, Space Products and EMEA Products (which includes QinetiQ Target Systems). 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.

Operating segments

	2022		2021	
All figures in £ million	Revenue from external customers	Underlying operating profit[1]	Revenue from external customers	Underlying operating profit[1]
EMEA Services	1,059.2	135.6	939.9	118.6
Global Products	261.2	1.8	338.3	33.2
Total operating segments	**1,320.4**	**137.4**	**1,278.2**	**151.8**
Underlying operating margin[2]		**10.4%**		**11.9%**

[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 on page 207.

No measure of segmental assets and liabilities is reported as this information is not regularly provided to the Chief Operating Decision Maker.

3. Segmental analysis (continued)

Reconciliation of segmental results to total profit

All figures in £ million	Note	2022	2021^
Underlying operating profit		137.4	151.8
Specific adjusting items operating loss	4	(19.9)	(43.1)
Operating profit		**117.5**	**108.7**
(Loss)/gain on business divestments	13	(0.9)	28.4
Gain on sale of investments		–	0.3
Net finance income	7	3.1	5.2
Profit before tax		**119.7**	**142.6**
Taxation expense	9	(29.7)	(20.7)
Profit for the year		**90.0**	**121.9**

^ Prior year comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 38 for details.

Non-current assets* by geographic location

All figures in £ million	UK	USA	Germany	Rest of world	Total
Year ended 31 March 2022	**491.7**	**129.8**	**47.8**	**34.9**	**704.2**
Year ended 31 March 2021 - restated	463.5	132.2	41.6	38.5	675.8

*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 2022

All figures in £ million	EMEA Services	Global Products	Total
Depreciation and impairment of property, plant and equipment	39.9	6.8	46.7
Amortisation of purchased or internally developed intangible assets	3.4	2.0	5.4
	43.3	**8.8**	**52.1**

For the year ended 31 March 2021

All figures in £ million	EMEA Services	Global Products	Total
Depreciation and impairment of property, plant and equipment	38.7	6.9	45.6
Amortisation of purchased or internally developed intangible assets	3.3	1.4	4.7
	42.0	**8.3**	**50.3**

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 36 (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	2022	2021^
Acquisition transaction costs		–	(1.0)
Unsuccessful acquisition costs		(3.7)	–
Acquisition related remuneration costs*		(1.3)	(1.8)
Pension past service cost		(2.4)	–
Change in accounting policy in respect of software implementation costs^	38	(1.9)	(3.6)
Fair value adjustment in respect of contingent consideration		0.6	–
Operating costs excluding depreciation and amortisation		**(8.7)**	**(6.4)**
Gain on sale of property		0.7	0.1
Specific adjusting items loss before interest, tax, depreciation and amortisation		**(8.0)**	**(6.3)**
Impairment of property		(1.2)	(0.5)
Impairment of goodwill	14	–	(25.4)
Amortisation of intangible assets arising from acquisitions		(10.7)	(10.9)
Specific adjusting items operating loss		**(19.9)**	**(43.1)**
(Loss)/gain on disposal of businesses	13	(0.9)	28.4
Gain on disposal of investment	17	–	0.3
Defined benefit pension scheme net finance income	28	4.5	7.1
Specific adjusting items loss before tax		**(16.3)**	**(7.3)**
Specific adjusting items – tax	9	4.1	3.1
Deferred tax impact of change in future UK corporation tax rate	9	(15.9)	–
Total specific adjusting items loss after tax		**(28.1)**	**(4.2)**

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

All figures in £ million	2022	2021^
Underlying profit after tax – total Group	**118.1**	**126.1**
Total specific adjusting items loss after tax	(28.1)	(4.2)
Total profit for the year	**90.0**	**121.9**

^ Prior year comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 38 for details.

* Bonuses awarded on acquisition (and subsequently paid) to key employees within the US MTEQ business (now the C5ISR business) acquired in December 2019.

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	
	2022 Number	2021 Number	2022 Number	2021 Number
EMEA Services	6,036	5,867	5,992	5,673
Global Products	879	1,023	919	1,201
Total employees	**6,915**	**6,890**	**6,911**	**6,874**

The aggregate payroll costs of these persons were as follows:

All figures in £ million	Note	2022	2021
Wages and salaries		369.7	381.7
Social security costs		37.9	35.1
Pension costs		49.4	45.5
Share-based payments costs	30	7.8	11.2
Total employee costs		**464.8**	**473.5**

6. Directors and other senior management personnel

The Directors and other senior management personnel of the Group during the year to 31 March 2022 comprise the Board of Directors and the Global Leadership Team and their remuneration and benefits are summarised below:

All figures in £ million	2022	2021
Short-term employee remuneration including benefits	9.2	9.4
Post-employment benefits	0.1	0.1
Share-based payments costs	1.7	2.1
Total	**11.0**	**11.6**

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

The highest paid director is the Chief Executive Officer, details of whose remuneration is provided on page 120 of the Directors' Remuneration Report.

7. Finance income and expense

For the year ended 31 March

All figures in £ million	2022	2021
Receivable on bank deposits	0.5	0.3
Finance income before specific adjusting items	**0.5**	**0.3**
Amortisation of deferred financing costs	(0.4)	(0.4)
Bank interest and commitment fees	(0.5)	(0.6)
Lease expense	(1.0)	(1.0)
Unwinding of discount on financial liabilities	–	(0.2)
Finance expense before specific adjusting items	**(1.9)**	**(2.2)**
Underlying net finance expense	**(1.4)**	**(1.9)**
Plus: specific adjusting items – defined benefit pension scheme net finance income	4.5	7.1
Net finance income	**3.1**	**5.2**

8. Profit before tax

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

All figures in £ million	2022	2021
Fees payable to the auditor and its associates:		
Audit of the Group's annual accounts	0.5	0.6
Audit of the accounts of subsidiaries of the Company	0.6	0.5
Total audit fees	**1.1**	**1.1**
Audit-related assurance services (Interim financial statements)	0.1	0.1
Other assurance services – M&A	0.5	–
Other assurance services – other	0.1	–
Total non-audit fees	**0.7**	**0.1**
Total auditors' remuneration	**1.8**	**1.2**

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

All figures in £ million	2022	2021
Cost of inventories expensed^	47.1	35.8
Owned assets: depreciation	40.3	37.2
Leased assets: depreciation	5.9	8.4
Foreign exchange (gain)/loss	(0.7)	0.5
Research and development expenditure – customer funded contracts	287.5	281.9
Research and development expenditure – Group funded	14.6	18.5

^ The 2021 cost of inventories expensed was incorrectly reported as £10.2m in the 2021 financial statements and has been restated.

9. Taxation

	2022			2021^		
All figures in £ million	Underlying	Specific adjusting items	Total	Underlying	Specific adjusting items	Total
Analysis of charge						
Current UK tax expense/(income)	20.6	(0.2)	20.4	12.3	(0.4)	11.9
Current UK tax in respect of prior years	(4.0)	–	(4.0)	(1.6)	–	(1.6)
Overseas corporation tax						
Current year	4.0	(0.2)	3.8	3.7	(0.4)	3.3
In respect of prior years	–	–	–	(0.4)	–	(0.4)
Current tax expense/(income)	**20.6**	**(0.4)**	**20.2**	**14.0**	**(0.8)**	**13.2**
Deferred tax (income)/expense	(4.0)	(3.7)	(7.7)	8.7	(1.9)	6.8
Deferred tax impact of change in rates	0.3	15.9	16.2	–	–	–
Deferred tax in respect of prior years	1.0	–	1.0	1.1	(0.4)	0.7
Deferred tax (income)/expense	**(2.7)**	**12.2**	**9.5**	**9.8**	**(2.3)**	**7.5**
Taxation expense/(income)	**17.9**	**11.8**	**29.7**	**23.8**	**(3.1)**	**20.7**
Factors affecting tax expense/(income) in the year						
Principal factors reducing the Group's current year tax charge below the UK statutory rate are explained below:						
Profit/(loss) before tax	136.0	(16.3)	119.7	149.9	(7.3)	142.6
Tax on profit/loss before tax at 19% (2021: 19%)	**25.8**	**(3.1)**	**22.7**	**28.5**	**(1.4)**	**27.1**
Effect of:						
Expenses not deductible for tax purposes and non-taxable items	(1.2)	–	(1.2)	0.6	(0.5)	0.1
Tax in respect of prior years	(3.0)	–	(3.0)	(0.9)	(0.4)	(1.3)
Research and development expenditure credits	(5.1)	–	(5.1)	(5.1)	–	(5.1)
Recognition of deferred tax asset	3.3	–	3.3	(1.1)	–	(1.1)
Deferred tax impact of change in rates	0.3	15.9	16.2	–	–	–
Different tax rates in overseas jurisdictions	(2.2)	(1.0)	(3.2)	1.8	(0.8)	1.0
Taxation expense/(income)	**17.9**	**11.8**	**29.7**	**23.8**	**(3.1)**	**20.7**
Effective tax rate	**13.2%**		**24.8%**	**15.9%**		**14.5%**

^ Prior year comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 38 for details.

The total tax charge was £29.7m (2021 restated: £20.7m), with specific adjusting items driving the increase, see below. The underlying tax charge was £17.9m (2021: £23.8m), on lower underlying profit before tax, with an underlying effective tax rate of 13.2% for the year ending 31 March 2022 (2021: 15.9%). The underlying 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 for under IAS 12 within the tax line. An adjusted underlying effective tax rate before the impact of RDEC would be 17.3% (2021: 19.4%). The impact of RDEC is shown net of £9.5m (2021: £10.6m) appropriated by the MOD (see note 36 for details). Within other creditors there are provisions for payments of MOD appropriations awaiting the resolution of an SSRO decision with regard to RDEC which may give rise to a reversal of the creditor and to an increased benefit from RDEC in the income statement in the current and future periods (see note 37).

Tax on specific adjusting items

A £15.9m charge in respect of the impact on UK deferred tax balances due to the UK corporation tax rate change from 19% to 25% has been classified as a specific adjusting item. Together with a £4.1m of income (2021 restated: income of £3.1m) in respect of the pre-tax specific adjusting items (see note 4), the total specific adjusting items tax expense was £11.8m (2021 restated: income of £3.1m).

Factors affecting future tax charges

The effective tax rate is expected to remain below the UK statutory rate, subject to the impact of any tax legislation changes, the geographic mix of profits and the assumption that RDEC retained by the Group remain in the tax line. Future recognition of unrecognised tax losses will also affect future tax charges. The OECD has released model rules for Pillar II of the Base Erosion and Profit Shifting regulations covering application of a Global Minimum Tax. The Group is monitoring progress of these rules and management's initial view is that they are not expected to have a material effect on the tax charge.

9. Taxation (continued)

Changes in tax rates

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate will increase from 19% to 25%. The 25% rate has been substantively enacted at the balance sheet date. An adjustment has been made to reflect that a portion of the UK deferred tax balances are expected to unwind at the new rate of 25%. The adjustment has been recorded as a specific adjusting item tax expense to the Consolidated income statement of £15.9m and an expense of £20.6m to the Consolidated comprehensive income statement, increasing the deferred tax liability by £36.5m. US deferred tax balances have not yet been adjusted for a potential increase in the US federal tax rate, as an increase has not yet been passed into law.

Tax risk management and tax cash

For details of the Group's approach to tax risk management and discussion of tax cash paid in the year see 'Additional Financial Information'.

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

Weighted average and diluted number of shares
For the year ended 31 March

		2022	2021
Weighted average number of shares	**Million**	**573.2**	**569.7**
Effect of dilutive securities	Million	6.4	6.1
Diluted number of shares	**Million**	**579.6**	**575.8**

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

		2022	2021*
Profit attributable to the owners of the Company	£ million	90.0	121.7
Remove loss after tax in respect of specific adjusting items	£ million	28.1	4.2
Underlying profit after taxation	**£ million**	**118.1**	**125.9**
Weighted average number of shares	Million	573.2	569.7
Underlying basic EPS	**Pence**	**20.6**	**22.1**
Diluted number of shares	Million	579.6	575.8
Underlying diluted EPS	**Pence**	**20.4**	**21.9**

Basic and diluted EPS
For the year ended 31 March

		2022	2021*
Profit attributable to the owners of the Company	£ million	90.0	121.7
Weighted average number of shares	Million	573.2	569.7
Basic EPS – total Group	**Pence**	**15.7**	**21.4**
Diluted number of shares	Million	579.6	575.8
Diluted EPS – total Group	**Pence**	**15.5**	**21.1**

* Prior year comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 38 for details.

11. Dividends

An analysis of the dividends paid and proposed in respect of the years ended 31 March 2022 and 31 March 2021 is provided below:

	Pence per share	£m	Date paid/ payable
Interim 2022	2.3	13.2	Feb 2022*
Final 2022 (proposed)	5.0	28.8	Aug 2022
Total for the year ended 31 March 2022	**7.3**	**42.0**	
Interim 2021	2.2	12.6	Feb 2021
Final 2021	4.7	27.0	Aug 2021*
Total for the year ended 31 March 2021	**6.9**	**39.6**	

*Total cash paid in the year to 31 March 2022 was £40.2m (2021: £37.7m)

The proposed final dividend in respect of the year ending 31 March 2022 will be paid on 25 August 2022. The ex-dividend date is 28 July 2022 and the record date is 29 July 2022.

12. Business combinations

There were no acquisitions in the year to 31 March 2022. Deferred consideration of £0.8m has been paid in respect of the prior year acquisition of QinetiQ Training & Simulation Limited (formerly known as Newman & Spurr Consultancy Limited).

Acquisitions in the year to 31 March

All figures in £ million	2022	2021
Naimuri Limited	–	28.4
Inzpire Group Limited	–	3.9
Less: cash acquired within Naimuri Limited	–	(4.0)
QinetiQ Training & Simulation Limited	0.8	0.2
Total acquisitions cash outflow	**0.8**	**28.5**

13. Loss/gain on business divestments

All figures in £ million	2022	2021
Boldon James business (comprising Boldon James Limited)	–	19.3
Commerce Decisions business (comprising Commerce Decisions Limited and Commerce Decisions Pty Ltd)	(0.9)	1.6
OptaSense business (comprising OptaSense Holdings Limited and subsidiary companies)	–	7.5
(Loss)/gain on business divestments	**(0.9)**	**28.4**

Deferred consideration of £1.5m was potentially receivable in respect of the Commerce Decisions business, contingent on performance of the disposed business in the year to 31 March 2022. The fair value of which had been estimated at £0.9m as at 31 March 2021. The required performance was not achieved, nil deferred consideration became due and the receivable has been written off to the income statement in the current year, classified as a specific adjusting item.

14. Goodwill

All figures in £ million	2022	2021
Cost		
At 1 April	287.6	307.9
Acquisitions	–	15.0
Disposals	–	(17.2)
Foreign exchange	8.5	(18.1)
At 31 March	**296.1**	**287.6**
Impairment		
At 1 April	(142.1)	(127.1)
Disposals	–	0.2
Impairment in year	–	(25.4)
Foreign exchange	(4.6)	10.2
At 31 March	**(146.7)**	**(142.1)**
Net book value at 31 March	**149.4**	**145.5**

Goodwill analysed by cash-generating unit (CGU)

Goodwill is allocated across five cash-generating units (CGUs) within the EMEA Services segment and four 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	2022	2021
US Technology Solutions	Global Products	41.5	39.6
MTEQ US C5ISR	Global Products	34.6	33.0
Target Systems	Global Products	24.7	24.3
Space Products	Global Products	5.6	5.7
QinetiQ Germany	EMEA Services	2.6	2.7
Inzpire	EMEA Services	11.7	11.7
QinetiQ Training & Simulation Limited	EMEA Services	7.8	7.8
Naimuri Limited	EMEA Services	14.8	14.8
Australia	EMEA Services	6.1	5.9
Net book value at 31 March		**149.4**	**145.5**

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. As a result of impairment in prior years, QinetiQ Germany has limited headroom (26%) and a critical sensitivity is discussed further below. US Technology Solutions also displays limited headroom (23%) reflecting the balance of opportunity and risk of securing new government contracts as the business responds from its recent short-term challenges, discussed further below. However, alongside all other CGUs, management considers that there are no likely variations in the key assumptions which would lead to an impairment being recognised.

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. Whilst the Group will likely be impacted by climate change in the future to an extent, the impacts on future cash flows used in the value-in-use calculations are not considered to be material.

Terminal growth rates and discount rates

The specific plans for each of the CGUs have been extrapolated using the terminal growth rates as detailed in the following table. 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 % 2022: (2021)	US Technology Solutions	Target Systems	Space NV	US C5ISR	Inzpire	Australia	QinetiQ Germany	QinetiQ Training & Simulation	Naimuri
Terminal growth rate	2.3 (2.1)	2.1 (1.7)	2.1 (1.7)	2.3 (2.1)	2.1 (1.7)	2.3 (2.3)	1.6 (1.5)	2.1 (1.7)	2.1 (1.7)
Pre-tax discount rate	10.8 (11.3)	11.6 (12.2)	11.5 (11.9)	10.8 (11.3)	12.2 (12.8)	9.4 (10.0)	9.1 (9.3)	11.5 (12.3)	12.2 (12.2)

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. Sensitivities are provided below for each of the significant CGUs.

Significant CGUs

US Technology Solutions

The carrying value of the goodwill for the US Technology Solutions CGU was £41.5m as at 31 March 2022 (2021: £39.6m). The recoverable amount of this CGU as at 31 March 2022, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £98.5m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. These cash flows include certain assumptions around a turnaround in 2023 from a period of softened performance in 2022 which is then sustained through growth of new product lines in development, with clear market opportunity, and winning identified future government contracts. US organic revenue reduced by 21% compared to prior year with the second half revenue performance recovery slower than expected due to the US defence budget being constrained by the extended Continuing Resolution. Confidence remains in the turnaround in FY23 having secured significant growth in order intake in FY22 which, coupled with a new leadership team provides a strong foundation for delivery of our strategy in the US. An increase in the discount rate of 1%, a decrease in the terminal growth rate of 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.

US C5ISR (previously MTEQ)

The carrying value of the goodwill for the US C5ISR CGU as at 31 March 2022 was £34.6m (2021: £33.0m). The recoverable amount of this CGU as at 31 March 2022, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £82.0m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate of 1%, a decrease in the terminal growth rate of 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 2022 was £24.7m (2021: £24.3m). The recoverable amount of this CGU as at 31 March 2022, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £85.0m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate of 1%, a decrease in the terminal growth rate of 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 2022 was £2.6m (2021: £2.7m). Our German operations generally performed below expectations in the year, however its core contract is in the process of being extended to June 2023 and increased in scope, underpinning performance in future years. Whilst a further impairment is a risk (following a £25m impairment in 2021) if additional contracts are not won, or the core contract is not successfully re-tendered in June 2023, the current forecasts result in a small headroom when comparing discounted future cash flows to carrying value of assets. The key sensitivity impacting on the value in use calculations is the terminal year cash flows, with the core contract contributing approximately one third of the business's revenue in the terminal year (2027). Should this key contract not be successfully won (on a long-term basis) in June 2023 then there would be a significant decrease in future cash flows and this would lead to full impairment of the residual £2.6m carrying value of goodwill together with an impairment charge of approximately £1.3m against the £26.8m carrying value of intangible assets. An increase in the discount rate of 1% or a decrease in the terminal growth rate of 1% would decrease the headroom by £7.0m and £5.3m respectively.

Inzpire

The carrying value of the goodwill for the Inzpire CGU as at 31 March 2022 was £11.7m (2021: £11.7m). The recoverable amount of this CGU as at 31 March 2022, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £25.8m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate of 1%, a decrease in the terminal growth rate of 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.

Naimuri

The carrying value of the goodwill for the Naimuri CGU as at 31 March 2022 was £14.8m (2021: £14.8m). The recoverable amount of this CGU as at 31 March 2022, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £25.8m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate of 1%, a decrease in the terminal growth rate of 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.

15. Intangible assets

For the year ended 31 March 2022

All figures in £ million	Acquired intangibles: Customer relationships	Acquired intangibles: Other	Development costs	Other intangibles^	Total
Cost					
At 1 April 2021 restated	112.5	82.8	28.2	54.9	278.4
Reclassifications from PPE	–	–	(0.1)	6.0	5.9
Additions – internally developed*	–	–	3.4	5.8	9.2
Additions – purchased*	–	–	–	6.4	6.4
Disposal	–	(4.0)	–	(1.7)	(5.7)
Foreign exchange	2.0	2.7	0.1	0.6	5.4
At 31 March 2022	**114.5**	**81.5**	**31.6**	**72.0**	**299.6**
Accumulated amortisation and impairment					
At 1 April 2021	(40.1)	(54.4)	(16.8)	(34.0)	(145.3)
Amortisation charge for year	(8.0)	(2.7)	(2.1)	(3.3)	(16.1)
Disposal	–	4.0	–	1.7	5.7
Foreign exchange	(1.0)	(2.3)	–	(0.3)	(3.6)
At 31 March 2022	**(49.1)**	**(55.4)**	**(18.9)**	**(35.9)**	**(159.3)**
Net book value at 31 March 2022	**65.4**	**26.1**	**12.7**	**36.1**	**140.3**

^ Includes Assets In Course Of Construction of closing net book value of £14.0m (2021 restated: £7.1m).
* Additions per the table above are different to 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 US C5ISR (formerly known as MTEQ), Germany and QinetiQ Training & Simulation Limited (formerly known as Newman & Spurr Consultancy Limited) (£15.7m; £24.3m; £3.3m respectively) with remaining amortisation periods of approximately 8 years, 10 years and 10 years respectively, and acquired technology associated with US C5ISR, Germany, and QinetiQ Training & Simulation Limited (£13.5m; £3.3m; £2.1m respectively) all with remaining amortisation periods of approximately 8 years.

For the year ended 31 March 2021

All figures in £ million	Acquired intangibles: Customer relationships	Acquired intangibles: Other	Development costs	Other intangibles^	Total
Cost					
At 31 March 2020	117.5	98.7	27.4	68.2	311.8
Change in accounting policy - software implementation costs	–	–	–	(2.5)	(2.5)
At 1 April 2020 restated*	117.5	98.7	27.4	65.7	309.3
Reclassifications from PPE	–	–	–	0.1	0.1
Reclassifications	–	(2.5)	8.5	(6.0)	–
Additions – internally developed*	–	–	2.5	1.7	4.2
Additions – purchased	–	–	0.1	6.4	6.5
Additions – recognised on acquisition	9.3	1.9	–	–	11.2
Business divestments	(8.9)	(9.0)	(10.3)	(12.1)	(40.3)
Foreign exchange	(5.4)	(6.3)	–	(0.9)	(12.6)
At 31 March 2021 restated*	**112.5**	**82.8**	**28.2**	**54.9**	**278.4**
Accumulated amortisation and impairment					
At 1 April 2020	(44.4)	(63.8)	(21.6)	(43.1)	(172.9)
Amortisation charge for year	(7.7)	(3.2)	(2.4)	(2.3)	(15.6)
Reclassifications	–	0.7	(0.9)	0.2	–
Business divestments	8.9	7.7	8.1	10.9	35.6
Foreign exchange	3.1	4.2	–	0.3	7.6
At 31 March 2021	**(40.1)**	**(54.4)**	**(16.8)**	**(34.0)**	**(145.3)**
Net book value at 31 March 2021 restated*	**72.4**	**28.4**	**11.4**	**20.9**	**133.1**

^ Includes Assets In Course Of Construction with net book value at 31 March 2021 restated of £9.6m.
* Prior year comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 38 for details.

16. Property, plant and equipment

For the year ended 31 March 2022

All figures in £ million	Owned assets: Land and buildings	Owned assets: Plant, machinery and vehicles	Owned assets: Computers and office equipment	Owned assets: Assets under construction	Right of use assets: Land and buildings	Right of use assets: Plant, machinery and vehicles	Right of use assets: Computers and office equipment	Total
Cost								
At 1 April 2021	353.8	248.9	81.9	76.9	54.8	16.9	0.4	833.6
Reclassifications to intangibles	(4.6)	–	(1.2)	(0.1)	–	–	–	(5.9)
Reclassifications/transfers	1.0	4.3	20.2	(26.9)	–	–	–	(1.4)
Additions – purchased*	0.5	23.0	2.5	47.3	1.3	0.5	–	75.1
Disposals	(0.6)	(2.5)	(1.0)	(2.9)	(1.5)	(0.7)	–	(9.2)
Foreign exchange	0.5	0.8	0.4	0.2	1.9	(0.1)	–	3.7
At 31 March 2022	**350.6**	**274.5**	**102.8**	**94.5**	**56.5**	**16.6**	**0.4**	**895.9**
Accumulated depreciation and impairment								
At 1 April 2021	(193.8)	(150.8)	(44.0)	–	(33.0)	(14.4)	(0.4)	(436.4)
Charge	(10.5)	(16.7)	(13.1)	–	(4.7)	(1.2)	–	(46.2)
Reclassifications/transfers	–	1.4	–	–	–	–	–	1.4
Disposals	0.2	2.1	0.9	–	1.2	–	–	4.4
Impairment	–	–	(0.1)	(0.4)	(1.2)	–	–	(1.7)
Foreign exchange	(0.4)	(0.8)	(0.4)	-	(1.4)	0.1	–	(2.9)
At 31 March 2022	**(204.5)**	**(164.8)**	**(56.7)**	**(0.4)**	**(39.1)**	**(15.5)**	**(0.4)**	**(481.4)**
Opening net book value	**160.0**	**98.1**	**37.9**	**76.9**	**21.8**	**2.5**	**–**	**397.2**
Closing Net Book value	**146.1**	**109.7**	**46.1**	**94.1**	**17.4**	**1.1**	–	**414.5**

* Additions per the table above are different to 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.

For the year ended 31 March 2021

All figures in £ million	Owned assets: Land and buildings	Owned assets: Plant, machinery and vehicles	Owned assets: Computers and office equipment	Owned assets: Assets under construction	Right of use assets: Land and buildings	Right of use assets: Plant, machinery and vehicles	Right of use assets: Computers and office equipment	Total
Cost								
At 1 April 2020	325.6	264.2	70.5	84.6	56.1	17.6	0.4	819.0
Reclassifications to intangibles	–	–	–	(0.1)	–	–	–	(0.1)
Reclassifications/transfers	19.8	10.0	13.9	(43.7)	–	–	–	–
Additions – purchased*	11.0	8.9	5.8	36.7	11.1	–	–	73.5
Additions - recognised on acquisition	0.1	0.2	0.1	–	1.2	–	–	1.6
Disposals	(1.7)	(26.7)	(5.0)	(0.3)	(5.5)	(0.3)	–	(39.5)
Business divestments	(0.3)	(5.6)	(3.1)	–	(4.8)	–	–	(13.8)
Foreign exchange	(0.7)	(2.1)	(0.3)	(0.3)	(3.3)	(0.4)	–	(7.1)
At 31 March 2021	**353.8**	**248.9**	**81.9**	**76.9**	**54.8**	**16.9**	**0.4**	**833.6**
Accumulated depreciation and impairment								
At 1 April 2020	(183.9)	(167.8)	(42.4)	–	(36.6)	(12.4)	(0.3)	(443.4)
Charge	(12.0)	(15.5)	(9.7)	–	(5.6)	(2.7)	(0.1)	(45.6)
Disposals	1.7	26.2	4.9	–	4.1	0.2	–	37.1
Business divestments	0.3	4.7	2.9	–	3.1	–	–	11.0
Impairment	(0.5)	–	–	–	–	–	–	(0.5)
Foreign exchange	0.6	1.6	0.3	–	2.0	0.5	–	5.0
At 31 March 2021	**(193.8)**	**(150.8)**	**(44.0)**	–	**(33.0)**	**(14.4)**	**(0.4)**	**(436.4)**
Net book value at 31 March 2021	**160.0**	**98.1**	**37.9**	**76.9**	**21.8**	**2.5**	**–**	**397.2**

* Additions per the table above are different to 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.

17. Equity accounted investments

As at 31 March

All figures in £ million	2022 JV's and associates financial results	2022 Group net share of JV's and associates	2021 JV's and associates financial results	2021 Group net share of JV's and associates
Non-current assets	0.6	0.3	0.7	0.3
Current assets	9.1	5.1	12.9	6.5
	9.7	**5.4**	**13.6**	**6.8**
Current liabilities	(4.3)	(2.1)	(4.1)	(2.0)
Non-current liabilities	(1.4)	(0.7)	(1.3)	(0.6)
	(5.7)	**(2.8)**	**(5.4)**	**(2.6)**
Net assets of joint ventures and associates	**4.0**	**2.6**	**8.2**	**4.2**
Net assets of joint ventures		0.9		1.0
Net assets of associate		1.7		3.2
Net assets of joint ventures and associates		**2.6**		**4.2**

In the prior year the Group sold a share of an investment in a middle-east joint venture for a gain of £0.3m.

18. Deferred tax

For the year ended 31 March 2022

Deferred tax asset

All figures in £ million	Short-term timing differences	Carried forward interest expense	Lease liabilities	Tax losses	Total
At 1 April 2021	12.7	1.4	5.1	8.5	27.7
Credited/(charged) to income statement	3.1	(1.4)	(1.2)	12.5	13.0
Charged to other comprehensive income	(0.9)	–	–	–	(0.9)
Charged to equity	(0.7)	–	–	–	(0.7)
Transferred to current tax	(0.2)	–	–	–	(0.2)
Foreign exchange	0.7	–	0.1	0.7	1.5
Gross deferred tax asset at 31 March 2022	**14.7**	–	**4.0**	**21.7**	**40.4**
Less: liability available for offset					(19.4)
Net deferred tax asset at 31 March 2022					**21.0**

Deferred tax liability

All figures in £ million	Pension surplus	Owned property, plant & equipment	Right of use assets	Acquisition intangibles	Total
At 1 April 2021	(45.5)	(33.5)	(4.7)	(22.0)	(105.7)
(Charged)/credited to income statement	(3.3)	(20.7)	1.4	0.1	(22.5)
Charged to other comprehensive income	(47.6)	–	–	–	(47.6)
Foreign exchange	–	(0.1)	(0.1)	(0.1)	(0.3)
Gross deferred tax liability at 31 March 2022	**(96.4)**	**(54.3)**	**(3.4)**	**(22.0)**	**(176.1)**
Less: asset available for offset					19.4
Net deferred tax liability at 31 March 2022					**(156.7)**

Deferred tax has been calculated at the rate at which the timing difference is expected to reverse using the enacted future statutory rates.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority.

At 31 March 2022 the Group had unused tax losses and US carried forward interest expense of £128.1m (2021: £73.2m) which are available for offset against future taxable profits. Deferred tax assets are recognised on the balance sheet of £15.5m in respect of £59.7m of US net operating losses, £4.5m in respect of £19.0m of Canadian net operating losses and £1.8m in respect of £5.5m of German trade losses. No deferred tax asset is recognised in respect of the £43.8m of US interest deductions due to uncertainty over the timing and extent of their utilisation. Full recognition of the US carried forward interest expense would increase the deferred tax asset by £11.8m. The Group has £30.5m of time-limited US net operating losses of which £21.5m will expire in 2035 and £9.0m in 2036. The Group made overseas losses in the period ended 31 March 2022 and recognition of deferred tax assets is dependent on future forecast taxable profits. The Group has reviewed the latest forecasts for these businesses which incorporate the unsystematic risks of operating in the defence business. In the period beyond the 5 year forecast we have reviewed the terminal period profits and based on these and our expectations for these businesses we believe it is probable the losses, with the exception of the interest deductions will be fully utilised. Based on the current forecasts the losses will be fully utilised over the next 6-8 years. A 10% change in the forecast profits would alter the utilisation period by 1 year.

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.

For the year ended 31 March 2021

Deferred tax asset

All figures in £ million	Intellectual property	Short-term timing differences	Carried forward interest expense	Lease liabilities	Tax losses	Total
At 1 April 2020	0.3	15.6	–	–	7.8	23.7
(Charged)/credited to income statement	(0.1)	(1.2)	–	–	1.3	–
Credited to other comprehensive income	–	1.0	–	–	–	1.0
Credited to equity	–	0.5	–	–	–	0.5
Transferred to current tax	–	(0.3)	–	–	–	(0.3)
Eliminated on disposal of businesses	(0.2)	–	–	–	–	(0.2)
Reclassification	–	(1.8)	1.4	5.1	–	4.7
Foreign exchange	–	(1.1)	–	–	(0.6)	(1.7)
Gross deferred tax asset at 31 March 2021	–	**12.7**	**1.4**	**5.1**	**8.5**	**27.7**
Less: liability available for offset						(16.0)
Net deferred tax asset at 31 March 2021						**11.7**

Deferred tax liability

All figures in £ million	Pension surplus	Owned property, plant & equipment	Right of use assets	Acquisition intangibles	Total
At 1 April 2020	(63.8)	(26.8)	–	(21.1)	(111.7)
(Charged)/credited to income statement	(1.5)	(6.8)	–	0.8	(7.5)
Credited to other comprehensive income	19.8	–	–	–	19.8
Acquired in business combination	–	–	–	(2.1)	(2.1)
Reclassification	–	–	(4.7)	–	(4.7)
Foreign exchange	–	0.1	–	0.4	0.5
Gross deferred tax liability at 31 March 2021	**(45.5)**	**(33.5)**	**(4.7)**	**(22.0)**	**(105.7)**
Less: asset available for offset					16.0
Net deferred tax liability at 31 March 2021					**(89.7)**

19. Current tax

As at 31 March

All figures in £ million	2022	2021^
Current tax receivable	1.4	0.7
Current tax payable	(3.9)	(2.5)
Net current tax payable	**(2.5)**	**(1.8)**

^ Prior year comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 38 for details.

20. Inventories

As at 31 March

All figures in £ million	2022	2021
Raw materials	32.5	36.0
Work in progress	6.2	5.6
Finished goods	16.2	12.8
Total inventory	**54.9**	**54.4**

21. Trade and other receivables

As at 31 March

All figures in £ million	2022	2021
Trade receivables	154.4	120.5
Contract assets	145.8	161.1
Other receivables	26.8	7.8
Prepayments	34.2	37.3
Total trade and other receivables	**361.2**	**326.7**

Trade and other receivables includes assets that are realised as part of the business's normal operating cycle, including amounts of £2.3m (2021: £11.2m) that are not expected to be realised within 12 months of the year end. Contract assets reduced in year primarily due to the closure of a complex project (see Global Products operating review). 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 2022 the Group carried a loss allowance in respect of expected credit risk of £2.7m (2021: £3.6m).

Contract assets represents unbilled amounts recoverable under customer contracts (refer to accounting policies note 36).

Ageing of receivables and associated loss allowance for expected credit risk

As at 31 March 2022

	Current	Up to 30 days past due	30-120 days past due	>120 days past due	Total
Gross carrying amount - trade receivables (£m)	136.7	7.9	6.8	5.7	157.1
Gross carrying amount - contract assets (£m)	145.8	–	–	–	145.8
Expected loss rate (%)	–	–	–	47.4%	0.9%
Loss allowance (£m)	–	–	–	2.7	2.7

As at 31 March 2021

	Current	Up to 30 days past due	30-120 days past due	>120 days past due	Total
Gross carrying amount - trade receivables (£m)	98.5	10.7	11.9	3.0	124.1
Gross carrying amount - contract assets (£m)	161.1	–	–	–	161.1
Expected loss rate (%)	0.7%	–	0.8%	53.3%	1.3%
Loss allowance (£m)	1.9	–	0.1	1.6	3.6

Movements in the provision for expected credit loss

All figures in £ million	2022		2021	
	Trade receivables	Contract assets	Trade receivables	Contract assets
At 1 April	1.8	1.8	3.1	–
Increase in loss allowance recognised in income statement	1.8	–	1.4	1.8
Unutilised amount reversed through income statement	(0.9)	(1.8)	(2.3)	–
Utilised (receivables written off)	–	–	(0.1)	–
Divestments	–	–	(0.2)	–
Foreign exchange	–	–	(0.1)	–
At 31 March	**2.7**	**–**	**1.8**	**1.8**

The maximum exposure to credit risk in relation to trade and other receivables at the reporting date is the fair value of trade and other receivables. The Group does not hold any collateral as security.

22. Trade and other payables

As at 31 March

All figures in £ million	2022	2021
Trade payables	76.1	77.3
Other tax and social security	64.6	43.7
Contract liabilities	182.5	157.3
Accrued expenses and other payables	139.5	133.4
Total current trade and other payables	**462.7**	**411.7**
Contract liabilities	15.2	36.3
Other payables	23.6	15.7
Total non-current trade and other payables	**38.8**	**52.0**
Total trade and other payables	**501.5**	**463.7**

Current other payables includes £22m of RDEC payable to MOD. This is subject to a determination from the SSRO and it is possible that the outcome could be that RDEC is retained by the Company, in which case the liability would be reversed to the income statement.

23. Provisions

For the year ended 31 March 2022

All figures in £ million	Property	Other	Total
At 1 April 2021	8.0	4.0	12.0
Created in year	1.0	16.5	17.5
Released in year	(0.5)	(0.5)	(1.0)
Utilised in year	(1.2)	(0.2)	(1.4)
At 31 March 2022	**7.3**	**19.8**	**27.1**
Current liability	2.8	18.3	21.1
Non-current liability	4.5	1.5	6.0
At 31 March 2022	**7.3**	**19.8**	**27.1**

Property provisions relate to under-utilised properties. 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 6 years. Other provisions includes £16m in respect of a civil liability for Pendine incident. This is offset in Other Receivables for an insurance recoverable. The balance relates to environmental and other liabilities, the magnitude and timing of utilisation of which are determined by a variety of factors.

24. Net cash

As at 31 March

			2022			2021
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	–	(5.5)	(5.5)	–	(6.9)	(6.9)
Derivative financial instruments	0.2	(1.4)	(1.2)	0.5	(0.1)	0.4
Total current financial assets/(liabilities)	**0.6**	**(6.9)**	**(6.3)**	**0.9**	**(7.0)**	**(6.1)**
Non-current assets/(liabilities)						
Deferred financing costs	0.5	–	0.5	0.8	–	0.8
Lease liabilities	–	(16.6)	(16.6)	–	(19.8)	(19.8)
Derivative financial instruments	–	(0.6)	(0.6)	–	(0.9)	(0.9)
Total non-current financial assets/(liabilities)	**0.5**	**(17.2)**	**(16.7)**	**0.8**	**(20.7)**	**(19.9)**
Total financial assets/(liabilities)	**1.1**	**(24.1)**	**(23.0)**	**1.7**	**(27.7)**	**(26.0)**
Cash	65.7	–	65.7	57.0	–	57.0
Cash equivalents	182.4	–	182.4	133.1	–	133.1
Total cash and cash equivalents	**248.1**		**248.1**	**190.1**	**–**	**190.1**
Total net cash as defined by the Group			**225.1**			**164.1**

At 31 March 2022 the Group held £0.2m (2021: £5.6m) of cash which is restricted in its use.

25. Cash flows from operations

For the year ended 31 March

All figures in £ million	2022	2021^
Profit after tax for the year	**90.0**	**121.9**
Adjustments for:		
Taxation expense	29.7	20.7
Net finance income	(3.1)	(5.2)
Loss/(gain) on disposal of businesses	0.9	(28.4)
Gain on disposal of investment	–	(0.3)
Gain on sale of property	(0.7)	(0.1)
Impairment of plant and equipment	0.5	0.5
Impairment of property	1.2	–
Impairment of goodwill	–	25.4
Acquisition related remuneration costs not paid as at year end	–	1.8
Amortisation of purchased or internally developed intangible assets	5.4	4.7
Amortisation of intangible assets arising from acquisitions	10.7	10.9
Depreciation of property, plant and equipment	46.2	45.6
Loss on disposal of plant and equipment	-	1.0
Share of post-tax profit of equity accounted entities	(0.3)	(0.7)
Share-based payments charge	7.4	10.6
Retirement benefit contributions in excess of income statement expense	(1.8)	(1.6)
Pension past service cost	2.4	–
Fair value adjustment in respect of contingent consideration	(0.6)	–
Net movement in provisions	(1.0)	0.3
	186.9	**207.1**
Decrease/(increase) in inventories	1.4	(4.6)
Increase in receivables	(12.8)	(97.3)
Increase in payables	34.2	89.2
Changes in working capital	**22.8**	**(12.7)**
Net cash flow from operations	**209.7**	**194.4**

^ Prior year comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 38 for details

Reconciliation of net cash flow from operations to underlying net cash flow from operations to free cash flow

All figures in £ million	2022	2021^
Net cash flow from operations	**209.7**	**194.4**
Add back specific adjusting item: change in accounting policy in respect of software implementation	1.9	3.6
Add back specific adjusting item: acquisition transaction costs	3.7	1.0
Underlying net cash flow from operations	**215.3**	**199.0**
Less: tax and net interest payments	(21.0)	(16.4)
Less: purchases of intangible assets and property, plant and equipment	(84.3)	(75.9)
Free cash flow	**110.0**	**106.7**

^ Prior year comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 38 for details

Underlying cash conversion ratio

All figures in £ million	2022	2021
Underlying EBITDA – £ million	189.5	202.1
Underlying net cash flow from operations – £ million	215.3	199.0
Underlying cash conversion ratio^ – %	**114%**	**98%**

^ Prior year restated to reflect new definition of underlying cash conversion. See page 207.

26. 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	2022	2021
Within one year	5.7	5.7
In the second to fifth years inclusive	9.3	9.3
Greater than five years	0.5	2.4
Total future minimum lease payments	**15.5**	**17.4**

Group as a lessee

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 16)

All figures in £ million	2022	2021
Land and buildings	17.4	21.8
Plant, machinery and vehicles	1.1	2.5
Computers and office equipment	–	–
Total right of use assets net book value	**18.5**	**24.3**

Lease liabilities (included within Net cash – see note 24)

All figures in £ million	2022	2021
Current	5.5	6.9
Non-current	16.6	19.8
Total lease liabilities	**22.1**	**26.7**

Additions to the right-of-use assets during the 2022 financial year were £1.8m. The total cash outflow for leases in 2022 was £7.2m. The Group had no expense relating to variable lease payments not included in the measurement of lease liabilities.

Amounts recognised in the consolidated income statement

The consolidated income statement includes the following amounts relating to leases:

All figures in £ million	2022	2021
Depreciation charge		
Land and buildings	4.7	5.6
Plant, machinery and vehicles	1.2	2.7
Computers and office equipment	–	0.1
Total depreciation charge	**5.9**	**8.4**
Interest expense (included in finance cost)	1.0	1.0
Expense relating to short-term leases (included in operating costs)	1.3	1.1
Expense relating to low value leases (included in operating costs)	0.2	0.2
Total lease and sub-lease expense charged to profit before tax	**8.4**	**10.7**

Minimum lease payment commitments

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

All figures in £ million	2022	2021
Within one year	5.5	6.9
In the second to fifth years inclusive	13.4	15.6
Greater than five years	3.2	4.2
Total future minimum lease payment commitments	**22.1**	**26.7**

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.

27. Financial risk management

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

Treasury and risk management policies, which are set by the Board, specify guidelines on financial risks and the use of financial instruments to manage risk. The instruments and techniques used to manage exposures include foreign currency derivatives. 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. For details of the Group's Treasury policy and management of financial instruments see 'Additional Financial Information' on page 205.

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity. The Group has a revolving credit facility with its relationship banks with a requirement for the half yearly testing period that the ratio of Net Debt to EBITDA will not exceed 3:5:1 and the ratio of EBITDA to net finance charges will not be less than 4:1. At year end, the Group was undrawn on the facility.

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 2022:

All figures in £ million	Note	Level 1	Level 2	Level 3	Total
Assets					
Current derivative financial instruments	24	–	0.2	–	0.2
Non-current derivative financial instruments	24	–	–	–	–
Financial instruments at fair value through profit or loss	13	–	–	–	–
Liabilities					
Current derivative financial instruments	24	–	(1.4)	–	(1.4)
Non-current derivative financial instruments	24	–	(0.6)	–	(0.6)
Total		–	**(1.8)**	–	**(1.8)**

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 March 2021:

All figures in £ million	Note	Level 1	Level 2	Level 3	Total
Assets					
Current derivative financial instruments	24	–	0.5	–	0.5
Non-current derivative financial instruments	24	–	–	–	–
Financial instruments at fair value through profit or loss	13	–	–	0.9	0.9
Liabilities					
Current derivative financial instruments	24	–	(0.1)	–	(0.1)
Non-current derivative financial instruments	24	–	(0.9)	–	(0.9)
Total		–	**(0.5)**	**0.9**	**0.4**

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

All financial assets and liabilities had a fair value that is identical to book value at 31 March 2022 and 31 March 2021. Detailed analysis is provided in the following tables:

As at 31 March 2022

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	Other	Total carrying value and fair value
Financial assets							
Non-current							
Deferred financing costs	24	–	0.5	–	–	–	0.5
Current							
Trade receivables and similar items		–	170.3	–	–	–	170.3
Derivative financial instruments	24	–	–	–	0.2	–	0.2
Deferred financing costs	24	–	0.4	–	–	–	0.4
Cash and cash equivalents	24	248.1	–	–	–	–	248.1
Total financial assets		**248.1**	**171.2**	**–**	**0.2**	**–**	**419.5**
Financial liabilities							
Non-current							
Derivative financial instruments	24	–	–	–	(0.6)	–	(0.6)
Lease liabilities		–	–	–	–	(16.6)	(16.6)
Current							
Trade payables and similar items		–	–	(205.3)	–	–	(205.3)
Derivative financial instruments	24	–	–	–	(1.4)	–	(1.4)
Lease liabilities		–	–	–	–	(5.5)	(5.5)
Total financial liabilities		**–**	**–**	**(205.3)**	**(2.0)**	**(22.1)**	**(229.4)**
Total		**248.1**	**171.2**	**(205.3)**	**(1.8)**	**(22.1)**	**190.1**

As at 31 March 2021

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	Other^	Total carrying value and fair value^
Financial assets							
Non-current							
Deferred financing costs	24	–	0.8	–	–	–	0.8
Current							
Trade receivables and similar items^		–	120.5	–	–	–	120.5
Derivative financial instruments	24	–	–	–	0.5	–	0.5
Deferred financing costs	24	–	0.4	–	–	–	0.4
Cash and cash equivalents	24	190.1	–	–	–	–	190.1
Total financial assets		**190.1**	**121.7**	**–**	**0.5**	–	**312.3**
Financial liabilities							
Non-current							
Derivative financial instruments	24	–	–	–	(0.9)	–	(0.9)
Lease liabilities		–	–		–	(19.8)	(19.8)
Current							
Trade payables and similar items^		–	–	(201.3)	–	–	(201.3)
Derivative financial instruments	24	–	–	–	(0.1)	–	(0.1)
Lease liabilities		–	–	–	–	(6.9)	(6.9)
Total financial liabilities		–	–	**(201.3)**	**(1.0)**	**(26.7)**	**(229.0)**
Total		**190.1**	**121.7**	**(201.3)**	**(0.5)**	**(26.7)**	**83.3**

^ In the prior year notes to the financial statements the 'Trade receivables and similar items' line item was reported as 'Trade and other receivables (excluding prepayments)' and included contract assets and an RDEC debtor. The prior year comparatives have now been restated by £168.9m to exclude such assets which do not meet the definition of a financial instrument. The 'Trade payables and similar items' line item was reported as 'Trade and other payables (excluding contract liabilities)' and included tax and social security liabilities and RDEC liabilities. The prior year comparatives have now been restated by £68.8m to exclude such liabilities which do not meet the definition of a financial instrument.

27. 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 2022 and 31 March 2021 the Group had no borrowings.

Financial assets/(liabilities)

As at 31 March 2022

All figures in £ million	Financial assets Floating	Financial assets Non-interest bearing	Financial liabilities Fixed or capped	Financial liabilities Non-interest bearing
Sterling	214.8	0.2	(5.7)	(2.0)
US dollar	11.6	–	(13.1)	–
Euro	14.5	–	(1.6)	–
Australian dollar	4.9	–	(1.6)	–
Other	2.3	–	(0.1)	–
Total	**248.1**	**0.2**	**(22.1)**	**(2.0)**

As at 31 March 2021

All figures in £ million	Financial assets Floating	Financial assets Non-interest bearing	Financial liabilities Fixed or capped	Financial liabilities Non-interest bearing
Sterling	155.4	0.5	(7.8)	(1.0)
US dollar	14.7	–	(15.2)	–
Euro	6.6	–	(2.1)	–
Australian dollar	9.3	–	(1.3)	–
Other	4.1	–	(0.3)	–
Total	**190.1**	**0.5**	**(26.7)**	**(1.0)**

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

Interest rate risk management

The revolving credit facility (note 27E) is floating-rate and undrawn as at 31 March 2022.

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

All figures in £ millions	Net foreign currency monetary assets/(liabilities) US$	Euro	A$	Other	Total
31 March 2022 – Sterling	**3.2**	**2.4**	**0.6**	**3.8**	**10.0**
31 March 2021– Sterling	7.1	3.3	0.8	23.8	35.0

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 2022 against Sterling are net US dollars sold of £80.9m (US$106.7m), net Euros bought £18.9m (€24.0m), net Canadian dollars sold £22.3m (C$36.8m), net United Arab Emirate dirhams sold £1.0m (AED 5.0m), net Swiss Francs bought of £0.9m (CHF 1.0m), net Swedish Krona bought of £3.0m (SEK 34.0m), and net Australian dollars bought £0.3m (A$ 0.5m).

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 £226.2m (2021: £163.9m). The Group held cash and cash equivalents of £248.1m at 31 March 2022 (2021: £190.1m), 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 £182.4m (2021: £133.1m) invested in AAA-rated money market funds.

E) Liquidity risk

Borrowing facilities

As at 31 March 2022 the Group had a revolving credit facility (RCF) of £275.0m (2021: £275.0m). This facility, which is unutilised, has an initial term of five years of which £65.0m will mature on 27 September 2024 and £210.0m will mature on 27 September 2025. Total available funds, comprising the RCF and the Group's freely available cash and cash equivalents, are shown in the table below:

	Interest rate: Reference rate plus	Total £m	Drawn £m	Undrawn £m
As at 31 March 2022				
Committed facilities	0.53%	275.0	–	275.0
Freely available cash and cash equivalents				247.9
Available funds 31 March 2022				**522.9**
As at 31 March 2021				
Committed facilities	0.53%	275.0	–	275.0
Freely available cash and cash equivalents				184.5
Available funds 31 March 2021				**459.5**

Gross contractual cash flows for borrowings and other financial liabilities

The following are the contractual maturities of financial liabilities, including interest payments. The cash flows associated with derivatives that are cash flow hedges are expected to have an impact on profit or loss in the periods shown.

As at 31 March 2022

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 payables and similar items	(205.3)	(205.3)	(205.3)	–	–	–
Leases	(22.1)	(24.1)	(6.3)	(5.3)	(9.5)	(3.0)
Derivative financial liabilities						
Forward foreign currency contracts – cash flow hedges	(2.0)	(2.0)	(1.4)	(0.6)	–	–
Total	**(229.4)**	**(231.4)**	**(213.0)**	**(5.9)**	**(9.5)**	**(3.0)**

As at 31 March 2021

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 payables and similar items^	(201.3)	(201.3)	(201.3)	–	–	–
Leases	(26.7)	(30.7)	(7.9)	(6.1)	(11.5)	(5.2)
Derivative financial liabilities						
Forward foreign currency contracts – cash flow hedges	(1.0)	(1.0)	(0.1)	(0.3)	(0.6)	–
Total^	**(229.0)**	**(233.0)**	**(209.3)**	**(6.4)**	**(12.1)**	**(5.2)**

^The 'Trade payables and similar items' line item was reported as 'Trade and other payables (excluding contract liabilities)' in the prior year financial statements and included tax and social security liabilities and RDEC liabilities. The comparatives have now been restated by £68.8m to exclude such liabilities which do not meet the definition of a financial instrument.

27. Financial risk management (continued)

F) Derivative financial instruments

The Group has the following derivative financial instruments on the balance sheet, reported within the 'Other financial assets' line items.

As at 31 March

			2022			2021
All figures in £ million	Asset gains	Liability losses	Net	Asset gains	Liability losses	Net
Forward foreign currency contracts – cash flow hedges	0.2	(2.0)	(1.8)	0.5	(1.0)	(0.5)
Derivative assets/(liabilities) at the end of the year	**0.2**	**(2.0)**	**(1.8)**	**0.5**	**(1.0)**	**(0.5)**

The maturity of these derivative financial instruments is as follows:

As at 31 March

			2022			2021
All figures in £ million	Asset gains	Liability losses	Net	Asset gains	Liability losses	Net
Expected to be recognised:						
In one year or less	0.2	(1.4)	(1.2)	0.5	(0.1)	0.4
Between one and two years	–	(0.6)	(0.6)	–	(0.3)	(0.3)
More than two years	–	–	–	–	(0.6)	(0.6)
Derivative assets/(liabilities) at the end of the year	**0.2**	**(2.0)**	**(1.8)**	**0.5**	**(1.0)**	**(0.5)**

G) Maturity of financial liabilities

The contractual maturity of the Group's financial liabilities is shown below:

As at 31 March 2022

All figures in £ million	Trade payables and similar items payables[1]	Derivative financial instruments and lease liabilities	Total
Due in one year or less	205.3	6.9	212.2
Due in more than one year but not more than two years	–	5.3	5.3
Due in more than two years but not more than five years	–	8.7	8.7
Due in five years or more	–	3.2	3.2
Total	**205.3**	**24.1**	**229.4**

As at 31 March 2021

All figures in £ million	Trade payables and similar items^ payables	Derivative financial instruments and lease liabilities	Total^
Due in one year or less	201.3	7.0	208.3
Due in more than one year but not more than two years	–	5.7	5.7
Due in more than two years but not more than five years	–	10.8	10.8
Due in five years or more	–	4.1	4.1
Total	**201.3**	**27.6**	**228.9**

^ Restated to exclude non-financial instruments.

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 2022 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 2022

	1% decrease in interest rates		10% weakening in Sterling	
All figures in £ million	Equity[1]	Profit before tax	Equity	Profit before tax
Sterling	–	(2.1)	–	–
US dollar	–	(0.1)	2.6	–
Other	–	(0.2)	2.4	–

	1% increase in interest rates		10% strengthening in Sterling	
All figures in £ million	Equity[1]	Profit before tax	Equity	Profit before tax
Sterling	–	2.1	–	–
US dollar	–	0.1	(2.2)	–
Other	–	0.2	(1.9)	–

[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 2021

	1% decrease in interest rates		10% weakening in Sterling	
All figures in £ million	Equity[1]	Profit before tax	Equity	Profit before tax
Sterling	–	(1.6)	–	–
US dollar	–	(0.1)	4.4	–
Other	–	(0.2)	10.2	–

	1% increase in interest rates		10% strengthening in Sterling	
All figures in £ million	Equity[1]	Profit before tax	Equity	Profit before tax
Sterling	–	1.6	–	–
US dollar	–	0.1	(3.7)	–
Other	–	0.2	5.8	–

[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 2022, 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 2022, 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.

28. Post-retirement benefits

Defined contribution plans

In the UK the Group operates a defined contribution pension arrangement provided by the Mercer Master Trust. 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 £49.4m (2021: £45.5m). 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 fifth of its UK employees. The Scheme closed to future accrual on 31 October 2013 and there is no on-going service cost. 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 with the Board of Trustees but the Company is consulted. 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. Future cash flows of the Scheme which are subject to inflation are calculated using a CPI inflation assumption for the majority of the cash flows, with a small proportion of cash flows linked to RPI. IAS 19 requires the inflation assumptions to be market-based assumptions, as opposed to being based on economic forecasts.

The present value of the defined benefit obligation is determined by discounting the estimated, inflated future cash outflows using interest rates of high quality corporate bonds and that have terms to maturity approximating to the terms of the related pension obligation.

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 2023 is £2.9m.

Triennial funding valuation

The most recent completed full actuarial valuation of the Scheme was undertaken as at 30 June 2020 and resulted in an actuarially assessed surplus of £176.5m (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 2023. The agreed recovery plan requires £2.8m per annum (at 2021 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 ('PPS'). The PPS scheme is always fully funded and has a very small surplus at year end. 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	2022	2021
Total market value of assets – see table below for analysis by category of asset	2,065.7	2,071.8
Present value of Scheme liabilities	(1,703.5)	(1,857.5)
Net pension asset before deferred tax	**362.2**	**214.3**
Deferred tax liability	(96.4)	(45.5)
Net pension asset after deferred tax	**265.8**	**168.8**

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 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 at current times whilst markets are highly volatile. Sensitivities and risks are described on pages 181 and 182.

Pension buy-in transaction

During the current year the Scheme completed a bulk annuity insurance buy-in at a cost of £132.3m. This transaction has removed longevity risk, interest rate risk, and inflation risk for approximately 8% of the Scheme and is in line with the Group's strategy of de-risking the pension liabilities. This buy-in follows the Scheme's first buy-in in 2019 which had already removed risk for approximately one-third of the Scheme. As a result of the transaction, the accounting pension surplus recorded on the Group's balance sheet reduced by an estimated £25m with no related cash impact. The impact on the surplus was more than offset by the favourable effect of changes to assumptions which reduced the present value of the Scheme liabilities.

Total expense recognised in the income statement

All figures in £ million	2022	2021
Net finance income	4.5	7.1
Administrative expenses	(1.1)	(1.3)
Total net income recognised in the income statement (gross of deferred tax)	**3.4**	**5.8**

Movement in the net pension asset

The movement in the net pension asset (before deferred tax) is set out below:

All figures in £ million	2022	2021
Opening net pension asset	214.3	309.7
Net finance income	4.5	7.1
Net actuarial gain/(loss)	144.0	(104.1)
Administrative expenses	(1.1)	(1.3)
Past service cost	(2.4)	–
Contributions by the employer	2.9	2.9
Closing net pension asset	**362.2**	**214.3**

28. Post-retirement benefits (continued)

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:

			2022			2021
All figures in £ million	Quoted	Not quoted in an active market	Total	Quoted	Not quoted in an active market	Total
Equities	176.1	44.7	220.8	140.2	47.4	187.6
LDI investment	291.8	–	291.8	362.3	–	362.3
Asset backed security investments	501.7	–	501.7	455.6	–	455.6
Alternative bonds[1]	–	208.6	208.6	118.7	136.1	254.8
Corporate bonds[2]	–	97.4	97.4	–	98.0	98.0
Property funds[3]	–	29.5	29.5	–	76.6	76.6
Cash and cash equivalents	–	78.5	78.5	–	49.3	49.3
Insurance buy-in policies	–	645.9	645.9	–	588.0	588.0
Derivatives	–	(8.5)	(8.5)	–	(0.4)	(0.4)
Total market value of assets	**969.6**	**1,096.1**	**2,065.7**	**1,076.8**	**995.0**	**2,071.8**

1 Primarily private market debt investments. Prior year split restated to show split of quoted and not quoted.
2 Unlisted corporate bonds with commercial property held as security.
3 Valued by comparing with equivalent properties that have recently been transacted in the market.

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.

The insurance policies obtained by the pension scheme can only be used to pay or fund employee benefits under the Company's defined benefit plan. They are 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 policies are qualifying insurance policies and require classification as a plan asset. The policies were issued by insurers that are 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	2022	2021
Opening fair value of Scheme assets	2,071.8	1,912.3
Interest income on Scheme assets	43.0	43.5
Re-measurement gain/(loss) on Scheme assets	(5.9)	158.8
Contributions by the employer	2.9	2.9
Net benefits paid out and transfers	(45.0)	(44.4)
Administrative expenses	(1.1)	(1.3)
Closing fair value of Scheme assets	**2,065.7**	**2,071.8**

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	2022	2021
Opening present value of Scheme liabilities	(1,857.5)	(1,602.6)
Interest cost	(38.5)	(36.4)
Actuarial gain/(loss) on Scheme liabilities based on:		
Change in demographic assumptions	5.9	30.0
Change in financial assumptions	107.5	(269.6)
Experience gains/(losses)	36.5	(23.3)
Past service cost	(2.4)	–
Net benefits paid out and transfers	45.0	44.4
Closing present value of Scheme liabilities	**(1,703.5)**	**(1,857.5)**

The net actuarial gains are primarily due to a decrease in value of the financial assumption for the discount rate (see Assumptions section on the following page).

Assumptions

The major assumptions used in the IAS 19 valuation of the Scheme's liabilities were:

All figures in £ million	2022		2021
	Insured members*	Uninsured members*	All members
Discount rate applied to Scheme liabilities	2.80%	2.70%	2.10%
CPI inflation assumption	3.00%	2.90%	2.60%
Net rate (discount rate less inflation)	(0.20%)	(0.20%)	(0.50%)
Assumed life expectancies in years:			
Life expectancy at 60 for male currently aged 40	n/a	28.4	28.4
Life expectancy at 60 for female currently aged 40	n/a	30.7	30.7
Life expectancy at 60 for male currently aged 60	22.0^	26.7	26.7
Life expectancy at 60 for female currently aged 60	23.7^	28.6	28.6

* As a result of two recent insurance buy-in transactions the Scheme has two distinct membership groups: insured members and un-insured members. Insured members are all pensioners and un-insured members are predominantly not yet drawing pensions. As such, the future cash outflows will be over differing timeframes and it is more accurate to use different key assumptions to each of the two groups when calculating the Scheme liabilities. These are now presented separately.
^ For pensioners currently aged 65.

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 reference to external market indicators. The discount rate is based on observable yields on corporate bonds but there is no direct, observable market rate for CPI. A 'market approach' to deriving CPI involves adjusting a market-based RPI rate downward by an 'inflation risk premium' and an RPI-CPI adjustment factor (determined from relevant market yield curves). This market-based approach is required by IAS 19 and results in a CPI inflation rate significantly in excess of the Bank of England long term target and also in excess of a consensus view of CPI (based on surveys of economists). However, adopting an economic consensus approach to setting CPI inflation is not acceptable under accounting standards.

The mortality assumptions as at 31 March 2022 were based on the S3 Normal Lives base tables, with various scaling factors based on sex and status. Allowance was made for improvements in mortality in line with CMI_2021 Core Projections and a long-term rate of improvement of 1.25% per annum. These mortality assumptions were the same as at the prior year end with the exception of the allowance made for improvements in mortality which was previously in line with CMI_2020 Core Projections.

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.

The sensitivity of the Scheme liabilities to higher or lower inflation rate assumptions, along with sensitivities to the discount rate and life expectancy assumptions is shown below.

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 £32m	Decrease/increase by £9m
Rate of inflation	Increase/decrease by 0.1%	Increase/decrease by £31m	Increase/decrease by £3m
Life expectancy	Increase by 1 year	Increase by £64m	Decrease by £37m

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 2022 this portfolio hedges against approximately 95% of the interest rate risk and also 95% 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 unquoted alternative bonds of £208.6m; the unquoted corporate bonds of £97.4m; the unquoted equities of £44.7m and the property funds of £29.5m are the assets with most uncertainty as to valuation as at 31 March 2022.

28. Post-retirement benefits (continued)

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 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. 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
As at 1 April 2021	5,742,571	574,257,121	1	1	5,742,572	574,257,122
Issue of new shares	45,000	4,500,000	–	–	45,000	4,500,000
At 31 March 2022	**5,787,571**	**578,757,121**	**1**	**1**	**5,787,572**	**578,757,122**

	Ordinary shares of 1p each (equity)		Special Share of £1 (non-equity)		Total	
	£	Number	£	Number	£	Number
As at 1 April 2020	5,717,571	571,757,121	1	1	5,717,572	571,757,122
Issue of new shares	25,000	2,500,000	–	–	25,000	2,500,000
At 31 March 2021	**5,742,571**	**574,257,121**	**1**	**1**	**5,742,572**	**574,257,122**

Except as noted below all shares in issue at 31 March 2022 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 31 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 and 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 2022 are 6,816,291 shares (2021: 5,020,832 shares).

30. Share-based payments

The Group operates a number of share-based payment plans for employees. The total share-based payment expense in the year was £7.8m, of which £7.8m related to equity-settled schemes and nil related to cash-settled schemes (2021: £11.2m, of which £11.2m related to equity-settled schemes and nil to cash-settled schemes). The share-based payment charged to equity is £7.4m consisting of the £7.8m charge to the income statement offset by a £0.4m charge to equity in respect of dividends accruing on unvested awards.

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.

	2022 Number of shares	2021 Number of shares
Outstanding at start of the year	–	103,314
Exercised during the year	–	(40,347)
Forfeited/lapsed during the year	–	(62,967)
Outstanding at end of the year	–	–

PSP awards are equity-settled awards and have vested on 22 June 2020. There is no exercise price for these PSP awards.

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.

	2022 Number of matching shares	2021 Number of matching shares
Outstanding at start of the year	734,402	746,645
Awarded during the year	313,509	300,420
Exercised during the year	(247,433)	(291,851)
Forfeited during the year	(38,650)	(20,812)
Outstanding at end of the year	**761,828**	**734,402**

SIP matching shares are equity-settled awards; those outstanding at 31 March 2022 had an average remaining life of 1.5 years (2021: 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 (2021: nil).

30. Share-based payments (continued)

Bonus Banking Plan (BBP)

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

	2022 Number of matching shares	2021 Number of matching shares
Outstanding at start of the year	1,942,855	1,811,792
Granted during the year	529,683	764,822
Exercised during the year	(1,227,020)	(595,978)
Forfeited/lapsed during the year	(123,079)	(37,781)
Outstanding at end of the year	**1,122,439**	**1,942,855**

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 2022 the awards had an average remaining life of 1.6 years (2021: 1.2 years). There is no exercise price for these awards. The fair value of the awards at 31 March 2022 was £3.02 (2021: £3.22) being the Group's 30 day average on 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.

	2022 Number of awards	2021 Number of awards
Outstanding at start of the year	6,761,362	4,881,077
Difference between actual awards in year and amount provisionally awarded in prior year	126,565	–
Lapsed during the year	(334,922)	(275,534)
Exercised during the year	(1,460,253)	(545,582)
Provisionally awarded during the year	1,783,671	2,701,401
Outstanding at end of the year	**6,876,423**	**6,761,362**
Provisional awards outstanding	1,783,671	2,701,401
Awards outstanding	5,092,752	4,059,961
Outstanding at end of the year	**6,876,423**	**6,761,362**

The number of awards is dependent on the Group's performance during the year (specifically with respect to the Group 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 2022 the awards had an average remaining life of 1.8 years (2021: 1.8 years). There is no exercise price for these awards. The fair value of the DSP's provisionally awarded at 31 March 2022 was £3.02 being the Group's 30 day average on 31 March. The weighted average share price at date of exercise was £3.50 (2021: £3.09). 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 and US.

	2022 Number of awards	2021 Number of awards
Outstanding at start of the year	148,857	71,355
Granted during the year	495,685	145,257
Exercised during the year	(68,217)	(47,424)
Lapsed during the year	(16,323)	(20,331)
Outstanding at end of the year	**560,002**	**148,857**

At 31 March 2022 the awards had an average remaining life of 1.9 years (2021: 1.4 years). There is no exercise price for these awards. The weighted average fair value of grants made during the year was £2.75 (2021: £2.60). The weighted average share price at date of exercise was £3.06 (2021: £2.90). Of the options outstanding at the end of the year nil were exercisable (2021: nil).

Value Creation Plan (VCP)

The Group has granted awards under a Value Creation Plan to certain senior executives in the US and UK.

	2022 Number of awards	2021 Number of awards
Outstanding at start of the year	335,848	–
Granted during the year	–	335,848
Forfeited during the year	(129,173)	–
Outstanding at end of the year	**206,675**	**335,848**

At 31 March 2022 the awards had an average remaining life of 1.2 years (2021: 2.2 years). There is no exercise price for these awards. The weighted average fair value of grants made during the year was £nil (2021: £2.99). Of the options outstanding at the end of the year nil were exercisable.

High Performance Share Award (HPSA)

In the prior year, as one of eight initial measures in response to the COVID-19 pandemic, the senior leaders agreed to, on average, a temporary base salary reduction of 15%. To both recognise the senior leaders for their sacrifice and to incentivise them to lead the Group through the crisis as quickly and effectively as possible, the Group adopted a new award called High Performance Share Award (HPSA). The HPSA was awarded in November 2020 as a 'Thank Q' to senior leaders for their sacrifice and enormous efforts to lead their teams out of unprecedented crisis. The fair value of QinetiQ shares on grant date was £2.70 and the awards vest in June 2023. At 31 March 2022 the awards had an average remaining life of 1.3 years (2021: 2.3 years). Of the awards outstanding at the end of the year nil were exercisable.

	2022 Number of awards	2021 Number of awards
Outstanding at start of the year	1,336,372	–
Granted during the year	–	1,336,372
Outstanding at end of the year	**1,336,372**	**1,336,372**

Inzpire acquisition incentives

During the year ended 31 March 2019, 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 vested after two years on 30 November 2020 subject to continued employment at the date of vesting.

	2022 Number of awards	2021 Number of awards
Outstanding at start of the year	–	343,265
Lapsed during the year	–	(25,701)
Exercised during the year	–	(317,564)
Outstanding at end of the year	–	–

Other performance incentives

In the prior year, as part of the Group's COVID-19 response measures, the Group elected to settle the outstanding bonuses via an award of shares rather than the previously anticipated cash settlement. The fair value of QinetiQ shares on grant date was £3.07 and the awards vested immediately on award.

	2022 Number of awards	2021 Number of awards
Outstanding at start of the year	–	–
Granted during the year	–	4,796,981
Exercised during the year	–	(4,796,981)
Outstanding at end of the year	–	–

Valuation of share-based awards

Share-based awards that vest based on non-market performance conditions have been valued at the share price at grant date and are equity-settled.

31. 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 29. Transactions between the Group and the MOD are disclosed as follows:

Freehold land and buildings and surplus properties

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

Restrictions on transfer of title

The title deeds of those properties with strategic assets (see below) include a clause that prevents their transfer without the approval of the MOD. The MOD also has the right to purchase any strategic assets in certain circumstances.

MOD's generic compliance regime

Adherence to the generic compliance system is monitored by the Risk & Security Committee. Refer to the Committee's report within the Corporate Governance Statement on pages 115 and 116.

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 2022 was £3.9m (2021: £3.0m).

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 62% (2021: 57%) of the Group's revenue comes directly from contracts with the MOD.

32. Contingent liabilities and assets

Subsidiary undertakings within the Group have given unsecured guarantees of £37.2m at 31 March 2022 (2021: £31.6m) 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.

33. Capital commitments

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

All figures in £ million	2022	2021
Total contracted	34.7	33.0

Capital commitments at 31 March 2022 include £24.5m (2021: £25.3m) 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.

34. Related parties

During the year ended 31 March 2022 there were sales to associates and joint ventures of £5.2m (2021: £6.0m). At the year-end there were outstanding receivables from associates and joint ventures of £1.0m (2021: £1.4m).

35. 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 2022 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[1,7]		
BJ Trustee Limited	England & Wales	Farnborough[4]
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, USA
Graphics Research Corporation Limited	England & Wales	Farnborough[4]
Gyldan 11 Limited	England & Wales	Farnborough[4]
Inzpire Group Limited	England & Wales	Farnborough[4]
Inzpire Holdings Limited	England & Wales	Landmark House West, Unit 1b, Alpha Court, Kingsley Road, Lincoln, Lincolnshire, LN6 3TA
Inzpire Limited	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]
Naimuri 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].	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]
QinetiQ Target Systems Limited	England & Wales	Farnborough[4]
QinetiQ Training and Simulation Limited[8]	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 2nd Avenue, Waltham, Massachusetts 02451, USA
Associates[3]		
Redu Space Services S.A	Belgium	Rue Devant les Hetres, 2B, 6890 Transinne, Belgium

35. Subsidiaries and other related undertakings (continued)

Name of company	Country of incorporation	Registered office
Joint ventures[6]		
Houbara Defence & Security LLC[6,7]	United Arab Emirates	Unit 3, Zone 4, Tawazun Industrial Park, Abu Dhabi, United Arab Emirates, PO Box 128220
QinetiQ Dar Massader QDM Limited[6,7]	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 2022 the Group owned 100% of the ordinary shares of these subsidiary undertakings except for Redu Operational Services S.A. (52%)
2 The class of shares is 'common share'
3 As at 31 March 2022 the Group owned 48% of Redu Space Services S.A.
4 Cody Technology Park, Ively Road, Farnborough, Hampshire, GU14 0LX
5 Limited partnership. The partners are all wholly-owned Group companies
6 As at 31 March 2022 the Group owned 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 Houbara Defence & Security LLC (31 December) and QinetiQ Dar Massader QDM Limited (31 December)
8 Newman & Spurr Consultancy Limited has changed its company name to QinetiQ Training & Simulation Limited on 22 March 2022

36. 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 England, 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 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
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		✓	✓
Gains/losses on disposal of property and investments	✓	✓	✓
Transaction & integration costs in respect of business acquisitions	✓		✓
Impairment of property and goodwill	✓		
Software as a Service implementation costs previously capitalised under IAS 38	✓	✓	✓
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.

Basis of preparation
The Group's financial statements, approved by the Directors, have been prepared on a going concern basis as discussed in the Strategic Report on page 69 in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006. The Company has elected to prepare its parent company financial statements in accordance with UK GAAP (FRS 101); these are presented on page 200. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of 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 2022. 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 within the terms of a Special Security Arrangement ('SSA'). Details of the SSA and QinetiQ's management of US subsidiaries are set out in the Corporate Governance section of this Annual Report. IFRS 10 is the accounting standard applicable in respect of consolidation of entities. This does not specifically deal with SSA's. However, having considered the terms of the SSA, 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.

Consideration of climate change
In preparing the financial statements the Directors have considered the impact of climate change on the Group. Specific aspects of the financial statements that could potentially be impacted by climate change are the carrying value of tangible assets and goodwill. Whilst the Group will likely be impacted by climate change in the future, the impacts on the financial statements as at 31 March 2022 are not considered to be material.

Recent accounting developments
Developments adopted by the Group in 2022 with no material impact on the Group's financial statements
The following IFRS and endorsed standards and amendments, improvements and interpretations of published standards are effective for accounting periods beginning on or after 1 June 2020 and have been adopted with no material impact on the Group's financial statements:

- Amendment to IFRS 16 'Leases' COVID-19 related rent concessions: The amendment make it easier for lessees to account for COVID-19 related rent concessions such as rent holidays and temporary rent reductions. The Group has no such concessions in its lease agreements;
- Amendments to IFRS 4, IFRS 7, IFRS 9, IFRS 16 and IAS 39 'Interest Rate Benchmark Reform Phase 2', all in respect of interest rate benchmark reform.

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', update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- Amendments to IAS 16, prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sale proceeds and related cost in profit or loss.
- Amendments to IAS 37, specify which costs a company includes when assessing whether a contract will be loss-making.
- Annual Improvements 2018 - 2020

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.

36. Basis of preparation and significant accounting policies (continued)

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 does not offer any right of return or refunds which could impact transaction price at 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.

Contract assets

Contract assets is a 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 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.

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.

36. Basis of preparation and significant accounting policies (continued)

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 income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries and associates operate and generate taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

The Group's accounting policy is to include the impact of research and development expenditure credits ('RDEC') within the tax charge. An element of the Group's RDEC claim relates to activities on MOD contracts. Commercial negotiations with the MOD do not take RDEC into consideration; instead both parties have agreed that the amount collected by QinetiQ on certain contracts will be passed through as a lump sum to the MOD, akin to QinetiQ collecting the RDEC on behalf of the MOD. As such, the MOD-appropriated element of the RDEC receivable from HMRC is netted off against the gross receivable within the tax line, as opposed to being recognised as a reduction to revenue or as an expense above the tax line.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future. Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

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

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 26). 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.

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.

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 payments 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.

36. Basis of preparation and significant accounting policies (continued)

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 2022 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 nil (2021: nil) in recognised lease liabilities and right-of-use assets.

Investments in debt and equity securities

Investments held by the Group are classified as either a current asset or as a non-current asset. These are investments in debt and equity instruments that are classified as at fair value through other comprehensive income. 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 less any impairment losses. 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.

Impairment of trade and other receivables

The Group applies the simplified approach when using the expected credit loss (ECL) impairment model for trade and other 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 and other 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.

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. Cash and cash equivalents includes an element that is restricted in use (note 24).

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.

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. Where an exposure is highly likely to be covered by insurance an offsetting receivable is recorded.

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 at the trade date. 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 and liabilities

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 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.

36. Basis of preparation and significant accounting policies (continued)

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

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group uses foreign exchange contracts and, occasionally, interest rate swap contracts to hedge these exposures. The use of financial derivatives is governed by the Group's Treasury Policies as approved by the Board of Directors, which provides written principles on the use of derivatives. The Group does not use derivative instruments for speculative purposes.

Certain derivative instruments do not qualify for hedge accounting. These are categorised as "fair value through profit or loss" and are stated at fair value, with any resultant gain or loss recognised in the Income Statement.

The Group designates certain hedging instruments in respect of foreign currency risk as cash flow hedges. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents, both at hedge inception and on an ongoing basis, whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

For the Group's cash flow hedges of highly probable forecast transactions in foreign currencies, the hedge ratio is 100%, subject to a £100k de Minimis threshold. If the underlying exposure changes over time, either due to commercial factors or timing differences, the hedging instruments will be rebalanced to ensure that the hedge ratio of 100% is maintained.

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.

37. Critical accounting estimates and judgements in applying accounting policies

Critical accounting estimates

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 14.

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 unquoted alternative bonds of £208.6m; the unquoted corporate bonds of £97.4m; the unquoted equities of £44.7m and the property funds of £29.5m are the assets with most uncertainty as to valuation as at 31 March 2022 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 US carried forward interest expense as set out in note 18. 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 14 and further described in note 18. Within the current tax payable of £3.9m as at 31 March 2022, 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 £4m increase to a £8m decrease in net assets. If there is a further downturn in forecast taxable profits over the next 12 months then the lower tax estimate could lead to a further £12m decrease in net assets.

Estimates of costs to complete on long-term contracts

The Group has a large number of contracts which span multiple years and are accounted for on a percentage of completion basis in accordance with IFRS 15. Long-term contract accounting requires a number of estimates to be made, particularly in calculating the forecast costs to complete the contract. These forecast costs will be impacted by numerous risks that could crystallise in the future (with a range of cost outcomes), particularly on contracts of a developmental nature. Across the Group's portfolio of long-term contracts there is a risk that the actual out-turn of these contracts could be materially different than assumed in the year end contract forecasts.

37. Critical accounting estimates and judgements in applying accounting policies (continued)

Critical accounting judgements

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 within the terms of a Special Security Arrangement ('SSA'). Details of the SSA and QinetiQ's management of US subsidiaries are set out in the Corporate Governance section of this Annual Report. IFRS 10 is the accounting standard applicable in respect of consolidation of entities.

This does not specifically deal with SSA's. However, having considered the terms of the SSA, 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. Treatment as a 100% associated undertaking would reduce Group revenue by a material amount (~£150m 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'.

Liability in respect of Research and Development Expenditure Credits (RDEC)

Other Payables includes £22.4m of RDEC Expenditure Credits payable to MOD. This is subject to a determination from the SSRO and it is possible that the outcome could be that RDEC is retained by the Company, in which case the liability would be reversed to the income statement. A critical accounting judgement is that the liability will become due.

38. Changes in accounting policies

The note explains the impact of a change in accounting policy that is effective for the first time in the Group's financial statements for the year ended 31 March 2022:

IFRIC Agenda Decision 'Configuration and customisation costs in a cloud computing arrangement'

The Group has changed its accounting policy related to the capitalisation of configuration and customisation costs in a cloud computing (Software as a Service, 'SaaS') arrangement. This change is as a result of the IFRS Interpretations Committee's agenda decision published in April 2021. The Group's accounting policy has historically been to capitalise costs directly attributable to the configuration and customisation of cloud computing arrangements as intangible assets in the Balance sheet, whether or not the services were performed by the SaaS provider or SaaS subcontractors or a third party. Following the publication of the above IFRIC agenda decision, current cloud computing arrangements were identified and assessed to determine if the Group has control of the software. For those arrangements where it was determined that we do not have control of the developed software, to the extent that the services were performed by third parties, the Group derecognised the intangible asset previously capitalised. Amounts paid to the SaaS provider in advance of the commencement of the service period, including for configuration or customisation, if identified as not distinct, are treated as a prepayment.

The change in accounting policy led to adjustments amounting to a £8.0m, £6.1m and £2.5m reduction in the intangible assets recognised in the 31 March 2022, 31 March 2021 and 1 April 2020 balance sheets respectively, and to a £2.4m, £3.6m and £2.5m increase in operating costs, in those respective years.

Accordingly, the prior period balance sheets at 31 March 2021 and 1 April 2020 have been restated in accordance with IAS 8, together with related notes. The following tables show the adjustments recognised for each individual line item as at 31 March 2022, 31 March 2021 and 1 April 2020.

Balance sheet (extract)

	2022			2021		
All figures in £ million	Pre-IFRIC agenda	Applying IFRIC agenda	As presented	As originally presented	Impact of restatement	Restated
Assets/liabilities						
Intangible assets	148.3	(8.0)	140.3	139.2	(6.1)	133.1
Current tax payable	(5.6)	1.7	(3.9)	(3.8)	1.3	(2.5)
Other net assets	907.0	–	907.0	754.3	–	754.3
Net assets	**1,049.7**	**(6.3)**	**1,043.4**	**889.7**	**(4.8)**	**884.9**
Equity						
Retained earnings	853.3	(6.3)	847.0	698.6	(4.8)	693.8
Share capital and other reserves	196.2	–	196.2	190.8	–	190.8
Non-controlling interest	0.2	–	0.2	0.3	–	0.3
Total equity	**1,049.7**	**(6.3)**	**1,043.4**	**889.7**	**(4.8)**	**884.9**

Balance sheet (extract)

The impact of the restatement on the Group's opening consolidated balance sheet as at 1 April 2020 is set out below:

All figures in £ million	1 April 2020 As originally presented	Impact of restatement	1 April 2020 restated
Assets/liabilities			
Intangible assets	138.9	(2.5)	136.4
Current tax payable	(4.1)	0.5	(3.6)
Other net assets	752.3	–	752.3
Net assets	**887.1**	**(2.0)**	**885.1**
Equity			
Retained earnings	681.9	(2.0)	679.9
Share capital and other reserves	202.8	–	202.8
Non-controlling interest	2.4	–	2.4
Total equity	**887.1**	**(2.0)**	**885.1**

Statement of profit or loss (extract)

The impact on the Group's consolidated income statement of applying the restatement is set out below:

	2022			2021		
All figures in £ million	Pre-IFRIC agenda	Applying IFRIC agenda	As presented	As originally presented	Impact of restatement	Restated
EBITDA (earnings before interest, tax, depreciation and amortisation)	**183.9**	**(2.4)**	**181.5**	**199.4**	**(3.6)**	**195.8**
Depreciation and impairment of property, plant and equipment	(47.9)	–	(47.9)	(46.1)	–	(46.1)
Impairment of goodwill	–	–	–	(25.4)	–	(25.4)
Amortisation of intangible assets	(16.6)	0.5	(16.1)	(15.6)	–	(15.6)
Operating profit	**119.4**	**(1.9)**	**117.5**	**112.3**	**(3.6)**	**108.7**
Gain on sale of investment	(0.9)	–	(0.9)	28.4	–	28.4
Sale of investments	–	–	–	0.3	–	0.3
Finance income	5.0	–	5.0	7.4	–	7.4
Finance costs	(1.9)	–	(1.9)	(2.2)	–	(2.2)
Profit/(loss) before tax	**121.6**	**(1.9)**	**119.7**	**146.2**	**(3.6)**	**142.6**
Taxation expense	(30.1)	0.4	(29.7)	(21.5)	0.8	(20.7)
Profit/(loss) for the year attributable to equity shareholders	**91.5**	**(1.5)**	**90.0**	**124.7**	**(2.8)**	**121.9**
Impact on underlying measures of performance						
Underlying operating profit/(loss)	**91.5**	**(1.5)**	**90.0**	**124.7**	**(2.8)**	**121.9**

Statement of cash flows (extract)

The impact on the Group's statement of cash flows of applying the restatement is set out below:

	2022			2021		
All figures in £ million	Pre-IFRIC agenda	Applying IFRIC agenda	As presented	As originally presented	Impact of restatement	Restated
Net cash inflow/(outflow) from operating activities	**191.1**	**(2.4)**	**188.7**	**181.6**	**(3.6)**	**178.0**
Purchase of intangible assets	(23.8)	2.4	(21.4)	(14.5)	3.6	(10.9)
Others	(60.2)	–	(60.2)	(38.7)	–	(38.7)
Net cash (outflow)/inflow from investing activities	**(84.0)**	**2.4**	**(81.6)**	**(53.2)**	**3.6**	**(49.6)**
Net cash (outflow)/inflow from financing activities	**(47.3)**	**–**	**(47.3)**	**(55.6)**	**–**	**(55.6)**
Increase in cash and cash equivalents	**59.8**	**–**	**59.8**	**72.8**	**–**	**72.8**
Free cash flow (as defined by the Group – see glossary)	**110.0**	**–**	**110.0**	**106.7**	**-**	**106.7**

Company balance sheet

As at 31 March

All figures in £ million	Note	2022	2021
Fixed assets			
Investments in subsidiary undertakings	2	515.2	507.4
		515.2	**507.4**
Current liabilities			
Creditors: amounts falling due within one year	3	(75.4)	(72.9)
Net current liabilities		**(75.4)**	**(72.9)**
Total assets less current liabilities		**439.8**	**434.5**
Net assets		**439.8**	**434.5**
Equity			
Share capital	4	5.8	5.7
Capital redemption reserve		40.8	40.8
Share premium		147.6	147.6
Retained earnings		245.6	240.4
Total equity		**439.8**	**434.5**

The profit for the year ended 31 March 2022 was £38.8m (2021: profit of £45.0m).

The financial statements of QinetiQ Group plc (company number 4586941) were approved by the Board of Directors and authorised for issue on 20 May 2022 and were signed on its behalf by:

Steve Wadey
Chief Executive Officer

Carol Borg
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 2021	5.7	40.8	147.6	240.4	434.5
Profit for the year	–	–	–	38.8	38.8
Purchase of own shares	–	–	–	(0.8)	(0.8)
Issue of new shares	0.1	–	–	–	0.1
Dividend paid	–	–	–	(40.2)	(40.2)
Share-based payments	–	–	–	7.4	7.4
At 31 March 2022	**5.8**	**40.8**	**147.6**	**245.6**	**439.8**
At 1 April 2020	5.7	40.8	147.6	217.8	411.9
Profit for the year	–	–	–	45.0	45.0
Purchase of own shares	–	–	–	(9.0)	(9.0)
Share-settled liabilities	–	–	–	13.7	13.7
Dividend paid	–	–	–	(37.7)	(37.7)
Share-based payments	–	–	–	10.6	10.6
At 31 March 2021	**5.7**	**40.8**	**147.6**	**240.4**	**434.5**

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

1. Accounting policies

The Company is a public limited company and is incorporated and domiciled in Farnborough, United Kingdom.

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 is in accordance with International Accounting Standards in conformity with the requirements of the Companies Ace 2006 and the International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the EU 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 as a capital contribution. 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 30 to the Group financial statements.

2. Investments in subsidiary undertakings

As at 31 March

All figures in £ million	2022	2021
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	77.2	69.4
Capital contributions arising from share-settled liabilities	13.7	13.7
Total investment in subsidiary undertakings	**515.2**	**507.4**

The increase in investments in subsidiary undertakings in 2022 relates to £7.8m of equity-settled schemes during the year.

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

3. Creditors: amounts falling due within one year

As at 31 March

All figures in £ million	2022	2021
Amounts owed to Group undertakings	**75.4**	**72.9**

Amounts owed to Group undertakings are unsecured, repayable on demand and bear no interest.

4. Share capital

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

5. Share-based payments

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

6. Parent company guarantees

The Company has provided guarantees to various customers of subsidiaries to the value of £21.0m (2021: £21.0m) in the ordinary course of business.

7. Other information

Directors' emoluments, excluding Company pension contributions, were £5.8m (2021: £5.9m). These emoluments were all in relation to services provided on behalf of the QinetiQ Group with no amount specifically relating to their work for the Company. Details of the Directors' emoluments, share schemes and entitlements under money purchase pension schemes are disclosed on page 121 in the Directors' Remuneration Report.

The remuneration of the Company's auditor for the year to 31 March 2022 was £0.4m (2021: £0.4m), 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 auditors to the Company.

The monthly average number of employees for the year to 31 March 2022 was nil (2021: nil).

Five Year Financial Summary

For the years ended 31 March (unaudited)		2022	2021[2]	2020	2019[3]	2018
EMEA Services	£m	1,059.2	939.9	797.4	687.7	651.4
Global Products	£m	261.2	338.3	275.5	223.4	181.6
Revenue	**£m**	**1,320.4**	**1,278.2**	**1,072.9**	**911.1**	**833.0**
EMEA Services	£m	135.6	118.6	100.6	96.8	94.3
Global Products	£m	1.8	33.2	32.6	28.1	28.2
Underlying operating profit[1]	**£m**	**137.4**	**151.8**	**133.2**	**124.9**	**122.5**
Underlying operating margin[1]	*%*	*10.4*	*11.9*	*12.4*	*13.7*	*14.7*
Operating profit	£m	117.5	108.7	117.6	114.8	141.0
Underlying profit before tax[1]	£m	136.0	149.9	132.2	124.0	122.1
Profit before tax	£m	119.7	142.6	123.1	123.2	144.8
Profit attributable to owners of the Company	£m	90.0	121.9	106.3	113.9	138.1
Underlying basic EPS[1] attributable to owners of the Company	Pence	20.6	22.1	20.0	19.7	19.3
Basic EPS attributable to owners of the Company	Pence	15.7	21.4	18.7	20.1	24.4
Diluted EPS attributable to owners of the Company	Pence	15.5	21.1	18.6	20.0	24.3
Dividend per share	Pence	7.3	6.9	6.6	6.6	6.3
Underlying net cash flow from operations[1]	£m	215.3	199.0	177.8	135.3	126.5
Net cash as defined by the Group	£m	225.1	164.1	84.7	160.5	266.8
Average number of employees		6,911	6,874	6,267	5,994	6,143
Orders excluding LTPA amendments and JV orders	£m	1,226.6	1,149.4	961.7	774.6	582.6

1 Underlying measures are stated before specific adjusting items. Definitions of underlying measures of performance are provided on page 207. 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 36 of the financial statements.
2 Prior year comparatives for 2021 have been restated due to a change in accounting policy in respect of software implementation costs. See note 38 for details.
3 2019 restated in 2021 due to the retrospective adoption of the new accounting standard, IFRS 16, in respect of finance leases.

Additional Financial Information

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 2022	12 months to 31 March 2021
£/US$ – opening	1.38	1.24
£/US$ – average	1.36	1.31
£/US$ – closing	1.31	1.38
£/A$ – opening	1.81	2.03
£/A$ – average	1.85	1.84
£/A$ – closing	1.75	1.81

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 27. 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 of which £65m matures on 27 September 2024 and £210m matures on 27 September 2025.

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 2022 were £20.0m (2021: £15.0m).

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 property, plant and equipment) but for which there is no corporation tax paid in the year. Together, these result in the cash paid being £9.7m 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 Resposibility
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
EMEA	Europe, Middle East and Australasia
EPS	Earnings per share
ESA	European Space Agency
ESOS	Energy Savings Opportunity Scheme EST
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
GEV	Global Employee Voice
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 new ratio for 2022 is the ratio of underlying net cash from operations to underlying EBITDA. In previous years this was the ratio of underlying net cash from operations to 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 24
Return on capital employed	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).	CFO Review
Specific adjusting items	Amortisation of intangible assets arising from acquisitions; impairment of property; gains/losses on disposal of property and investments; net pension finance income; transaction and integration costs in respect of business acquisitions; change in accounting policy in respect of software implementation 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

Following the latest guidance from the Department for Business, Energy & Industrial Strategy (BEIS) in assisting companies to meet their statutory obligations during the COVID-19 pandemic, the Company will this year only make documentation and communication available electronically via the Company's website. In addition, communications electronically, via 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 2022 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 2022

By type of holder	Total number of holdings	Percentage of holders	Total number of shares	Percentage issued capital
Individual	5,276	88.27%	4,880,873	0.84%
Institutions and others	701	11.73%	573,876,248	99.16%
Total	5,977	100%	578,757,121	100%
By size of holding				
1–500	3,925	65.67%	755,542	0.13%
501–1,000	502	8.40%	402,277	0.07%
1,001–2,500	598	10.01%	1,046,517	0.18%
2,501–5,000	331	5.54%	1,186,725	0.21%
5,001–10,000	168	2.81%	1,206,775	0.21%
10,001–100,000	224	3.75%	7,585,247	1.31%
Over 100,000	229	3.83%	566,574,038	97.89%
Total	5,977	100%	578,757,121	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

21 July 2022	Trading update
21 July 2022	Annual General Meeting
30 September 2022	Half-year financial period end
November 2022	Half-year results announcement
January 2023	Trading update
31 March 2023	Financial year end
May 2023	Preliminary results announcement

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.

Company Information and Advisors

Registered office
Cody Technology Park
Ively Road, Farnborough,
Hampshire, GU14 0LX
Tel: +44 (0) 1252 392000
Company Registration
Number: 4586941

Independent auditors
PricewaterhouseCoopers LLP,
Savannah House,
3 Ocean Way,
Southampton, SO14 3TJ

Registrar
Equiniti, Aspect House,
Spencer Road, Lancing,
West Sussex, BN99 6DA

Corporate brokers
Barclays, 1 Churchill Place,
London, EC14 5HP

Numis, 45 Gresham St
London, EC2V 7BF

Principal legal advisor
Ashurst LLP, London Fruit and
Wool Exchange, 1 Duval Square,
London, E1 6PW

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Cody Technology Park
Ively Road
Farnborough
Hampshire
GU14 0LX
Tel: +44 (0) 1252 392000
Company Registration Number: 4586941