

A woman with long blonde hair in a ponytail, wearing a dark blue polo shirt with the QinetiQ logo, is focused on working on a keyboard. The background is a blurred technical environment with various equipment. A large, semi-transparent pink triangle is overlaid on the bottom left corner of the image.

QINETIQ

Serving the
national security
interests of our
customers

QinetiQ Group plc
Annual Report & Accounts 2023

QINETIQ

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 in the defence and security markets. We are an information, knowledge and technology-based company with the breadth and depth of over 8,000 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.

Read more on [page 10](#)

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Serving the national security interests of our customers



Strategic report

Group CEO review

We delivered excellent operational performance throughout the year, reflecting continued disciplined execution of our strategy. We have increased our global ambition for the company, targeting high single-digit organic revenue growth at stable margins, supplemented by strategically aligned acquisitions to build a business with revenues of £3bn by FY27, approximately doubling the size of the current business.

Read more on [page 06](#)

What we do

We have unique capabilities around the world critical to maintaining national defence and security. Our capabilities are aligned with customer priorities, well positioned to capitalise on our £30bn addressable market opportunity.

Read more on [page 10](#)

Our strategy

Creating a global leader in mission-led innovation. Our strategy delivers on this through three complementary and mutually reinforcing pillars: global leverage, distinctive offerings and disruptive innovation.

Read more on [page 17](#)

Environmental, Social and Governance

QinetiQ has taken an active leadership role in ESG in the defence sector for a number of years. This year we have invested significantly to improve reward and benefits for our people and have been included in the Sustainalytics 2023 Top-Rated ESG Companies list.

Read more on [page 52](#)

Governance

Group Chair's introduction

I am extremely proud of the critical role that QinetiQ plays in defence and security around the world, particularly in our three home countries of the UK, the US and Australia, helping NATO and our allies to protect lives and secure the vital interests of our customers.

Read more on [page 04](#)

Board leadership and 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 cost of living crisis, TCFD and our safety improvement programme.

Read more on [page 95](#)

Risk and Audit Committee report

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).

Read more on [pages 120 and 126](#)

Remuneration Committee report

During FY23 the Remuneration Committee has continued to implement the Directors' Remuneration Policy in the interests of our stakeholders. Following shareholder feedback the new Remuneration Policy has been developed, presented here for approval at the 2023 AGM.

Read more on [page 130](#)

How we have performed

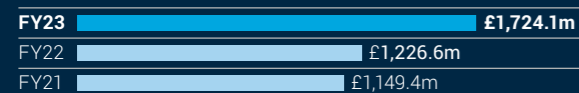
Financial highlights

Strong growth and underlying performance across all metrics.

Orders

£1,724.1m

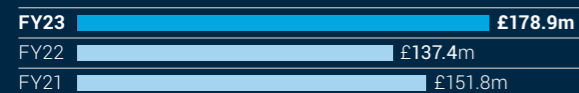
(FY22: £1,226.6m)



Underlying* operating profit

£178.9m

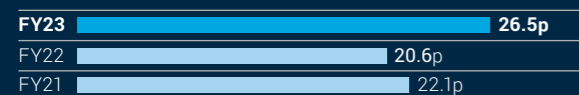
(FY22: £137.4m)



Underlying earnings per share

26.5p

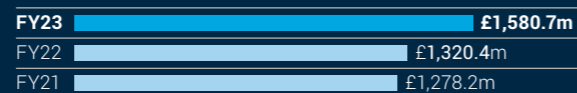
(FY22: 20.6p)



Revenue

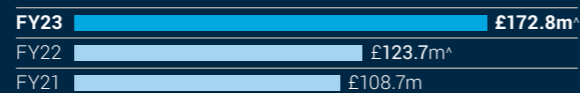
£1,580.7m

(FY22: £1,320.4m)

Statutory operating profit[^]

£172.8m

(FY22: £123.7m)



Statutory earnings per share

26.8p

(FY22: 15.7p)



[^] Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 38 to the financial statements for details.

* Definitions for the Group's 'Alternative Performance Measures' can be found in the glossary. Underlying operating profit refers to operating profit from segments. See note 2 for details.

Operational highlights

Excellent operational performance across the company globally.



Partnering to deliver experimentation, test and evaluation for the Royal Navy's fleet

QinetiQ has renewed its Maritime Strategic Capability Agreement (MSCA) with the Submarine Delivery Agency. The 10-year, £260m contract, will deliver critical capabilities in Hydromechanics, Stealth and Signatures, Structures and Maritime Life Support that assure the UK's ability to design, build and safely operate the Royal Navy's surface and subsurface fleet, including the UK's Continuous at Sea Deterrent. This significant 10-year commitment from the MOD, which includes an option for an additional five years, is a testament to the value that QinetiQ has delivered since 2008 when the original 15-year contract was secured.



Avantus extending into intel customer

In the US, we strengthened our cyber and information advantage offering through the acquisition of Avantus Federal LLC. Avantus is a leading provider of mission-focused cyber, data analytics and software development solutions. The business continues to deliver high-value operational outcomes for our customers, including the selection for a new \$80m multi-year contract by a national intelligence customer.



Air Affairs expanding threat representation

In December 2022 we completed the acquisition of Air Affairs (Australia) Pty Ltd for A\$53m. Air Affairs provides targets and training services, and electronic warfare capabilities to the Australian Defence Force, as well as aerial surveillance and reconnaissance in support of government firefighting efforts. The business guarantees QinetiQ is positioned as a market leader in air threat representation and aerial target services and further extends the scope of capabilities in the Sector.



Transforming mission data for the UK MOD

The UK MOD has signed an £80m industry partnership with QinetiQ-led Team Pegasus, enhancing the UK's ability to provide its military platforms and systems with the data needed to keep them safe and effective. Team Pegasus will work in partnership with the MOD for a 10-year period on the transformation project – SOCIETAS – providing a specialist mission data and electronic warfare skills solution alongside training and IT support.



Delivering digital night vision technology for the US Army

We have been awarded a \$93m single award four-year contract to support the US Army with the analysis, development, demonstration, testing, acquisition, integration, initial deployment, sustainment and training of Digital Night Vision Technology to support military operations. DNVT will substantially enhance the warfighter's situational awareness and decision-making abilities by fielding digital night vision capabilities coupled with component technology enhancements in support of warfighters.



Developing new laser technology with Australian Armed Forces

QinetiQ has partnered with the Australian Department of Defence to develop and manufacture a high-energy defensive laser weapon system prototype. The contract involves leveraging QinetiQ's high-power laser technology from the UK and test and evaluation expertise in collaboration with Department of Science and Technology's scientific innovation, to deliver enhanced sovereign capability to the Australian Defence Force.

Group Chair's statement

A critical role in global defence and security



I am proud to be Group Chair of a company of talented and world-leading experts that are committed to delivering for our customers, making a real difference to defence and security across the world."

This past year has seen continued unrest and growing conflict across many regions of the world. Whether you look to Eastern Europe, the Middle East, the Indo-Pacific or most recently Sudan, it is clear to see the important role that the defence sector plays to protect societies and national interests. While it is saddening to see these global conflicts develop and evolve, I am extremely proud of the critical role that QinetiQ plays in defence and security around the world, particularly in our three home countries of the UK, the US and Australia, helping NATO and our allies to protect lives and secure the vital interests of our customers.

Delivering for our customers, employees and shareholders
Our financial results demonstrate the continued high demand for our services and solutions, with another strong year of consistent financial and operational performance from the QinetiQ Group. We have continued to deliver safely for our customers with reduced Lost Time Incident rates and improved customer relationship scores. We continue to deliver on our promises with high-value services and solutions, solving our customers' complex problems, delivering on time, quality and cost.

Our customers partner with QinetiQ because of the breadth and depth of technical knowledge, experience and commitment of our people, so we recognise the importance of an engaged and aligned workforce. With elevated inflation, this year we have taken decisive steps to support our people through the cost-of-living crisis around the world – we have implemented one-off pay rises for the lower paid, introduced a hardship fund to support those in financial difficulty and rolled out an adaptive working policy to enable our teams to work more flexibly to balance work and home needs more effectively. We retain our capital allocation policy and have increased our full year dividend by 5% to 7.7p per share.

Consistent with our strategy to develop a multi-domestic mid-tier defence and security company, aligned to the AUKUS partnership we completed two significant acquisitions in the year, with the acquisition of Avantus in the US and Air Affairs in Australia. The acquisition of Avantus is our largest acquisition ever completed and positions us as a disruptive defence and intelligence business in the US. We recognise the challenges and some of the difficulties faced previously acquiring in the US, so this has been a considered and well thought-through acquisition, across the three lenses of strategy, economics and integration. Whilst we took on debt for the first time in a decade, the cash generative nature of QinetiQ has resulted in leverage reducing to under 1x Net Debt - EBITDA after only four months, a year ahead of original expectations, giving confidence in our ability to manage and operate in a leveraged position.

ESG remains high on the agenda for the Board, the Leadership Team and for our employees. We are seeing excellent progress in the delivery of our Net-Zero plan with a 12% reduction in our emissions in the financial year and we have been recognised as a "top rated ESG company" by Sustainalytics and have retained our AA rating from MSCI. The UK Ministry of Defence Sanctuary Awards also recently recognised us for our conservation and sustainability activities on St Kilda, a double UNESCO World Heritage Site, where we undertake advanced test, trials, training and evaluation – a great example of where we complete

Capital allocation policy



Read more on [page 45](#)

technologically advanced services whilst looking after the world around us. We also have a unique opportunity to help our partners and customers decarbonise through technology, whether that be our stealth material expertise that enables wider deployment of windfarms reducing the interference 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.

Read more about [Net-Zero on page 58](#)

Board changes

As announced previously, Michael Harper, who has been a Non-executive Director, Deputy Chair and Senior Independent Director is to retire from the Board with effect from the conclusion of the 2023 Annual General Meeting. I would like to thank Michael for his consistently invaluable contribution to both the Board and the QinetiQ Group.

Steve Mogford joined the Board in August 2022 as a Non-Executive Director and following Michael's retirement will step up to become Senior Independent Director. Steve brings a wealth of experience in both executive and non-executive roles from a breadth of sectors. In particular his long and comprehensive international defence and security sector experience equip him ideally to further develop the skill sets of our Board while supporting our global growth ambitions.

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.

While not Executive-level appointments, following the retirement of Andy Thorp I am also pleased to see the QinetiQ Leadership Team develop further, with the appointment of Gary Stewart, from Rheinmetall Defence Australia, as Chief Executive of our Australian Sector, which includes the responsibility of QinetiQ Target Systems and our mission rehearsal business in Germany.

I would also like to take this opportunity to personally thank Steve Wadey, our Group CEO, for his leadership and drive over this past year. His strategic and operational leadership and that of the QinetiQ Leadership Team has been exemplary and an excellent demonstration of our values: Integrity, Collaboration and Performance. All of our people and teams have pulled together to deliver for our customers, my thanks go to all of them.

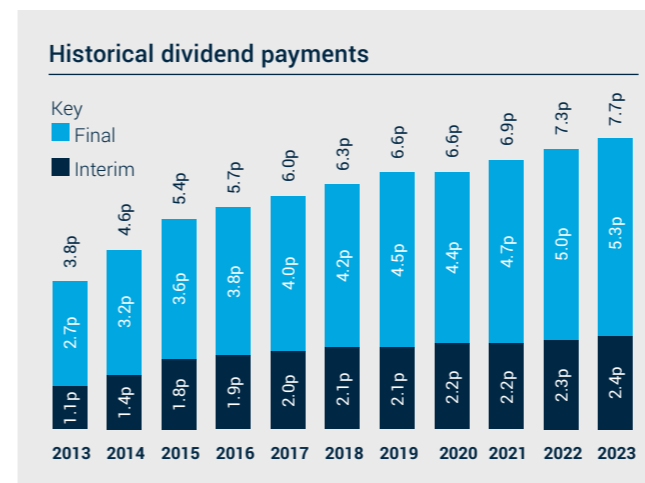
Read more about [Our Board on page 96](#)

Looking ahead

The successful delivery of strategic, operational and financial outcomes in the financial year has been pleasing to see, delivering for customers, employees and shareholders. This year has been one of investment, across our people, our capabilities and our geographic portfolio, which positions us well and gives me great confidence in the long-term future of the Group. As a result, we have raised our FY27 ambition to become a £3bn revenue business at stable margins delivering strong returns to shareholders. We have strong foundations to deliver on these promises: fantastic people, a cohesive strategy, a strong balance sheet and the right leadership.

I am proud to be Group Chair of a company of talented and world-leading experts that are committed to delivering for our customers, making a real difference to defence and security across the world.

Neil Johnson
Non-executive Group Chair
25 May 2023



Group CEO review

Excellent operational performance



The heightened threat environment is increasing demand for our distinctive offerings, which are closely aligned to our customers' priorities. We have accelerated our global ambitions, now targeting revenues of £3bn by FY27."

We delivered excellent operational performance throughout the year, reflecting continued disciplined execution of our strategy. We grew orders by 41% at a record-high of more than £1.7bn, demonstrating the continued high demand for our distinctive offerings. We achieved 20% revenue growth, 11% on an organic constant currency basis excluding the impact of the write-down in the prior year, with underlying operating profit margin at 11.3%. In addition to the robust orders, revenue and profit performance, cash flow management continues to remain strong with 106% underlying cash conversion. We have successfully reduced leverage to 0.8x net debt to EBITDA, a year ahead of our original guidance.

EMEA Services continues to perform well, delivering 10% organic revenue growth and margins of 11.6%, with ongoing investment in our people supporting long-term growth. Global Products performance has been strong with revenue growth of 20% organically and profit margin of 10.4%. In particular our US business has performed well, with high order intake of \$280m and impressive revenue growth of 25%, prior to the benefit of the Avantus acquisition. We have won a number of key contracts in the US that will support the delivery of our ambitious growth targets. The performance throughout the year in the US demonstrates greater stability and resilience, providing a strong platform for continued growth.

We completed three M&A transactions in late-2022, the disposal of QinetiQ Space NV in Belgium, the acquisition of Air Affairs in Australia, and of most strategic significance the acquisition of Avantus in the US. These transactions demonstrate the disciplined execution of our strategy and focused deployment of capital to drive long-term growth, building one integrated global defence and security company operating in our three home countries with six distinctive offerings.

Today we are announcing an increase in our global ambition for the company. We are targeting high single digit organic revenue growth at stable 11-12% margins, supplemented by strategically aligned acquisitions to build a business with revenues of c.£3bn by FY27. As we pursue our strategy the geographic mix of the company will change. Whilst the UK will scale by 50%, we will more than double the scale of our businesses in Australia and the US. This evolving mix across our home countries will result in delivering higher revenue growth at 11-12% margins, representing upper quartile performance. The result of this upgrade in our long-term guidance will deliver an increase of approximately 20% profit by FY27, compared to our previous guidance.

The growing market opportunity

The global security situation continues to worsen and tensions remain high. In Europe, Russia's invasion of Ukraine is reshaping their relationship with the West, and the threat from China remains uncertain. These dynamics are driving defence and security policies, prioritisation of budgets and modernisation of capabilities. Our major focus is on our three home countries who have a shared defence and security mission under the trilateral partnership known as AUKUS.

High single-digit

Targeted organic growth

The US has requested the largest ever Research & Development and Test & Evaluation, budget at \$145bn, increasing 40% since 2020. The UK has refreshed its Integrated Review and is investing £6.6bn in R&D and experimentation over 4 years. And the Australian government has completed its Defence Strategic Review and is increasing defence spending by 7% to \$53bn. Beyond the new nuclear submarine programme, all three countries are committed to working together on a range of advanced capabilities and technologies, critical to future warfare, such as advanced cyber and directed energy. These align well with our strengths and provide attractive opportunities over the long-term. In response to this geo-political context, we see greater opportunity from the widening threat spectrum and our enhanced offerings. As a result, we have increased our addressable market from £20bn to more than £30bn per year. This increase is driven by RDT&E markets growing in each of our home countries, adding intelligence and security markets for the first time, and our offerings are increasingly aligned with high-priority customer needs, enabling us to grow market share.

Building a £3bn defence and security company

QinetiQ is a purpose-driven company: protecting lives and securing the vital interests of our customers. Our purpose drives our strategy: to build an integrated global defence and security company, operating in attractive markets with distinctive offerings, to deliver sustainable growth for our shareholders. We have a clear business plan, guiding our strategic focus and investment choices, to enhance our global platform for growth.

The integration of Avantus is ahead of plan and will complete before the end of the year. The business continues to perform well, delivering high quality operational outcomes for our customers, and winning \$100m of customer business including 100% of re-competes. The leadership team is now fully integrated and working together to pursue a number of revenue synergies by leveraging and cross-selling our offerings to existing and new customers, for example our sensor solutions for the US Army into the US Intelligence community. We've had a strong start to the year and we remain excited about the opportunity we've created, to build a disruptive mid-tier defence and intelligence company, in the largest defence and security market in the world.

Following the acquisitions of Avantus and Air Affairs, we will now achieve our previous FY27 growth ambition and guidance organically. Given our significant growth potential, we have chosen to increase building on our strong momentum, and with the heightened threat context reinforcing the long-term needs of our customers, we have chosen to increase the scale of our ambition. We are upgrading our revenue target to deliver high single digit organic growth, supplemented by further strategic acquisitions, to build the company to approximately £3bn revenue by FY27. As we pursue our strategy the geographic mix of the company will change. Whilst the UK will scale by 50%, we will more than double the scale of our businesses in Australia and the US. This evolving mix across our home countries will result in delivering higher revenue growth at 11-12% margins, representing upper quartile performance. The result of this upgrade in our long-term guidance will deliver an increase of approximately 20% profit by FY27, compared to

£3bn

FY27 revenue ambition

our previous guidance. We remain disciplined in the execution of our strategy and have a robust plan to achieve this increased ambition, which will accelerate sustainable profitable growth.

Creating an environment for our people to thrive is critical to our performance and growth. We have increased employee engagement to a new high and invested in our response to ongoing cost of living pressures to retain, attract and reward the best talent across the whole company. We have also continued to strengthen our leadership with over 35% of our Top 100 leaders being American and/or Australian. We have a leadership team with the diversity, skills and/or experience to deliver the scale of our AUKUS growth ambition.

In response to today's threat environment, our people are delivering for our customers with increasing agility and pace. They are focused on co-creating innovative solutions that are directly aligned with the priorities of the AUKUS customers in advanced technologies, such as sensing, autonomy and directed energy. To maintain our relevance at the forefront of innovation, we continue to invest in our ongoing Internal Research and Development programme of c.£20m per year.

Our people are also passionate about protecting the environment and delivering sustainable solutions for our customers. This year we have continued to make progress on our Net-Zero plan and reduced our Scope 1 & 2 emissions by a further 12%. To accelerate progress, our top 1,000 managers have 17.5% of their incentives aligned to delivery of our ESG commitments. This is just one example of why we have been rated as a top ESG company in our industry by Sustainalytics.

Outlook: FY24 expectations unchanged

We enter FY24 with confidence, a healthy order-book and positive momentum with 61% revenue under contract. Consistent with our upgraded long-term guidance, we expect to deliver high single-digit revenue growth compared to the FY23 pro-forma revenue (full year effect of FY23 M&A activity); this equates to high teens total revenue growth versus the FY23 reported revenue. Operating profit margin will be at the lower end of the 11-12% range. Capital expenditure is expected to remain within the £90m to £120m range.

Outlook: Longer-term upgraded guidance

We are targeting high single-digit organic revenue growth, supplemented by strategically aligned acquisitions to build a circa £3bn company by FY27. This increased level of growth will be delivered at stable margins of 11-12%, reflecting the evolving geographic mix of the global company. Cash conversion will remain strong at over 90%, supporting our ability to deploy capital effectively to achieve our long-term growth ambition and deliver a return on capital employed at the upper end of the 15-20% range.

Steve Wadey

Group Chief Executive Officer
25 May 2023

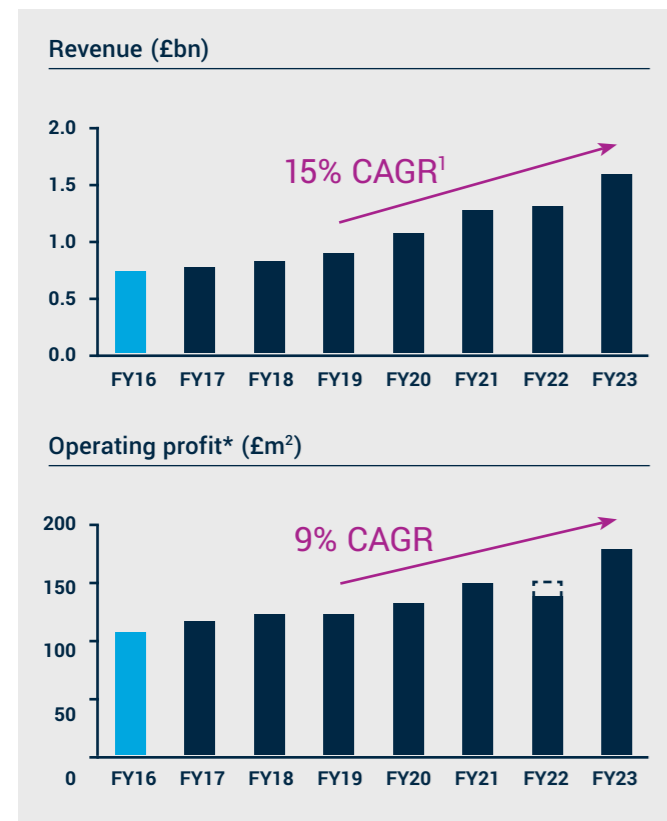
Five-year plan

Increasing our ambition

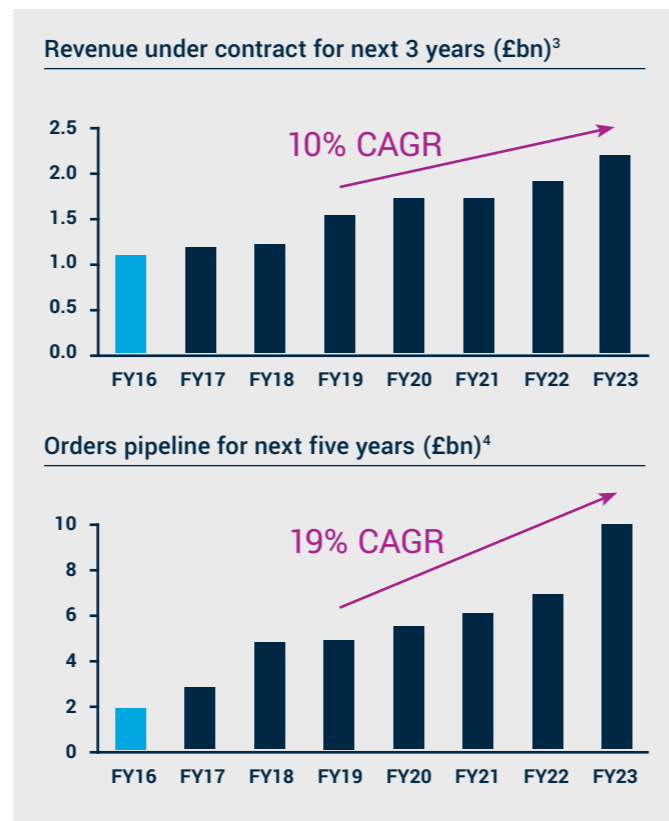
Building on strong track record to accelerate next phase of global growth.

- In April 2022 we set out an ambitious plan to grow the Company to more than £2.3bn revenue by FY27+. We are now upgrading this plan and increasing our ambition for the Company.
- Strong operational performance over the last 8 years. Over the last 4 years we have grown revenue by 15% CAGR (compound annual growth rate) and profit by 9% CAGR.
- By focusing on our customers' needs, we are driving profitable organic growth and building strong momentum with increased forward visibility; our order book increased to £3.1bn and our forward orders pipeline has grown by 5 times since FY16, to £10bn.
- We are at an exciting stage in the development of the Company, with world events reinforcing the short and long-term needs of our customers for our distinctive offerings; and as a result we increase our ambition to grow to £3bn revenue by FY27.
- We intend to grow our UK business by 50% and more than double the size of our business in Australia and the US.
- By making disciplined investment choices, in both organic opportunities and strategic acquisitions, we are creating a unique and differentiated Company.
- This increased level of growth will be delivered at stable margins of 11-12%, reflecting a normalised level of investment and the geographic mix of the group.
- Delivering mission advantage for our customers globally and compelling returns for our shareholders, as we drive further profitable growth.

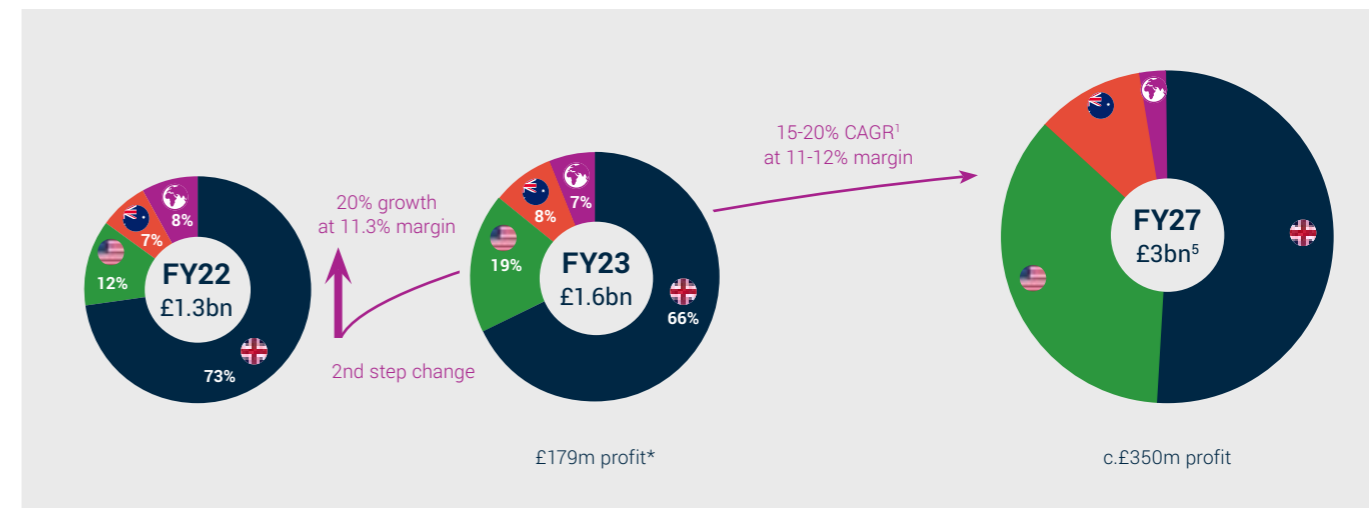
Excellent operational performance



Expanding revenue visibility



Increased ambition to approximately double the size of the business in the next four years



Robust plan to accelerate sustainable profitable growth

1 Compound Annual Growth Rate.
 2 FY22 shows add back for complex project write-down.
 3 Revenue under contract for next three years at end of FY.
 4 Orders pipeline for next five years at end of FY, FY16 estimated.
 5 Illustrative geographic distribution.
 * Definitions for the Group's 'Alternative Performance Measures' can be found in the glossary. Underlying operating profit refers to operating profit from segments. See note 2 for details.

Strong track record of organic and inorganic growth

What we do

Our distinctive offerings

Customer focused growth strategy aligned with AUKUS shared mission.



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 are critical to our success.

Read more about our Markets on [page 28](#)



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: E-X Drive on Bradley
We have successfully completed trials of our electric drive technology on the Bradley fighting vehicle, leveraging our capability from the UK, and positioning us for a key role within the US Army's Optionally Manned Fighting Vehicle (OMFV) program of record. The OMFV program's focus on advanced system infrastructure aligns with QinetiQ's forward-looking technology strategy.



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

Case study: Robot Command Vehicle – Light
The RCV Surrogate Prototype (RCV-SP) is a purpose-built unmanned hybrid electric vehicle developed to enable autonomous operation at speed across terrain. QinetiQ has delivered eight RCV platforms to the US Army for experimentation and is contracted to support ongoing user testing through the provision of spares, field support, and ongoing technology insertions and upgrades.



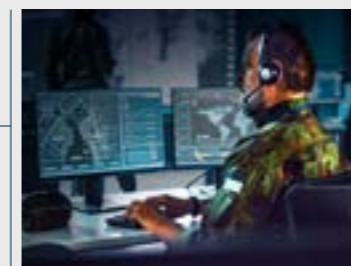
Engineering services and support
Working alongside a large network of supplier providers, QinetiQ uses its innovative approach and deep understanding of customer requirements and existing systems to provide our customers with reliable technical advice and support, through all phases of procurement and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

Case study: Critical Engineering Services
We have been awarded a £32m three-year contract through the Engineering Delivery Partner (EDP) framework to provide programme and technical support to the new Catalyst Delivery Team, responsible for introducing new capability to the MOD air domain for various front line commands.



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: Uncrewed Teaming
QinetiQ has delivered a UK and European first for the live airborne exchange and control of an Uncrewed Air System (UAS) between operators in separate crewed aircraft. This physical demonstration was successfully evaluated in parallel with a synthetic modelling trial to support the development of our digital test and evaluation capability.



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: Automating and Embedding Secure Operations
Naimuri has delivered an innovative analysis system that uses the National ANPR system to determine whether County Lines trends and behaviours can be identified, analysed and included in the existing investigatory process.



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: Platform Enabled Training Capability (PETC)
Phase 1 of PETC demonstrated the ability of the operational crew of a Royal Navy platform to train in its own operations room, simulating a realistic warfighting situation in an immersive environment. Phase 2 of PETC will allow the Royal Navy to undertake combined simulated warfare training while geographically dispersed.

Investment case

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, both of which are seeing significant spending increases. Furthermore, our capabilities are well aligned with areas that are growing faster than overall defence budgets:

- Global defence remains high on the geo-political agenda
- We are a key partner to nations with shared defence and security interests: (e.g. the UK, Australia and the US, known collectively as AUKUS)
- The total addressable market is worth more than £30bn, with a focus on the UK, the US and Australia
- We are seeing growing demand for our differentiated capabilities
- There is significant opportunity for global leverage of our capabilities across our business

>£30bn

addressable market

£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



>8,000

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

~£1.1bn

of FY24 revenue under contract

23%

return on capital employed in FY23



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, leading a number of sector and industry sustainability fora
- Early adopter and communicator
- Invested significantly to improve reward and benefits, increasing salaries (particularly addressing the lower paid employees) as well as setting up a hardship fund
- 30.5% reduction of our Scope 1 and Scope 2 GHG emissions against our FY20 baseline
- Included in Sustainalytics 2023 Top-Rated ESG Companies list
- Unique position to help our customers meet their sustainability goals

Top-Rated ESG Company

by Sustainalytics in 2023

AA rated

by MSCI



Business model



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 22](#)
- 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, emerging and future threats.

Read more about our distinctive offerings on [page 10](#)
- 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

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



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 contract, 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 threats and challenges.

106%
Underlying cash conversion in FY23

~£1.1bn
of FY24 revenue under contract

Read more about how we deliver for our stakeholders on [page 26](#)

Purpose, values, behaviours

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



Securing vital interests of our customers

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

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

Strategic framework

Our strategy is increasingly relevant to respond to market dynamics

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

Mission-led innovation



Creating a safe and secure environment for us all to thrive

Our values			Our behaviours		
Integrity	Collaboration	Performance	Listen	Focus	Keep my promises

Customer-focused growth strategy

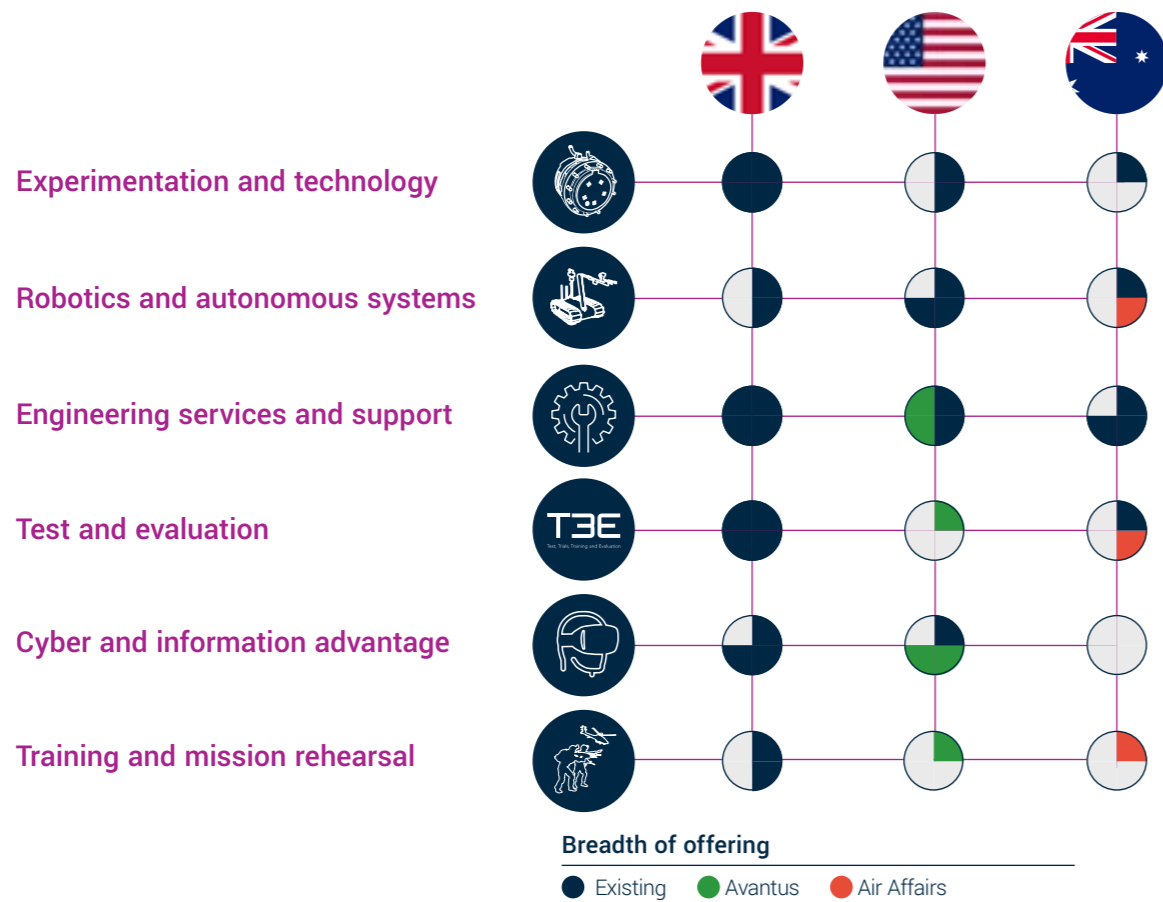
Global leverage	Distinctive offerings	Disruptive innovation
<p>Build an integrated global defence and security company to leverage our capability through single routes to market in the UK, the US, Australia, Canada and Germany.</p> <p>Read more on page 19</p>	<p>Co-create high-value differentiated solutions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

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

Strategic progress FY23

Creating a global leader in mission-led innovation

We are investing in the breadth and depth of our six distinctive offerings across three home markets.



Two strategically significant acquisitions in FY23 have increased our capability in the US and Australia

Avantus Federal

c.\$300m revenue and 1,150 people

- Market-leading cyber, data analytics and software development solutions
- Extends customer base in the US and builds capability in defence and intelligence markets

Air Affairs

c.A\$45m revenue and 180 people

- Market leader in air threat representation and aerial target services
- Broadened the capability in Australia into Training and Mission Rehearsal and Test and Evaluation

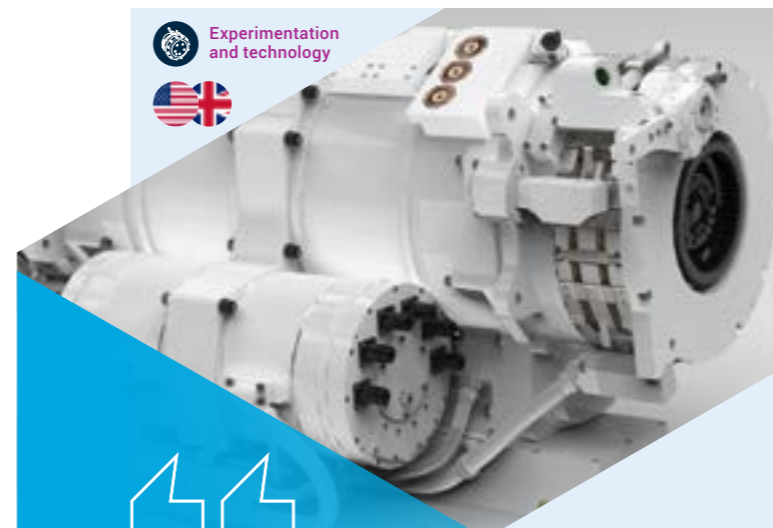
STRATEGIC PILLAR #01: GLOBAL LEVERAGE

Build an integrated global defence and security company

Leverage our capability through single routes to market in our home countries.

FY23 highlights

- During the last year QinetiQ Target Systems Limited (QTS) has continued to make excellent progress developing its presence in the US market. This has included progress with the introduction of the MQM-185B / Jet 80+ target for the US Army (TSMO) which should enter service early in the new financial year and the adaptation of Rattler for use in High Energy Laser Measurement applications. Significant further growth is expected on the back of these contracts.
- QTS also provided targets for the Mjolner exercise at the Andoya Range in Norway. This is a multinational navy exercise and a large number of Jet80+ and Whirlwind and Sprite 2 targets were provided with complex profiles. The safe and effective execution of the exercise required significant planning, working with the customer.
- Under the AUKUS Pillar 1 framework, QinetiQ staff in Australia collaborated with experts in the UK to conduct studies in support of the Nuclear Powered Submarine Task Force. We leveraged deep technical expertise in Platform Design and Life Support from the team at Haslar to support the multi-agency task force in examining the requirements that underpin nuclear stewardship.



CASE STUDY

E-X Drive on Bradley Fighting Vehicle

We have successfully completed trials of our electric drive technology on the Bradley fighting vehicle, leveraging our capability from the UK, and positioning us for a key role within the US Army's Optionally Manned Fighting Vehicle (OMFV) program of record.

With the renewed focus on peer level competition and large-scale combat operations, the US Army's imperative to modernise their armoured combat vehicle fleet is at a critical juncture. The Optionally Manned Fighting Vehicle (OMFV) program is the core thrust of the Next Generation Combat Vehicle (NGCV) Cross Functional Team and the fourth initiative targeting to replace the 40-year-old Bradley Fighting Vehicle.

The OMFV program's focus on advanced system infrastructure to enable ongoing platform upgrades, aligns with QinetiQ's forward-looking technology strategy. As a market leader in modular open architecture Robotics and Autonomous Systems (RAS), Command, Control, Computers, Communications, Cyber, Intelligence, Surveillance and Reconnaissance (C5ISR), Platform Electrification and Hybrid Electric Systems, and system integration, QinetiQ is well positioned to be a critical capability provider to the OMFV program.



We see this project as the start of a much wider opportunity for the US Army to experiment with the hybrid electric drive across its fleet."

Mike Sewart
Chief Technology Officer

Strategic progress FY23 continued

STRATEGIC PILLAR #02: DISTINCTIVE OFFERINGS

Co-create high-value solutions

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

FY23 highlights

- We have commenced full-rate production in the US of 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.
- The maximum altitude of the Jet80+ unmanned aerial target has been increased to 10,000m. This provides a unique capability for a target in this performance / price range and provides excellent value for money for customers wishing to conduct higher altitude missile firings. In addition, a new high-maneuvrability capability has been released to production offering increased manoeuvres over 4g.
- The UK MOD has signed an £80m, 10-year industry partnership, with QinetiQ-led Team Pegasus enhancing the UK's ability to provide its military platforms and systems with the data needed to keep them safe and effective. This partnership will create 70 new jobs in the UK and upskill over 200 of our personnel in the latest technology and data analysis techniques. Not only does this further enhance our future capabilities and resilience, but it allows us to continue providing our military platforms and systems with the data needed to keep them safe and effective.
- In the US we have won a \$75m three-year Systems Engineering and Technical Assistance (SETA) contract to support the Space Development Agency with Capability Acquisition of Low Earth Orbit (LEO) satellite launch and constellation management to demonstrate Beyond Line of Sight (BLOS) targeting and advanced missile detection and tracking.



Experimentation
and technology



CASE STUDY

Successful test of new laser defence capability

The MOD's Defence Science and Technology Laboratory (Dstl) has hosted the UK's first high-powered, long-range laser-directed energy weapon (LDEW) trial on its ranges at Porton Down.

The trials involved firing the UK DragonFire demonstrator at targets over a number of ranges, demanding pinpoint accuracy from the beam director. Our technology offers a scalable, highly controllable construct for UK High Energy Laser Weapon development that can complement and supplement conventional defensive weapon capabilities. These LDEW technologies are applicable to maritime, land and air domains.

QinetiQ's First Generation LDEW technology has been tested over many hundreds of high-power firings, including against targets at range, demonstrating the performance advantages the technology offers. In early autumn 2022, as part of the DragonFire consortium, QinetiQ demonstrated a Laser Directed Energy Weapon Capability Demonstrator in a series of complex live firing trials at Porton Down. Working closely with Dstl and MOD WECA, our expertise in trials conduct and safety as well as the technology itself assisted the MOD in generating important evidence as it considered and endorsed the next stage of LDEW capability development.



This trial is the culmination of design development and demonstration activity over a number of years."

Ben Maddison
Dstl Technical Partner

STRATEGIC PILLAR #03: DISRUPTIVE INNOVATION

Innovation to support delivery of our customers' mission at pace

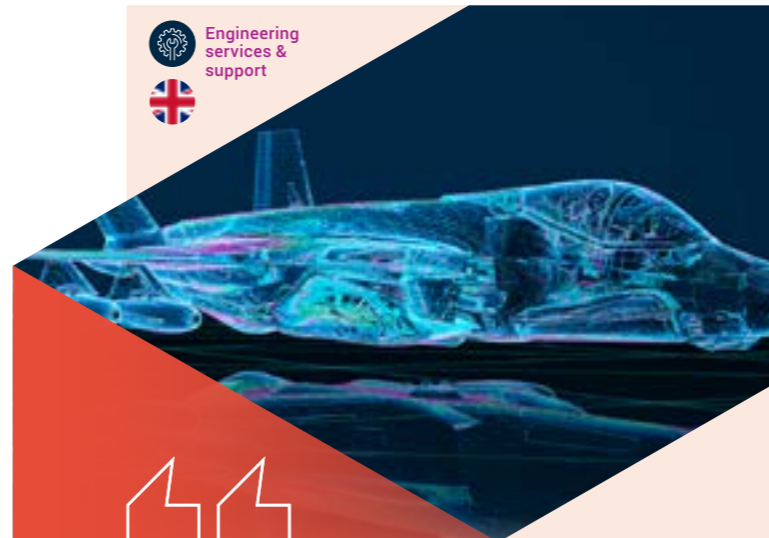
Invest in and apply disruptive business models, digitisation and advanced technologies to enable our customers' operational missions at pace.

FY23 highlights

- QinetiQ has won a £6m, four-year contract to support the Royal Navy's future high-performance Unmanned Aerial Systems (UAS) operations. The Company will provide its experimentation expertise and its Banshee Jet80+ targets to help Royal Navy Aircraft Carriers train for real-world scenarios. The Vampire Phase 1 contract will enable the Royal Navy to test and evaluate the capability of small fixed wing, jet-powered uncrewed systems to support Carrier Aviation.
- Our large long-term contracts and frameworks in the UK are supporting significant and continued revenue growth for EMEA Services. The Engineering Delivery Partner (EDP) framework continues to deliver for our customer, alongside our partners Atkins and BMT, with full year orders of circa £400m and c.£325m revenue, respectively. The Serapis framework is driving good growth in our UK Intelligence Sector, for research and development of command and control systems, communications and networks, and training and simulation projects. The Long Term Partnering Agreement (LTPA) remains our largest contract delivering world-leading test, trials, training and evaluation (T3E) for the UK MOD.
- In support of Federal law enforcement analysts' need to flag potential threats against the US court system, QinetiQ's data science and application development team created and deployed an AI-powered web application called BADACT, which automates web scraping, text processing, video transcription, and language translation. Most importantly, the tool performs language translation and semantic analysis to identify threats against protected individuals.



Engineering
services &
support



The Aurora Engineering Delivery Partnership with the UK MOD and DE&S continues to go from strength to strength, providing technical support to the most complex acquisition programmes."

Nic Anderson - Chief Executive UK Defence

CASE STUDY

Support to UK MOD for the Future Combat Air System (FCAS) programme

QinetiQ has been awarded a £32m three-year contract through the Engineering Delivery Partner (EDP) framework to provide programme and technical support to the new Catalyst Delivery Team, responsible for introducing new capability to the MOD air domain for various front line commands. This demonstrates our Engineering Services and Support offering in practice, in the introduction of new technologies and delivery approaches for the next generation of aircraft test and evaluation.

QinetiQ will provide a range of support to Catalyst, using its digital engineering capabilities and vast experience in requirements management. This will include engineering support initially focusing on Human Performance, Safety and Systems Engineering disciplines through to August 2025. As the Catalyst programme grows, EDP provides a strong platform to support emerging requirements for years to come.

Stakeholder focus

Customers

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.

Our six distinctive offerings are focused on addressing contemporary customer challenges such as:

Improving Situational Awareness

Tactical and strategic operational advantage relies on gaining superior situational awareness. This requires achieving increasingly fast and reliable decision making by establishing rapid sensing, data and information processing, secure communications across land, maritime, air, space and cyber domains and between allies.

Generating Affordable Combat Mass

Achieving operational advantage through increasing combat mass requires affordable low-cost technologies to be integrated and assured. This requires exploiting the capabilities of low-cost military and dual-use technologies, through research, development, experimentation, integration and assurance.

Countering Existing, New and Emerging Threats

Operational advantage depends on preventing adversaries from disrupting, disabling, denying, deceiving and/or destroying platforms, systems and infrastructure. This requires an understanding of how new technologies impact the threat landscape, an evaluation of how platforms, systems and infrastructure perform against physically and/or digitally represented threats and the development of survivability and lethality solutions to counter them.

Tackling the Impact of Climate Change

Climate change needs to be urgently mitigated through reducing emissions, and defence forces have to adapt to respond to threats climate change is posing to current and future operations, capabilities

and equipment. This requires an understanding of how the environment will affect operations and warfighting, and needs new solutions to deliver both environmental sustainability and operational advantage.

Improving Mission Planning and Preparation

Rehearsing in realistic scenarios and environments enables forces to prepare and respond quickly and decisively to emerging threats. This requires an innovative approach to improving individual and collective training by adopting new technologies and approaches to increase mission effectiveness.

Faced with these challenges our customers seek:

Innovation – to experiment with and exploit new technologies for operational advantage

Assurance – of safe and secure platforms and systems for operational resilience

Risk and cost reduction – in the development and operation of platforms and systems

To deliver operational advantage for our customers, we must remain at the cutting edge of technology and create innovative solutions at pace. Our focus is on delivering mission-led innovation where we co-create with customers and partners to deliver cost-effective solutions through our six distinctive offerings.

Our employees' deep domain knowledge and expertise enable us to understand and represent threats across all domains. We apply our unique technical expertise across the product lifecycle, helping our customers to create, test and use defence and security capabilities.

Delivering for our customers



CASE STUDY

Sharpshooter Training Exercise

Sharpshooter is a UK Royal Navy exercise designed to train, test and evaluate the effectiveness of a warship's medium and close-range weapon systems and teams.

QinetiQ and Inzpire teams, working closely with the Royal Navy, support the design and delivery of fully immersive training to exercise in increasingly complex tactical situations to enable them to train as they would fight.

The customer recognises the value of these training, test and evaluation events to provide assurance and improve operational decision making.



My team have come away from this exercise with their heads held high and hugely enthused about their ability."

Commander Tom Johnson
Royal Navy

Stakeholder focus continued

Our people

Our people are at the heart of delivering our strategy and are passionate about our customers.

Our people are critical to our success so it's important they feel valued for their contribution, working in an environment in which they can thrive. We have made a conscious choice to take a step change in our approach, rebalancing our focus on our people. This is helping us to make decisions and choices from an employee perspective, responding in a way that is appropriate and sustainable for the long term.

Listening to feedback, over the last year we have invested in our employee offering, specifically in the areas of Learning & Development and Reward & Recognition.

We have been thoughtful in our decisions, directing this investment to where it is needed most. Our efforts have been focused on supporting our colleagues on lower salaries by ensuring that pay increases are weighted more towards lower grades, and investing in benefits that make the most difference. We have also put support in place should anyone need urgent help through the QinetiQ Hardship Fund. In the areas where we need to be more competitive, we have made improvements, for instance, by expanding the Leadership Incentive Scheme, introducing the ability to earn an additional 2% of base salary on the All Employee Incentive Scheme, and we have introduced a

Personal Development Fund in support of career development. From a wellbeing perspective, we are driving healthy habits and activities, for example, introducing the YuLife app in the UK.

We continue to invest in the next generation, by encouraging our people to take part in volunteering activities that promote careers in Science, Technology, Engineering and Maths (STEM) subjects and by expanding in our Early Careers Programmes. This year we have significantly increased the number of apprentices and graduates being recruited into our formal programmes in Australia and the UK ensuring that, once they join us, they have access to meaningful placements that help them learn and grow.

Our employee engagement has improved by 4.3% in FY23, with significant improvement shown in the Reward and Growth drivers. We continue to focus on our culture and employee offering recognising our People strategy needs to remain agile and relevant in all our markets, ensuring we are demonstrating the care for our people, and aiding retention and attraction of the very best leaders and employees.

See [page 67](#) for more details on our support for our people.

Our Employee Offering Framework



A number of confidential requests made to the Hardship Fund are challenging to read, but the feedback from those who have received help makes you realise the impact this initiative is having."

**William Bowers UK Chair
Global Employee Voice.**



We have been thoughtful in our decisions, directing the investment to where it is needed most."

**Amanda Nelson
Chief People Officer**

Stakeholder focus continued

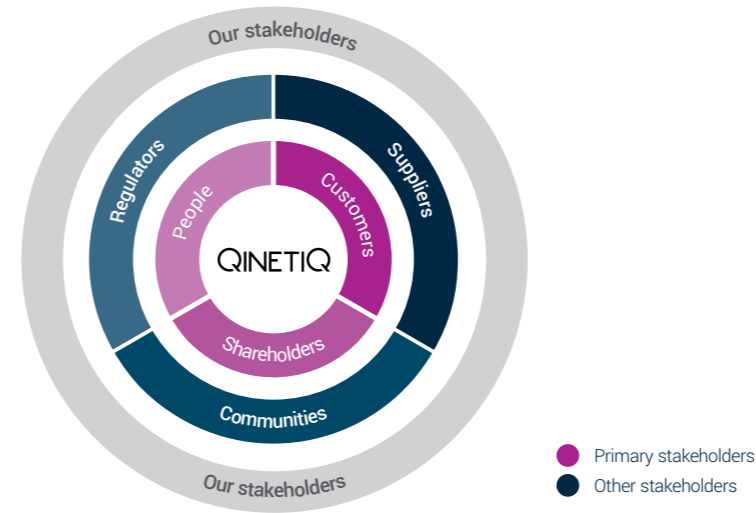
Our stakeholders

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 for the benefit of all of our stakeholders.

For more information on our Section 172 Statement see [page 86](#).



Primary stakeholders

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.

How we engage

Every QinetiQ customer has a delivery team continually engaging with them and adapting our approach to ensure their objectives are achieved. In addition, we regularly take the time to step back and listen and act upon our customers' views on our performance and relationships through our formal customer research systems.

Impact of engagement

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.

How we create value

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.

People

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 local roadshows led by members of our QinetiQ 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 about the 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.

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 Chair proactively engaged with shareholders to seek their views on the business, strategy, and management team. Additionally, our Remuneration committee chair engaged with our largest shareholders on remuneration policy. We seek to keep an open dialogue with our shareholders.

We have sought to keep the financial markets and our shareholders up-to-date with progress on the issues throughout the 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.

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.

We actively engage with our supply chain and hold strategic relationships at appropriate levels across organisations. We engage with our suppliers through a variety of means including our QinetiQ Collaborate events. We actively seek engagement across the supply base with the aim of bringing down barriers for both those suppliers already in the defence sector and those in adjacent or emerging sectors.

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, 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 customers, QinetiQ and our suppliers.

Communities

We strive to be a good neighbour, to have 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 Greenhouse Gas 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.

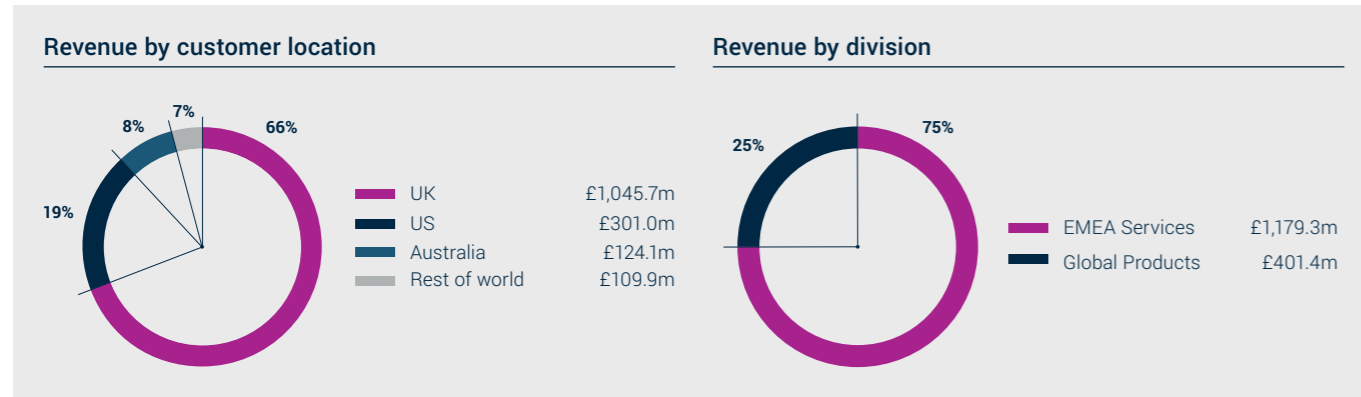
Through engagement we are able to ensure we continue to meet the high standards expected by regulators.

We take an active role in the defence industry, with our customers, peers and partners alike. For example, our Chief Executive has been recently reappointed as Industry Co-Chair of the Defence Growth Partnership (DGP).

Trading environment

Our >£30bn addressable market

The UK, the US and Australia are our home countries and collectively represent 93% of our revenue.



UK

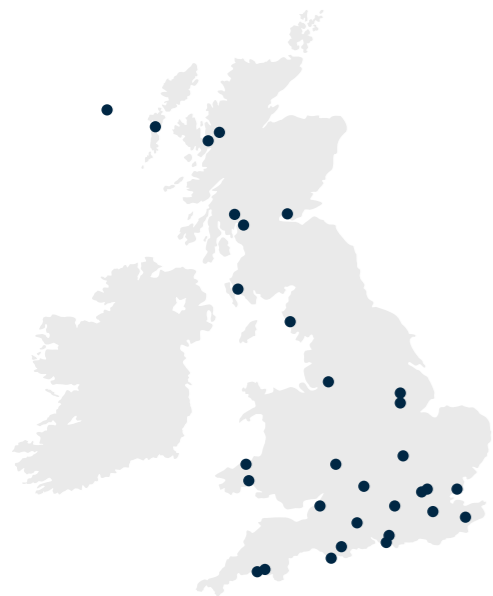
QinetiQ's heritage stems from formerly being part of the UK MOD, who we now work with closely as our largest customer. Our capabilities are centred around customer advice and service provision across research and development, engineering advice, test and evaluation, training and mission rehearsal, cyber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

5,672

employees

32

sites



Trading environment

The 2023 Integrated Review Refresh (IRR) recognised the urgent and immediate pressures brought about by the deteriorating security situation. In the Spring 2023 budget statement, the government announced that the UK defence budget would be increased by £11bn over the next five years in response to these growing threats. The IRR emphasised that strategic advantage in science and technology is a core national priority. As announced in 2021, the UK MOD is also 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.

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 & Development and Test & 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.



¹ Janes Defence Market Budget Forecast March 2023, UK MOD and US DOD spending data, Australian Defence Publications and QinetiQ estimates.

US

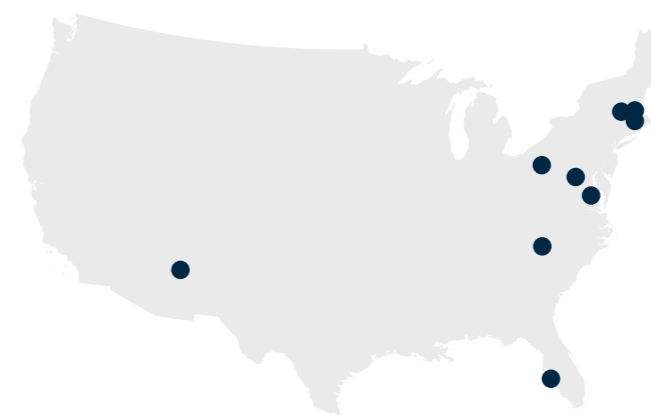
QinetiQ's capabilities in the US originate from a close and strong relationship with the US Department of Defense, as the most significant provider of small robots, combined with our acquired capabilities on autonomy and sensing. This capability has been significantly enhanced with the acquisition of Avantus Federal, a market-leading cyber, data analytics and software development solutions business, adding over 1,000 people.

1,574

employees

14

sites



Trading environment

The 2022 National Defense Strategy and National Security Strategy recognised an intensifying competitive landscape and the urgent need to sustain and strengthen deterrence, with China as its pacing challenge. The 2024 Department of Defense Budget Request builds on the principles of National Security Strategy and has grown by nearly \$100bn (13%) to \$842bn since 2022. As part of this, the FY24 research development test and evaluation budget request is the largest ever at \$145bn. This represents an increase of \$26bn (22%) since FY22.

Investment in critical technology areas aimed at strengthening technological advantage include: directed energy, hypersonics and integrated sensing and cyber.

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. With the acquisition of Avantus we are also a leading cyber, data analytics and software development provider. There is 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.



Trading environment continued

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. The acquisition of Air Affairs, a market leader in air threat representation and aerial target services, has broadened our capability and added over 150 people.

823

employees

9

sites



Trading environment

The 2023 Defence Strategic Review addresses the prospect of major conflict in the Indo-Pacific that directly threatens Australia's national interest. It frames the priority of investment in Defence capability and posture to meet Australia's security challenges through to 2032-33. In the 2023 Budget, Defence spending will increase by 7% to AUD\$52.6 bn in 2023-24.

The Australian government reinforced its commitment to delivering on the recommendations of the Defence Strategic Review, with plans to commence the work to deliver Australia's nuclear-powered submarine program. Defence spending as a proportion of GDP will lift above its current trajectory to be 0.2 per cent higher by 2032-33. As part of this, the Government announced it would invest more than AUD\$19bn to implement the immediate priorities identified in response to the Defence Strategic Review, namely:

- AUD\$9bn for the nuclear-powered submarine programme through AUKUS;
- AUD\$4.1bn for long-range strike capabilities;
- AUD\$3.8bn for northern base infrastructure and;
- AUD\$900m on defence innovation, to establish the Advanced Strategic Capabilities Accelerator and through AUKUS Pillar 2.

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



Rest of the world

Germany

In Germany, we are a trusted provider of airborne special mission operations, technical solutions and airborne training to defence and security customers.

121

employees

3

sites

Canada

Canada is home to a branch of QinetiQ Target Systems – a world-leading provider of unmanned air, land and surface targets for live-fire training and weapon system test and evaluation.

71

employees

2

sites

Trading environment

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 €100bn 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.



Trading environment continued

Themes driving market growth

The long-term themes reshaping defence markets around the world.

We are operating in an environment where there is an increasing threat of wider global conflict. This follows Russia's full-scale invasion of Ukraine; the threat posed by China's growing military power coupled with its push to change global norms and potentially threaten its neighbours; the rise of extremism in Africa; and ongoing tensions and conflict in the Middle East.

In parallel, rapidly emerging and evolving technologies continue to disrupt traditional business and society with both positive and negative outcomes as well as creating unprecedented vulnerabilities.

To meet these increasing challenges, the UK, US and Australia have reviewed their strategic defence and security capabilities and investment priorities as well as their allied activities.

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.

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.

Need for advanced capabilities, information advantage and better inter-operability

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.

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 demonstrate the agility and breadth and depth of capability to respond to the changing and complex customer requirements. This is a critical part of maintaining capability that can function without undue reliance on international trade and expertise or raw materials from potentially hostile states.

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 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 assurance. We have invested heavily in contracts such as the LTPA to ensure we are able to generate and assure future capabilities and will continue to apply disruptive innovation to create relevant capabilities and offerings.

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 higher inflation. 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.

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.

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 focus for growth is in our three home countries, the UK, the 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 more than double our Australian and US businesses in the next five years.



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

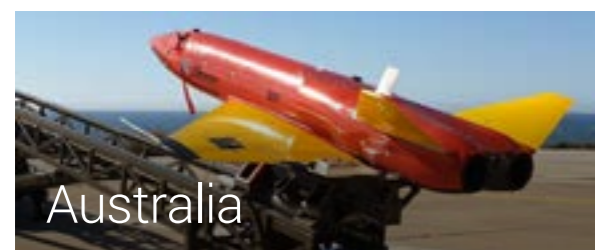


Operating review

How we are structured

QinetiQ has simplified its organisational structure, reducing the number of divisions, and created a new Australian Sector.

The creation of the new Australia Sector, which replaces what was previously the International Sector, is a further demonstration of QinetiQ's commitment and investment in the region and is evidence of our ambition to build an integrated global defence and security company focused around our six distinctive offerings and three home countries of the UK, the US and Australia. The Australia Sector becomes QinetiQ's global hub for threat representation, including recently acquired Air Affairs, Target Systems (in the UK and Canada) and also includes our German air threat representation and training business. QinetiQ's four Sectors are now Australia, UK Defence, UK Intelligence and the US and together the Company is well-placed to support the goals of AUKUS.



Australia

EMEA Services

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

£1,179m

Revenue

Included here is our Australian, Canadian and German operations that were previously included under International. In Australia we provide advice, products, test and evaluation in the core Australia business, and airborne training and mission rehearsal services in the newly acquired QinetiQ Air Affairs. In Germany we provide airborne training and mission operations.

£132m

FY23 revenue



UK Defence

Delivers operational advantage to customers by providing independent research, evaluation and training services. De-risks complex aerospace programmes by testing systems and equipment, evaluating the risks and assuring safety.

£688m

FY23 revenue

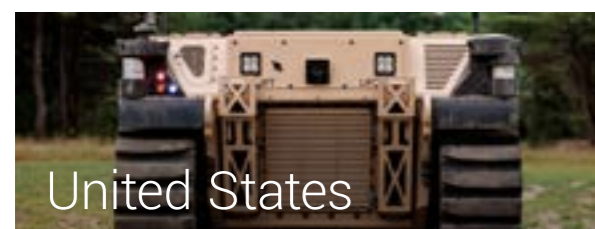


UK Intelligence

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

£359m

FY23 revenue



United States

Global Products

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

£401m

Revenue

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.

£103m

FY23 revenue

Develops and manufactures innovative defence products specialising in robotics, autonomy and sensing solutions. Avantis Federal offers market-leading cyber, data analytics and software development solutions.

£298m

FY23 revenue

Operating review continued

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

	FY23 £m	FY22 £m
Orders	1,372.2	918.9
Revenue	1,179.3	1,059.2
Underlying operating profit	137.1	135.6
Underlying operating margin	11.6%	12.8%
Book to bill ratio ¹	1.4x	1.1x
Total funded order backlog	2,768.8	2,541.6

¹ B2B ratio is orders won divided by revenue recognised, excluding the LTPA non-tasking services revenue of £225m (FY22: £222m).

Financial performance

Orders for the year increased by 49% to £1,372.2m (FY22: £918.9m), driven by a £260m MSCA contract in the UK, for the delivery of critical sovereign capabilities to the UK and continued growth in orders through the EDP framework, totalling £404m orders in year.

Revenue increased by 11% to £1,179.3m (FY22: £1,059.2m), and grew by 10% on an organic basis, as a result of new work under the EDP framework and under the Major Service Provider (MSP) contract in Australia.

At the beginning of FY24, we had £0.8bn of EMEA Services' FY24 revenue under contract, compared to £0.7bn (of the FY23 revenue) at the same point last year. This increase is driven by the 49% orders growth in the year.

Underlying operating profit grew by 1% to £137.1m (FY22: £135.6m). Operating margin decreased to 11.6% reflecting the investment in our people in response to the cost of living crisis.

Approximately 64% of EMEA Services revenue is derived from single source contracts, including the LTPA (FY22: approximately 67%). 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.

Global Products

Financial performance

	FY23 £m	FY22 £m
Orders	351.9	307.7
Revenue	401.4	261.2
Underlying operating profit	41.8	1.8
Underlying operating margin	10.4%	0.7%
Book to bill ratio ¹	0.9x	1.2x
Total funded order backlog	301.5	287.2

¹ B2B ratio is orders won divided by revenue recognised.

Financial performance

Orders increased by 14% to £351.9m (FY22: £307.7m). This was driven by a good order intake in the US and the effect of the complex project write-down in the prior year.

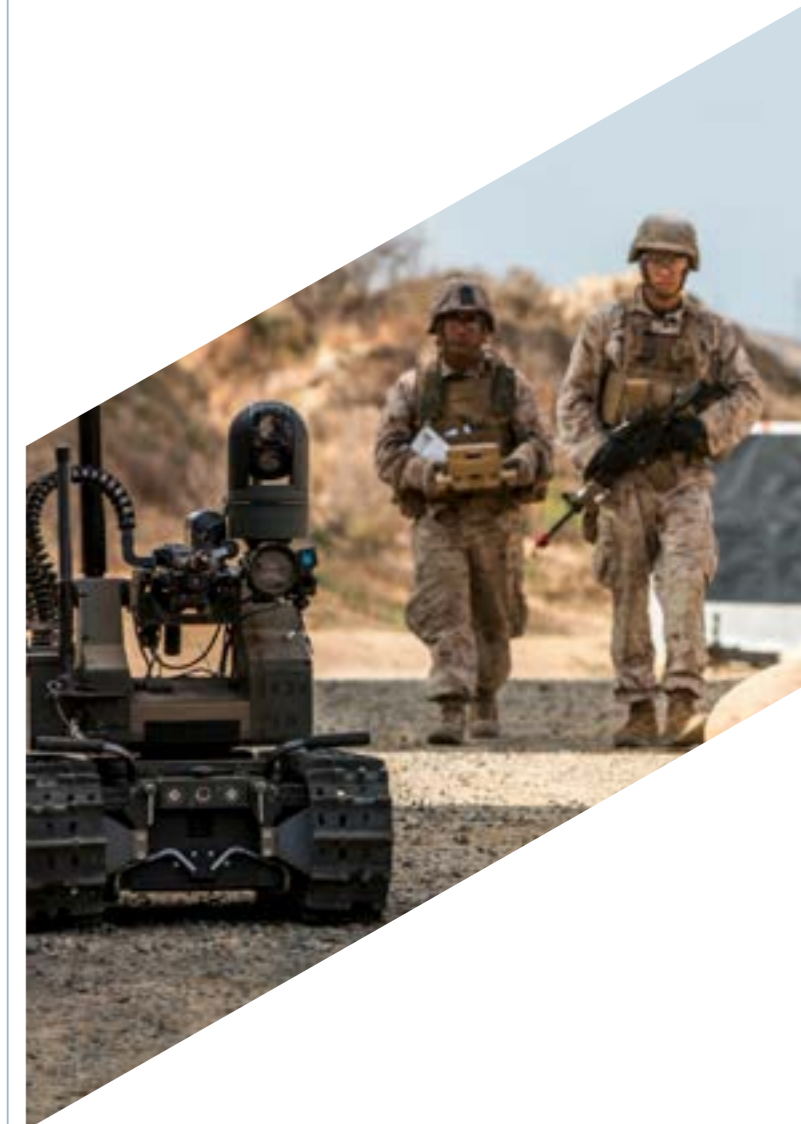
Revenue was up 54% on a reported basis at £401.4m (FY22: £261.2m), due to strong US growth following prior year supply-chain challenges on the initial production ramp-up of CRS-I robots. Furthermore there was an increase in revenue from the acquisition of Avantus of £83.0m offset partially by the disposal of Space NV. Excluding the impact of this acquisition and foreign exchange, revenue was up 20% (£48.9m) on an organic basis.

At the beginning of FY24, we had £0.3bn of Global Products' FY24 revenue under contract, compared to £0.2bn (of the FY23 revenue) at the same point last year. This increase is driven by the significant orders growth in year plus the contribution from the Avantus acquisition.

Underlying operating profit increased to £41.8m (FY22: £1.8m), with an underlying operating profit margin of 10.4% (FY22: 0.7%). This was driven by strong performance in both the US and within QinetiQ Target Systems, and the acquisition of Avantus. FY22 operating profit included the £14.5m write-down on the complex project.

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.



Operating review continued

Australia

The creation of the new Australia Sector is a further demonstration of QinetiQ's commitment and investment in Australia.



Gary Stewart
Chief Executive Australia

Overview

Our Australia Sector provides advisory services, engineering services and training and mission rehearsal in the Australian, German and Canadian markets.

QinetiQ Australia

The Australian business has continued to deliver impressive growth in the year with a significant improvement in revenue coming from the Advisory Services business. Notably, the business has responded successfully to an increase in delivering to operations and exercises as the customer uplifts activity in response to geo-political challenges. An increase in deployments and training events has seen a positive impact on the engineering, technical and advisory services contracts.

In December 2022 we completed the acquisition of Air Affairs (Australia) Pty Ltd for A\$53m. Air Affairs is an Australian defence services company – a leader in air threat representation, Test and Evaluation (T&E), unmanned targets and mission rehearsal. Air Affairs provides targets and training services, and electronic warfare capabilities to the Australian Defence Force, as well as aerial surveillance and reconnaissance in support of government firefighting efforts. It owns and operates a fleet of special mission aircraft and maintains an advanced manufacturing and engineering facility providing design, manufacture and certification operations. Air Affairs employs c.180 people, headquartered in Nowra, New South Wales.

Integration of Air Affairs is progressing to plan and the business is performing well, including securing the next phase of airborne training services for the Australian Defence Force. As demand for threat representation increases across all our home countries, we are focused on leveraging our airborne training and target capabilities across QTS, GmbH and Air Affairs to pursue new customer opportunities. A recent example is the successful sale of our Banshee target into the US Army's Threat Systems Management Office.

The engineering services facility in South Melbourne (named "QTech") is now open and will be a cornerstone facility for further growth through the Robotics and Autonomous Systems and the Test and Evaluation Campaigns. Additionally, the inaugural Test and Evaluation Sovereign Skills Programme has commenced with the 2023 cohort in the United Kingdom undertaking T&E training already.

QinetiQ Target Systems (QTS)

QTS continues to make positive progress with customers resuming trials and exercises. In response to increased customer demand for live environment target simulations, QTS has successfully delivered a significant improvement in production throughput which has been positively received by our UK MOD customer and has delivered positive growth.

QTS has responded with agility to customer requirements including the delivery of a Dutch and German training exercise led by the Royal Netherlands Army where QTS provided products and services to support a bi-national Tactical Firing event with Germany at the NATO Missile Firing Installation on Crete. QTS has also made good progress in the United States with the integration of the Army Ground Aerial Target Control System and our QTS targets. This represents a major milestone, more than six years in the making, in US market penetration.

Following the successful demonstration of Banshee Jet80+ from the deck of the Royal Navy's HMS Prince of Wales aircraft carrier late last year, QTS has recently won a contract that enables the test and evaluation of the capability of small fixed wing, jet-powered uncrewed systems to support Carrier Aviation.

We continue to experience strong demand for QTS products and services arising from an increased demand from many of our global customers which has resulted in March 2023 being the biggest production month to date with over 100 aerial and surface targets delivered.

QinetiQ Germany GmbH

In Germany, we have continued to invest in the business with a strategic uplift in fleet composition with a number of aircraft added to the fleet. The fleet has seen further improvement with modifications to target towing and cameras resulting in increased capability and capacity. In the year, the business delivered more flying hours than in any previous contract year. These successes continue to mature our flexibility and credibility in our Air Services growth plans. In response to the ongoing and increased customer demand for live environment target simulations, the German business has proactively responded with precision and professionalism to an increased tempo, by delivering an increase of 50% in aerial target service tasks in the last two years. The Government's commitment to increased defence spending supports a positive view of business growth into the future.



UK Defence

The UK Defence Sector is focused on protecting lives and securing the vital interests of our Air, Maritime & Land customers.



Nic Anderson
Chief Executive UK Defence

Overview

The UK Defence Sector delivers mission critical solutions, innovating for our Air, Maritime and Land customers' advantage. This Sector represents the previously reported Air and Space, and Maritime and Land business units. Its formation provides a sharper focus on our strategy of maximising growth through our framework contracts, building new core offerings through our global campaigns and exploring new growth opportunities. The new Sector improves coherence of our distinctive offerings across our customer base, with the embedding of enabling functions bringing greater cohesion to operational strategy execution for business performance excellence.

Maritime

We have secured a £260m contract with the Submarine Delivery Agency for a further ten years of the Maritime Strategic Capability Arrangement (MSCA), which also includes an option for an additional five years. The MSCA delivers critical sovereign capabilities that contribute to the assurance of the UK's ability to design, build and safely operate the Royal Navy's surface and subsurface fleet, including the UK's continuous at sea deterrent.

LTPA

We have also seen a high level of usage of LTPA capabilities over the last 12 months supporting operational training needs and urgent capability requirements:

- We have completed our Air Range Modernisation investment programme, securing recognition by the Ministry of Defence (MOD) Sanctuary Awards for achievements in conservation and sustainability in relation to the renovation programme on St Kilda in the Outer Hebrides;
- Usage of LTPA capabilities by allies continues to increase and included the Atlantic Thunder 22 live-fire exercise. This involved the US Naval Forces Europe, US Air Forces Europe, the UK Royal Navy and UK Royal Air Force developing combined proficiency in tactics, targeting and live-firing against a surface target at sea;
- We continue to work in partnership with our customer to develop new approaches to test and evaluation increasing the adoption of modelling, synthetics and artificial intelligence (AI) techniques;
- Investment to pilot the transition to Net-Zero site operations has been secured and is underway.

EDP

The Engineering Delivery Partner (EDP) programme has now delivered over £1.3bn of orders since inception in October 2018, and our partnership continues to evolve in support of our customers' need to transform their approach to capability acquisition. Key achievements this year include:

- Securing the £32m contract to provide technical support to the UK MOD's Future Combat Air System (FCAS) Enterprise and the Defence Equipment & Support (DE&S) Catalyst delivery team, which is responsible for delivering the latest combat air capabilities to UK frontline commands;
- Increasing the EDP supplier network by c.25% and the volume of work delivered through them;
- Continuing to deliver over 97% of outputs on time and right first time;
- Embedding new services supporting the adoption of digital design technologies;
- Starting to provide Net-Zero engineering services (see [page 62](#)).

Science and Technology

Science and technology is a priority area where we continue to make progress primarily through contracting with Defence Science and Technology Laboratory (Dstl), but also through increasing international collaboration across the Group which provides a great platform to support the priorities of AUKUS:

- Delivering the UK's first high-powered, long-range laser-directed energy weapon (LDEW) trial at Dstl Porton Down in partnership with Leonardo and MBDA, demonstrating the capabilities of our phase-combined laser technology;
- Leading the Weapons Sector Research Framework with a focus on novel and hypersonic weapons, including an annual conference with over 300 representatives from across the MOD and industry;
- Developing our E-X Drive technology through our US Sector for the BAE Systems solution to the US Army's Optionally Manned Fighting Vehicle (OMFV) program;
- Supporting our Australian Sector to secure and deliver a higher energy laser development programme to their Australian Defence Science and Technology (DST) customer.

Mission Rehearsal

We continue to develop our mission rehearsal offerings through:

- Securing the second demonstration phase in partnership with BAE Systems for the Platform Enabled Training Capability (PETC) programme delivering multi-platform innovative synthetic training capability to the Royal Navy in support of the wider Defence Operational Training Capability (Maritime) (DOTC(M)) programme;
- Fielding a new threat representation training capability with the Royal Navy through securing the four-year Vampire Phase 1 contract to support the Royal Navy's future high-performance Unmanned Aerial Systems (UAS) operations;
- Delivering enhanced mission support through the Royal Navy Sharpshooter training exercise providing operationally realistic scenarios to train as they would fight with close-in weapon systems.

Operating review continued

UK Intelligence

The UK Intelligence Sector is a key industry partner to the UK Ministry of Defence (MOD), and continues to be well-placed to deliver critical digital change programmes.



James Willis
Chief Executive UK
Intelligence

Overview

The UK Intelligence Sector helps government and commercial customers respond to fast-evolving threats based on its expertise in training, secure communication networks and devices, intelligence gathering and surveillance sensors, and cyber security. Contained within UK Intelligence are three acquired businesses: QinetiQ Training and Simulation Limited (QTSL, formerly NSC), Inzpire and Naimuri. This Sector represents the previously reported Cyber and Information business unit.

Order highlights

We won an £80m transformation programme focused on accelerating the production of mission data, enabling the UK's military platforms and personnel to be better protected in a rapidly changing threat landscape. We formed and led a winning industrial partnership team that included Inzpire, SRC, CGI and an ecosystem of other expert SMEs. The team will contribute to the UK's export agenda by providing our allies with access to world-class mission data. In demonstrating our commitment to the Social Value Act, this programme includes a significant investment to create at least 70 highly skilled data science jobs in the Lincolnshire Area, and upskill customer personnel in advanced data analysis techniques and technology.

Through the SERAPIS framework contract, we have won a £5m 18 month research contract focused on helping the UK MOD solve one of its most enduring and significant capability challenges: pervasive, full spectrum, multi-domain ISR (intelligence, surveillance and reconnaissance). The aim is to use coherent real-time multi-modal sensing to find and identify difficult land targets on a complex battlefield.

The partnership with Defence Intelligence in the UK has continued to grow strongly with orders exceeding £100m in year. Using the EDP framework, combined with the rapid innovation it enables, we have pulled through expertise from across industry and led delivery of a wide portfolio which is helping Defence Intelligence to drive its transformation strategy.

Innovation

We won the Vivace contract with the Home Office in 2017 to deliver our Accelerated Capability Environment (ACE). ACE leverages a wide and diverse ecosystem of suppliers to drive innovation into the delivery of mission critical capability, it operates at high tempo greatly accelerating

delivery of deployable capability. In the past year Vivace has extended its core team and under open competition was awarded the next phase in development of ACE through the Private Sector Partner contract.

We continue to deliver well on the Battlefield Tactical Communication and Information Systems (BATCIS) contract, winning the fifth year option contract award worth £35m. This is the public sector support programme for Defence Digital, delivering procurement and engineering expertise for this transformational digital backbone programme. With our partners ATOS, BMT and Roke we deliver specialist expertise across this complex set of projects (Trinity, Niobe, Morpheus, DSA etc.) covering a wide array of disciplines; developing concepts, engineering solutions, managing obsolescence issues, supporting critical operational requirements and enabling procurement competitions.

We have established the Training and Simulation Centre of Excellence at our Farnborough site combining expertise from the NSC acquisition with its extant training business unit (NSC now rebranded as QinetiQ Training and Simulation Limited: QTSL). This business area is growing strongly with recent key wins in the Land (Army Virtual Proving Ground), Maritime (T23 and T45 training simulation systems), and secure Cyber domains coupled with a significant increase in simulation research and war-gaming demand as the UK Armed Forces consider future operating requirements.

We continue to demonstrate our ability to take acquisitions and position them for future success. This year has seen Inzpire reach a major milestone in the delivery of the GECCO Mission planning system to the UK's Military Flying Training System. GECCO is now used on the RAF's Prefect, Phenom and Texan Fixed Wing aircraft and also Juno and Jupiter Rotary Wing platforms as well as integration into the simulators. In total, more than 100 systems will be rolled out.

Similarly, Naimuri's portfolio has significantly diversified beyond National Security into Homeland Security, and UK MOD. Naimuri continues to be cited as an example of a high-performing SME working on the highest priority government systems and highly engaged in supporting social values growth as part of the North West Powerhouse.

We remain committed to providing operational support to the UK Government including 24/7 support to operations and deployment throughout this difficult period in Eastern Europe, which has enabled UK platforms to support burden sharing with Allies, assisting with military aid provision, and delivering our mission to protect lives and secure the vital interests of our customers.

Global Products

We continue to invest in and see demand for our sensors and communication product portfolio. This past year saw record demand for its Position Navigation and Timing (PNT) product (Q20) across a number of customers. This gives a high degree of confidence that the market potential remains strong ahead of launching the next generation product (Q40) in the near future.

United States

The combination of capabilities across QinetiQ and Avantus has created a disruptive defence and intelligence business in the US.



Shawn Purvis
President & CEO US

Overview

Our US Sector provides technical advice, design and manufacture of innovative defence products specialising in robotics, autonomy and sensing solutions, and with the acquisition of Avantus is an expert in cyber, data analytics and software development. We have invested to support the long-term growth of our US Sector, in leadership, integration, systems and tools; the business is now a fully integrated single US Sector.

The US Sector has had a strong year, with high order intake of \$280m and impressive revenue growth of 25%, prior to the benefit of Avantus. We have won a number of key contracts in the US that will support the delivery of our ambitious growth targets.

Order highlights

We have won a \$93m single award Indefinite Delivery Indefinite Quantity (IDIQ) by the US Army for a Digital Night Vision Technology (DNVT) contract to support the continued evolution of DNVT capabilities through development, integration, experimentation and laboratory and platform test and evaluation including using digital imaging, display, processing and network architecture technologies. DNVT will substantially enhance the user's situational awareness and decision-making abilities by developing digital night vision capabilities coupled with component technology enhancements including fused imagers, display enhancements, and image processing hardware and algorithms.

We secured a contract to provide technical services to the US Army. The five year contract, worth up to \$45m, will provide services for the Development Command (DEVCOM) Command, Control, Computers, Communications, Cyber, Intelligence, Surveillance and Reconnaissance (C5ISR) at the Fort Belvoir Prototyping Integration Facility (PIF). The contract, a one-year base period followed by four one-year option periods, will provide technical services for system development, fabrication, sensor and system integration, prototyping of multi-function sensor suites, and technology assessment efforts aimed at supporting current and future DEVCOM C5ISR PIF Belvoir customers. This contract is an important competitive win for the business and reinforces our continued value to our customers.

We also won a multi-year research, development and technology integration contract, worth up to \$49m, with the US Army C5ISR Center, Research & Technology Integration Directorate's Image Processing Division for Image Processing and advanced Optics Technologies.

Operational highlights

We completed the RCV-L Surrogate Prototype base program activities through the successful completion of US Army Performance Testing. We delivered four (of eight) option vehicles (awarded in FY22) and received c.\$20m in orders to support ongoing experimentation through the provision of spare parts, platform integration and updates, technology insertions, and support and maintenance activities.

Following successful completion of the Low Rate Production (LRIP) phase we made significant progress on the Common Robotic System-Individual (CRS-I) programme, entering into Full Rate Production in September 2022. In the year over 600 units were delivered bringing the total delivery to over 900, with over 500 systems fielded to Combat Engineering and Explosive Ordnance Disposal (EOD) units. Production remains on track with full production continuing through FY24.

We completed Optionally Manned Fighting Vehicle (OMFV) Phase 2, supporting prime contractor Oshkosh Defense. This phase delivered a successful concept design to the US Army with QinetiQ US supporting the development of the modular open architecture next generation infantry fighting vehicle to replace the US Army Bradley fighting vehicle.

At the end of November 2022 we completed the acquisition of Avantus for \$590m. Avantus is a leading provider of mission-focused cyber, data analytics and software development solutions to the US Department of Defense, Intelligence Community, Department of Homeland Security and other Federal civilian agencies. Avantus has a strong track record of achieving speed-to-mission impact. Over the last three years, Avantus has demonstrated a strong track record of consistent double-digit revenue growth on a proforma organic basis, at attractive margins.

Since completion, Avantus has continued to perform well, including two successful re-competes and selection for a new \$80m multi-year contract with a national intelligence customer. In the first four months of our ownership, while new business awards were lower than assumed, we achieved good performance across our contracts delivering \$100m revenue at our expected margin of 10.8%. Integration is progressing ahead of plan and we are actively pursuing revenue synergies by leveraging and cross selling our offerings to our existing and new customer base. The combination of capabilities across QinetiQ and Avantus has created a disruptive defence and intelligence business in the US and we remain on track to deliver on the strategic and financial returns outlined previously.

Group CFO review

Overview of full year results

We have delivered strong growth and underlying performance.



Strong underlying performance and exceptional cash generation provides strong momentum to deliver our strategic ambition."

Financial performance

(£m)	Statutory results		Underlying* results	
	FY23	FY22	FY23	FY22
Revenue	1,580.7	1,320.4	1,580.7	1,320.4
Operating profit ²	172.8	123.7 ¹	178.9	137.4
Profit after tax	154.4	90.0	152.9	118.1
(p)				
Earnings per share	26.8	15.7	26.5	20.6
Full year dividend per share	7.7	7.3	7.7	7.3
Funded order backlog			3,070.2	2,828.8
Orders			1,724.1	1,226.6
Net cash inflow from operations	240.6	215.1 ¹	270.1	220.7 ¹
Net (debt)/cash	(206.9)	225.1	(206.9)	225.1

* Definitions of the Group's 'Alternative Performance Measures' can be found in the glossary

1 Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 38 to the financial statements for details.

2 Underlying operating profit refers to operating profit from segments. See note 3 for details.

The Group has delivered excellent growth and underlying performance across all metrics, reflecting continued disciplined execution of our strategy. We have deployed our balance sheet to acquire Avantus and Air Affairs in the year, expanding our capabilities in the US and Australia. Strong cash generation, driven by disciplined working capital management, with underlying cash conversion of 106% (FY22 restated: 113%), has successfully reduced leverage to 0.8x net debt to EBITDA, well ahead of our original guidance. The acquisitions are performing as expected with integration on-track. The Global Products segment has performed particularly well during FY23, driven by strong US performance. The full year dividend is up 5% at 7.7p per share.

Record orders in the year, totalling £1,724.1m (FY22: £1,226.6m), a year-on-year 41% increase, 37% on an organic basis excluding the impact of the write-down in prior year; this demonstrates the continued high demand for our six distinctive offerings. This has been driven by multi-year framework contracts including a £260m, 10-year extension of the Maritime Strategic Capability Arrangement (MSCA) contract to deliver critical sovereign capabilities to the UK MOD, £404m of Engineering Delivery Partner (EDP) framework orders and £80m for SOCIETAS within EMEA Services and in Global Products a \$93m award for the Digital Night Vision Technology (DNVT) over 4-years.

We continue to see positive trends in our order book progression:

- Backlog: The Long-term Partnering Agreement (LTPA) is a large multi-year contract that was booked in prior years – as we deliver non-tasking revenue (of c.£225m per annum) this will naturally reduce the LTPA order backlog. Outside of the LTPA, with our high orders in FY23 and the addition of Avantus, our backlog has seen significant growth: total order backlog as at 31 March 2023 was £3.1bn (FY22: £2.8bn).
- Opportunity size: As part of our previously stated strategy, we are also seeing success in winning and delivering on larger longer-term contracts, with 47% of our FY23 orders from contracts over £5m in size, up from 28% three years ago.

At the beginning of FY24 approximately £1.1bn of the Group's FY24 revenue was under contract, compared to £900m (of the FY23 revenue) at the same point last year. This notable increase reflects the strong performance on our key framework contracts in EMEA Services and the good FY23 order intake in the US.

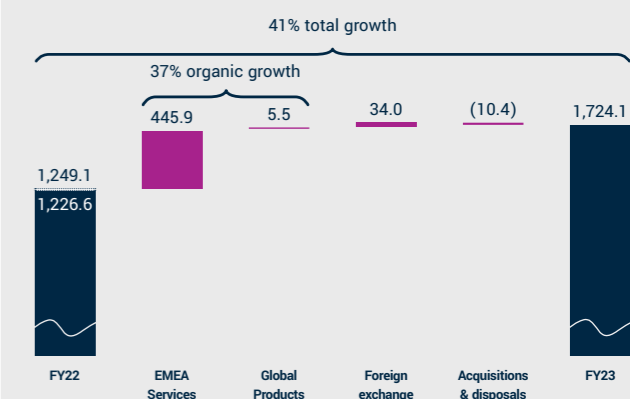
We delivered strong revenue growth of 20% to £1,580.7m (FY22: £1,320.4m), 11% on an organic basis excluding the impact of the write-down in prior year, with operating profit margins within our guidance range at 11.3%, demonstrating increasing demand for our six distinctive offerings. We saw a 10% organic revenue increase in EMEA Services primarily due to a 37% year-on-year growth in EDP delivery and work delivered under the Major Service Provider (MSP) contract in Australia. Global Products revenue increased 15% organically excluding the write-down in the prior year, due to the strong performance in the US business with the full rate CRS-I production contract now underway following delays due to COVID-related delivery and supply chain issues during the previous year. Our Targets business also delivered good growth.

Operating profit from segments of £178.9m (FY22: £137.4m) was up 30%, this represents 11.3% operating margin (FY22: 10.4%), consistent with our guidance range of 11-12% demonstrating sustainable revenue growth at stable margins. Global Products was the largest contributor to year-on-year growth, with this segment at double-digit margins, 10.4% (FY22: 0.7%). The increase has been driven by strong performance across the US business and the prior year being impacted by the write-down. EMEA Services saw a modest decrease in operating margin to 11.6% (FY22: 12.8%), driven by our investment in our people, capabilities and tools.

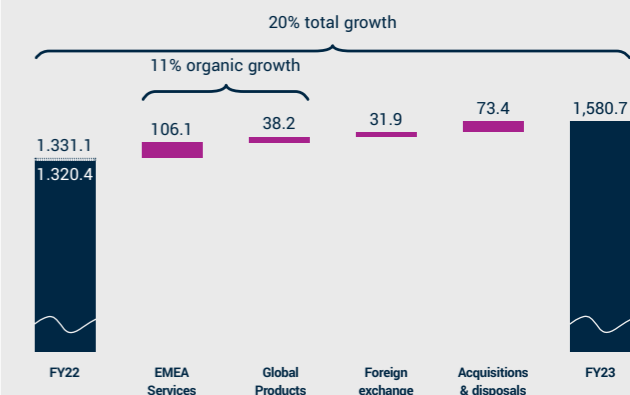
Following a routine Financial Reporting Council (FRC) review of the consolidated financial statements for the year ended 31 March 2022, the Group engaged with the FRC which resulted in the decision to change its accounting policy for Research and Development Expenditure Credits (RDEC). We welcomed the FRC's review and have set out the impact of the change in accounting policy in note 20. As a result we are now reporting RDEC under IAS 20 within underlying operating profit.

To ensure consistency and clarity on our headline profit figures, our headline profit figure remains as Operating profit from segments and we have determined that any benefit arising from the RDEC change should not be attributed to segmental performance. Statutory operating profit, as set out below, was £172.8m (FY22 restated: £123.7m), including the impact of specific adjusting items and RDEC income.

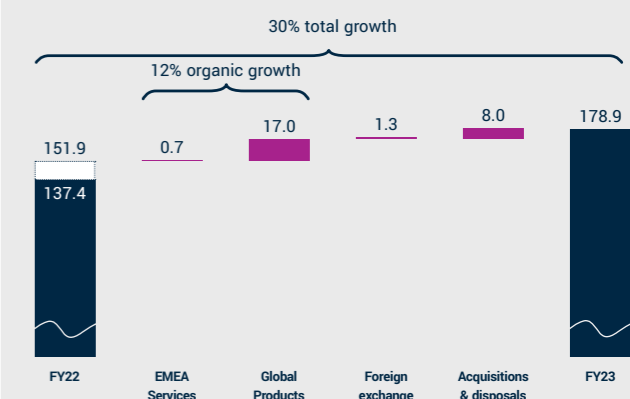
Orders bridge (£ million)



Revenue bridge (£ million)



Underlying operating profit from segments (£ million)



□ Impact of prior year write-down for comparison purposes

Group CFO review continued

Underlying profit before tax increased 33% to £189.7m (FY22 restated: £142.2m) in line with the increase in underlying operating profit, with underlying net finance expense at £6.6m (FY22: £1.4m). Underlying net finance expense increased due to the interest payable on the term loan drawn down to fund the Avantus acquisition.

The acquisitions of Avantus and Air Affairs have together contributed £91.1m revenue and £9.4m underlying operating profit in the year. Since completion of the acquisitions, the businesses have continued to perform as expected and integration is progressing on-track.

Specific adjusting items

In line with our previously approved policy, the total impact of specific adjusting items (which are excluded from underlying performance due to their distorting nature) on operating profit was a £23.5m cost (FY22: cost of £19.9m). M&A activity during the year has contributed to the overall level of specific adjusting items.

	FY23 £m	FY22 £m
Acquisition, integration and disposal costs	(18.7)	(5.0)
Digital investment	(5.8)	(1.9)
Restructuring costs	(5.0)	–
Pension past service cost	–	(2.4)
Fair value in respect of contingent consideration	–	0.6
Release of RDEC MOD appropriation liability	19.6	–
Gain on sale of property	2.0	0.7
Impairment of property	–	(1.2)
Amortisation of intangibles assets arising from acquisitions	(15.6)	(10.7)
Gain/(loss) on disposal of business	15.9	(0.9)
Pension net finance income	9.9	4.5
Total specific adjusting items gain/(loss) before tax	2.3	(16.3)

In line with our previously approved policy, the total impact of specific adjusting items (which are excluded from underlying performance due to their distorting nature) on operating profit was a £23.5m cost (FY22: cost of £19.9m). M&A activity during the year has contributed to the overall level of specific adjusting items.

Acquisition and integration costs of £18.7m (FY22: £5.0m) comprise costs associated with the Avantus and Air Affairs acquisitions which completed in FY23.

Restructuring costs of £5.0m have been incurred as part of significant Group-wide organisation redesign completed in FY23 to better align the organisation structure with future growth ambitions of the Company. These restructuring costs have been completed in year to enable our next step-change in growth.

We continue to deliver on our digital investment programme to modernise the IT infrastructure to support our future growth ambitions. The non-recurring costs will be reported as specific adjusting items in the P&L, with ongoing recurring operating costs (such as licence costs and overheads) remaining within underlying operating costs. In FY23 the non-recurring cost of the digital investment programme is £5.8m (FY22: £1.9m).

In FY23 specific adjusting items includes a £19.6m credit in respect of UK MOD appropriation for RDEC. Following a determination by the Single Source Regulations Office (SSRO) on the interpretation of the Statutory Guidance for Allowable Costs regulations (SGAC), the accounting judgement is that RDEC on single source contracts from 1 April 2019 onwards will no longer be paid on to the UK MOD, which is a change from the accounting judgement at FY22 year end. Therefore the release of the liability is reported as a specific adjusting item through operating profit.

Also included within specific adjusting items are a gain of disposal of the Space NV business in Belgium of £15.9m, a gain on the sale of property of £2.0m (FY22: £0.7m), financing income from pensions of £9.9m (FY22: £4.5m) and amortisation of acquisition intangibles of £15.6m (FY22: £10.7m), the last of which has increased due to the amortisation of new intangible assets recognised on the FY23 acquisitions (primarily the Customer Relationships asset associated with Avantus).

Tax

The total tax charge was £37.6m (FY22: £35.9m restated). The underlying tax charge was £36.8m (FY22: £24.1m restated), on a higher underlying profit before tax, with an underlying effective tax rate (ETR) of 19.4% for the year ended 31 March 2023 (FY22: 16.9% restated). The underlying effective tax rate is above the UK statutory rate primarily as a result of higher tax rates in overseas jurisdictions.

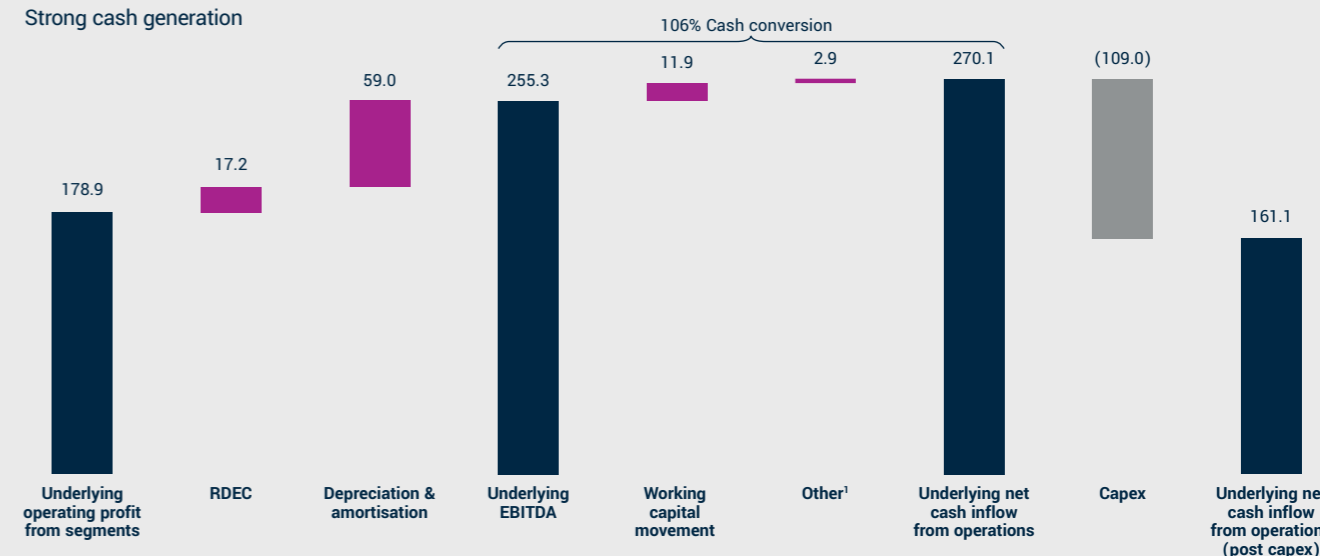
In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate will increase from 19% to 25%. The 25% rate has been substantively enacted at the balance sheet date. An adjustment was made in FY22 and a further £4.6m adjustment has been made in FY23 to reflect that the revised UK deferred tax balances that are expected to unwind at the new rate of 25%.

The effective tax rate is expected to remain above the UK statutory rate, subject to the impact of any tax legislation changes and the geographic mix of profits. 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 will engage with advisers to assess any potential future impact on the tax charge.

RDEC was previously included as a tax benefit and included in the tax line, reducing the ETR. Due to the change in treatment of RDEC, this has moved it out of the tax line and into underlying operating profit, therefore the headline tax rate has increased compared to prior year reporting periods. As explained above, to be consistent with prior reporting the RDEC benefit is not included in our headline reported operating profit from segments, but is included in reported underlying operating profit. For comparison and modelling purposes, if using operating profit from segments the equivalent tax rate is 11.3% (not the headline 19.4% ETR). With the increase in UK statutory rate, this 11.3% baseline ETR is expected to increase to c.19% in FY24.

Cash flow bridge (£ million)

Strong cash generation



¹ Other movements driven by share-based payments and pensions impacts.

Capital Allocation Policy

Working capital management and overall cash performance has remained consistently strong. Underlying net cash flow from operations was £270.1m (FY22 restated: £220.7m). Our cash conversion definition reflects 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 definition we achieved underlying cash conversion of 106%, (FY22 restated: 113%).

As at 31 March 2023 the Group had £206.9m net debt (FY22: £225.1m net cash), a transition into debt and a more efficient balance sheet position, due to the strategic acquisitions completed in the year and higher capital expenditure to support the Group strategic growth ambitions. We have successfully reduced leverage to 0.8x, within 4 months of the completion of the Avantus and Air Affairs acquisitions, ahead of our original guidance by 12 months.

Through FY23 we have demonstrated our capital allocation policy in action:

1. Organic and inorganic investment – increased capital expenditure to £109.0m (FY22: £84.3m), focused on contractual commitments (£44m into the LTPA), sustainment of the portfolio and investment to support future growth. Inorganic investment to acquire Avantus and Air Affairs.
2. The maintenance of balance sheet strength – continued discipline and cash generative nature of the business model, further reinforced by the strategic disposal of Space NV.
3. A progressive dividend policy with a proposed 5% year-on-year increase.
4. Return of excess cash to shareholders – we continue to review this element of the capital allocation policy in the best interests of all our stakeholders to support long-term sustainable growth.

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

Committed facilities

The acquisition of Avantus was financed using a combination of cash and debt from a multi-currency floating rate Term Loan placed with our relationship banks, acquisition financing totalled £340m. The Loan is split into two Tranches: GBP Term Loan £273m (Tranche A); and, USD Term Loan £67m (Tranche B), and has a 3-year term with two 1-year extension options. Participating banks have lent on a 2-tier basis – 3-banks at £67m and 4-banks at £35m. In line with Group policy, £270m (c.80%) of the floating rate debt has been fixed using SONIA interest rate swaps split over a 3-year and 5-year tenure at a weighted average rate of 3.29%. Including all fees and charges, the weighted average cost of debt is 5.21%.

The Group has a £275m bank revolving credit facility with an additional 'accordion' facility to increase the limit up to £400m. The facility which will mature on 27 September 2025 was undrawn at 31 March 2023 and provides the Group with significant scope to execute its strategic growth plans.

We highlight that the Group adopts a strict policy on managing counterparty risk through a combination of diversification of investments and regular reviews of counterparty limits using credit rating assessments. We are proud that our debt sits with our key relationship banks who have strong credit ratings and diverse portfolios demonstrating their resilience to the bank turmoil. The banks have been selected for their capabilities in our home countries to support our business.

Group CFO review continued

Return on Capital Employed (ROCE)

In order to help understand the overall return profile of the Group, we continue to report our Return on Capital Employed, using the calculation of: profit from segments less amortisation / (average capital employed less net pension asset), where average capital employed is defined as shareholders' equity plus net debt (or minus net cash).

For FY23 Group ROCE was 23% (FY22: 26%), modestly lower due to the increased capital employed with the acquisitions completed in 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 increased by 29% to 26.5p (FY22: 20.6p) driven by the higher underlying profit after tax. Basic earnings per share for the total Group (including specific adjusting items) increased 71% to 26.8p (FY22: 15.7p).

The average number of shares in issue during the year, as used in the basic earnings per share calculations, was 575.9m (FY22: 573.2m) and there were 578.8m shares in issue at 31 March 2023 (all net of Treasury shares).

Dividend

The Board proposes a final FY23 dividend per share of 5.3p (FY22: 5.0p) making the full year dividend 7.7p (FY22: 7.3p). The full year dividend represents an increase of 5% in line with the Group's progressive dividend policy.

Subject to approval at the Annual General Meeting, the final FY23 dividend will be paid on 24 August 2023 to shareholders on the register at 28 July 2023.

Pensions

The key driver for the decrease in the net pension asset since 31 March 2022 was the turmoil in financial markets following the Government's 'mini-budget' in September 2022, particularly a sharp increase in gilt yields (and reduced gilt prices) which significantly reduced the value of the Scheme's Liability Driven Investments (LDIs) and related asset-backed securities. Together with falls in other assets the reduction across the whole investment portfolio was in excess of the reduction in Scheme liabilities (which have also fallen substantially, due to an increase in the discount rate). As with previous years, Aon have undertaken the IAS19 valuation.

During the current financial year, due to the increased volatility in gilt yields and reflecting increased liquidity requirements for Schemes running LDI portfolios, the hedges have been amended to cover approximately 65% of the interest rate risk and 80% of the inflation rate risk as at 31 March 2023, as measured on the Trustees' gilt-funded basis.

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

Net finance costs

Net finance income was £3.3m (FY22: £3.1m). The underlying net finance expense was £6.6m (FY22: £1.4m), increased due to the interest payable on the Avantus funding borrowings, with additional income of £9.9m (FY22: £4.5m) 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 FY23 the opening net asset (£362.2m) was larger than the net asset at the start of FY22 (£214.3m) generating an increase in the level of net finance income. Similarly, the decrease in the net surplus within FY23 (closing at £119.8m) will lead to a decrease in the pension net finance income in FY24.

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.

Foreign exchange translation has provided a modest tailwind to revenue and operating profit in the year. Most significantly, the US Dollar has strengthened with the average exchange rate to Sterling decreasing from 1.36 to 1.21. In FY23, 19% of our total Group revenue was generated in the US. As a result of the strengthening US Dollar and other FX movements in year, revenue increased by £31.9m and operating profit increased by £1.3m. Looking ahead we expect US revenues to represent 25-30% of Group revenues in FY24, so for every 1% move in the FX rate this would impact Group revenue by c.£5m and Group profit by c.£0.5m.

Carol Borg
Group Chief Financial Officer
25 May 2023

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 230](#).



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.



Orders (£m)

1,724.1 (FY22: 1,226.6)

FY23	£1,724.1m
FY22	£1,226.6m
FY21	£1,149.4m

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 £1,724.1m, up by 41%, or 39% on an organic basis. EMEA Services grew by 49% on an organic basis driven by the 10-year MSCA extension. Global Products grew 10% on an organic basis, driven by a \$92m night vision technology order 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 it is adjusted to exclude businesses acquired during the year.

Underlying operating profit (£m)*

178.9 (FY22: 137.4)

FY23	£178.9m
FY22	£137.4m
FY21	£151.8m

Description

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

Performance this year

Underlying profit increased by 30%, driven by the recovery in the US with Global Products seeing a return to a 10.4% margin (FY22: 0.7%) following the £14.5m complex project write-down in the prior year.

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.

* Definitions for the Group's 'Alternative Performance Measures' can be found in the glossary. Underlying operating profit refers to operating profit from segments. See note 3 for details.

Backlog (£m)

3,070.2 (FY22: 2,828.8)

FY23	£3,070.2m
FY22	£2,828.8m
FY21	£2,944.1m

Description

This represents the total future revenue currently on contract. Increasing backlog demonstrates higher levels of confidence on the ability to deliver on the stated future revenue targets.

Performance this year

Backlog increased to £3.1bn in the year. As the LTPA backlog naturally decreases over the course of the contract, the level of backlog relating to other contracts has increased showing a decreasing reliance on the LTPA for Group revenue.

Link to strategy

Backlog allows us to assess the effectiveness and execution of the Group strategy to move towards larger longer-term contracts, increasing confidence in our long-term revenue guidance.

Underlying earnings per share (p)

26.5 (FY22: 20.6)

FY23	£26.5p
FY22	£20.6p
FY21	£22.1p

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

Underlying EPS increased by 29% (5.9p) to 26.5p due to the strong revenue growth and improved profit margins.

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.

Organic revenue growth (%)

12% (FY22: 5%)

FY23	12%
FY22	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 12% on an organic basis, driven by a strong performance in EMEA Services where organic growth was 10%, driven by ongoing EDP growth and new work under the MSP contract in Australia. Strong recovery to growth in the Global Products business saw revenue grow by 20%, organically driven by the full rate CRSI production contract.

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 net cash flow from operations (£m)

270.1 (FY22: 220.7)

FY23	£270.1m
FY22	£220.7m
FY21	£199.0m

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 cash flow from operations was strong, growing 22%. This reflects higher underlying operating profit and positive movements in working capital.

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

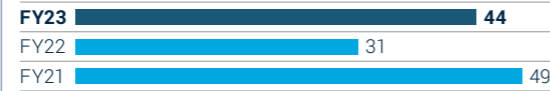
We are committed to delivering responsibly and sustainably for the benefit of all of our stakeholders.

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



Customer satisfaction (Net Promoter Score)

44 (FY22: 31)



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.

Employee engagement (score out of 10)

7.4 (FY22: 7.1)



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

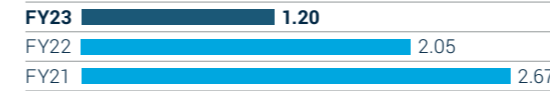
This year we continued to have good participation rates 69% and have seen an increase in the overall score, 7.4 in FY23 compared with 7.1 in FY22. See [page 69](#) for more details.

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".

Health and safety (LTI)

1.20 (FY22: 2.05)



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 1.20 in FY23 from 2.05 in FY22. This ongoing decrease is supported by our EHS Strategy and Safety Improvement Programme.

See [page 67](#) for more details.

Link to strategy

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 are therefore intrinsically linked to our strategic success.

Greenhouse gas emissions Scope 1 & 2 (tonnes CO₂e)

24,718 (FY22: 27,936)



Description

In 2022 we published our Net-Zero plan including new targets, which includes a near-term target of 50% reduction in Scope 1 and 2 emissions by 2030 from a base year of FY20 (the full near-term and long-term targets are shown on [page 55](#)).

Performance this year

We saw a decrease in our Scope 1 and Scope 2 emissions in FY23 compared with FY22, equating to a 30.5% reduction against our FY20 base year.

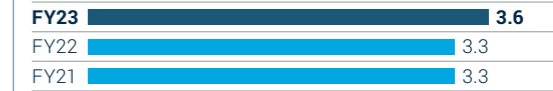
See [page 54](#) for more details.

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 ESG strategy. The KPI underpins our wider business performance.

Early careers talent (%)

3.6 (FY22: 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 FY21).

Performance this year

We continue to see investment in our early careers community and programmes, with an increase in the early careers population (3.6% in FY23 compared with 3.3% in FY22).

See [page 71](#) for more details, including awards for our early careers programme in Australia.

Link to strategy

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



Sustainability

Environmental,
Social & Governance

Being part of QinetiQ means being central to the safety and security of the world around us; because everything we do is about protecting what matters most. In a year, when we have seen conflict, unprecedented temperatures, devastating floods, and a soaring cost of living, it is clear that environmental, social and governance (ESG) aspects matter to QinetiQ and to our stakeholders more than ever.

Highlights in FY23

- We have invested significantly to improve our employee offering, increasing salaries, particularly addressing the lower paid employees as well as setting up a hardship fund.
- Introduction of a new personal development fund for employees.
- Inclusion in the Sustainalytics 2023 Top-Rated ESG Companies List.
- Validation of our greenhouse gas (GHG) emissions targets by the Science Based Targets initiative (SBTi).
- 30.5% reduction of our Scope 1 and Scope 2 GHG emissions against our FY20 baseline.
- Creation of a dedicated "ideation" channel for collaboration and innovation to support our Climate Change programmes.
- Recognised as "Highly Commended" by the MOD Sanctuary Awards, for achievements in conservation and sustainability in relation to the renovation programme on St Kilda.
- Winner of Graduate Programme of the Year in the Australian Defence Industry Awards for a second consecutive year.
- Received an Excellence Award for Best Graduate Development Programme at the 2022 Australian HR Awards.
- Additional leadership support and governance for ESG through the new ESG Steering Committee and the new Environment Council.

Over the following pages, we report progress on those areas of ESG we consider most important.

Signposting

Through this report we have also indicated where ESG is an enabler for our business:

- Investment case ([page 13](#)) and strategy ([page 17](#))
- Stakeholder focus ([pages 22-27](#))
- Non-financial KPI ([pages 50 and 51](#))
- Risk management ([page 76](#))
- Non-financial information statement ([page 88](#))
- Corporate Governance including ESG ([page 92](#))
- ESG in leadership remuneration ([page 138](#))

Additional information is provided on our website: www.qinetiq.com/en/our-company/sustainability

ESG materiality

Sustainability and ESG encompass a broad range of aspects but not all apply or are material to our Company, sector or communities, so it is important that we are focused on what matters most to support our business and meet the expectations and needs of our stakeholders. Delivering our ESG strategy, based on key material aspects ensures we are addressing risks and creating value for our shareholders and customers, a great place to work for our people and future workforce, protecting the environment and having a positive impact in our communities.

The external landscape continues to move rapidly, with new reporting requirements ahead and some additional focus areas. Climate change continues to be a priority issue (both Net-Zero and climate resilience). We have always had biodiversity as part of our ESG approach, and have seen the external focus on this increasing, through the 2022 UN Biodiversity Conference in Montreal (COP15), new government action and interest from shareholders. A significant addition this year has been to recognise the increased cost of living and the impact this has on our people and communities, and we have sought to rapidly address this. To ensure we understand future requirements, we actively horizon scan providing monthly updates to the ESG Steering Committee, chaired by our Group CEO, and updates as part of ESG reports to our Board.

Regular engagement with stakeholders is vital. Throughout the year, we talk with shareholders, customers and employees about ESG so we are able to listen, understand, and identify what matters most to them.

We also monitor and contribute to best practice through our active role in industry sustainability working groups and networks. We strive to be proactive, chairing the Sustainability Working Group with our trade body (ADS), and co-chairing the UK MOD-Industry Sustainable Procurement Working Group and the UK Defence Suppliers Forum (DSF). We actively collaborate with customers and peers on topics such as climate change, ethics, diversity and inclusion and skills.

We recognise the importance of supporting national and international sustainability programmes and frameworks. We have our Net-Zero targets validated by the Science Based Targets initiative (SBTi) (see [page 55](#)), we support Race to Zero and also the UN Sustainable Development Goals (SDGs) and remain committed to driving progress on specific goals that are aligned to our sustainability agenda.

We believe that the core themes that we are focusing on are the most material, and our approach is to embed ESG into our business. Our approach to ESG governance is described on [page 73](#). Our core non-financial KPIs are on [pages 50 and 51](#) and our principal risks on [page 76](#). In FY24 we will be spending time reviewing all of the new reporting requirements e.g. the International Sustainability Standards Board (ISSB) and associated frameworks such as the Sustainability Accounting Standards Board (SASB) to ensure that we are able to clearly explain how we manage sustainability, how we understand our material aspects and how these are embedded as part of our business strategy.

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	Social	Governance
Material aspects <ul style="list-style-type: none"> – Climate change – Net-Zero – Climate change resilience – Sustainable solutions for customers – Environmental management – Waste and resources – Conservation and biodiversity 	Material aspects <ul style="list-style-type: none"> – Health, safety & wellbeing – Employee engagement – Diversity and inclusion – Learning and development – Reward and recognition – Human rights/modern slavery – Community impact 	Material aspects <ul style="list-style-type: none"> – Business ethics and Code of Conduct – Anti-bribery and corruption – Ethical trading policy – 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 ESG fully supported by the QinetiQ Leadership Team and Board.	Collaboration Industry engagement and leadership. Multidisciplinary internal collaboration.	Performance MSCI AA rating and included in Sustainalytics 2023 Top-Rated ESG Companies List.
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We deliver safely, responsibly and sustainably
for the benefit of all our stakeholders

Sustainability continued




In FY23 the world saw devastating floods and the UK experienced the hottest temperatures on record. In addition to the threat of climate change, the UN Biodiversity Conference (COP15) amplified growing concerns about the significant loss of biodiversity. Within this context, environmental stewardship has never been more important. We actively play our part, reducing our greenhouse gas emissions, through our conservation activities and by the solutions we provide for our customers to meet their sustainability ambitions, while maintaining defence capability.

Climate change

During FY23 we formalised our Climate Change Programme, directly engaging with all areas of the QinetiQ Group to embed the Net-Zero plan that we developed in FY22, and to instigate the necessary operational changes that will support future reductions in our GHG emissions. In this section, we outline some of the activities and projects that have already been delivered, as well as those that we will be embarking on in FY24 and beyond.

In addition, we provide our disclosures in line with the Taskforce on Climate-Related Financial Disclosures (TCFD) recommendations.

Scope 1 and 2 of our GHG emissions form one of our non-financial KPIs (see [page 51](#)).

Transition to Net-Zero

Our GHG emissions reduction targets, (shown in the table on the right), will be achieved through the four initiatives that underpin our Net-Zero plan, and we have shared details of activities completed this year in the table on [pages 58-59](#), along with examples of planned activities for FY24 and beyond. These represent not only work streams and projects that will deliver direct reductions in emissions within Scope 1, 2 and 3, but also the fundamental shift required in our governance, operations and culture to enable us to adopt a Net-Zero approach that becomes business as usual.

Validation of our Net-Zero targets

In FY22 we revised our previous approach to setting GHG emissions reduction targets, incorporating sources of emissions from across our value-chain (Scope 1, 2 and 3 emissions) and we published our Net-Zero plan. These targets, and our supporting methodologies, were reviewed by the Science Based Targets initiative (SBTi), and subsequently fully validated in early FY23. This can be found on the SBTi website:

<https://sciencebasedtargets.org/companies-taking-action>

SBTi confirmed that our targets are ambitious, and that we were one of the first companies to have set near-term, long-term and Net-Zero targets (one of the first companies headquartered in the UK, and the first Aerospace & Defence company).

FY23 represented the foundation year of our Net-Zero plan, to develop and drive the initiatives that will deliver reductions in our GHG emissions.



Net-Zero targets

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

Scope 3 emissions

We have been capturing, measuring and reporting Scope 1 and Scope 2 GHG emissions data for many years. But like many organisations, we have only recently started capturing Scope 3 data. For the first time we have published our full breakdown of GHG emissions across all 15 Categories of Scope 3, on our website.

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

We use the Greenhouse Gas Protocol, a widely accepted methodology. Because of the range of different category emissions, Scope 3 data capture is challenging. We are using a spend-based methodology for categories where we do not currently have access to accurate emissions data and as a result our Scope 3 emissions are dominated by our purchased goods and services. We recognise the importance of working with our supply chain and further improving and developing our data analysis to move away from a spend-based approach. We also need to better align the timing of Scope 3 data capture (currently several months after Scopes 1 and 2, due to the expertise and resource required, creating a lag in reporting). Our Scope 3 emissions recorded for FY22 were 269 kt CO₂e, an increase compared with the previous year (229 kt CO₂e), primarily due to increased spend with suppliers, driven by corporate growth. Since our first data capture, we have reviewed and revised our process of GHG emissions data collection, allowing us to build greater confidence in the scale and source of our current footprint, through more detailed collaboration and information gathering from all parts of QinetiQ Group. This will be a significant and ongoing process and we aim to be transparent in our approach where improvements are made, particularly where a change in the emissions reported is due to the calculation methodology and not due to a real reduction/increase.



Sustainability continued

Scope 1 and Scope 2 emissions

	FY23	FY22	FY21	FY20
Total Scope 1 emissions (tCO ₂ e)	13,360 ^o	15,727	15,872	19,289
Total Scope 2 emissions (tCO ₂ e)	11,358 ^o	12,236	13,572	16,298
Total Scope 1 and 2 emissions (tCO ₂ e)	24,718	27,936	29,444	35,587
Intensity ratio (tCO ₂ e per £m of revenue)	16 ^o	21	23	33
Energy consumption (kWh) resulting in the above reported emissions	114,809,565	125,261,565	122,808,625	139,780,656
Proportion of energy consumption arising from UK operations (%)	96%	98%	99%	98%
Proportion of emissions arising from UK operations (%)	95%	98%	99%	98%

In line with previous years, GHG from acquisitions are not included in our figures until we have a full year of data, but will be reported in future submissions when we have completed the necessary data capture, analysis and assurance.

In line with reporting requirements, in the table above we have published 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 emission conversion factors. PricewaterhouseCoopers LLP (PwC) carried out a limited assurance engagement on selected GHG emissions data for the year ended 31 March 2023 in accordance with International Standard on Assurance Engagements 3000 (revised) and 3410, issued by the International Auditing and Assurance Standards Board. The figures covered by this assurance process are indicated in the table by the following symbol (°). A copy of PwC's report and our methodology is on our website: www.qinetiq.com/en/our-company/sustainability/climate-change

Scope 1 and Scope 2 GHG emissions form one of our non-financial KPIs ([page 51](#)). We are pleased to report a further reduction in our Scope 1 and Scope 2 emissions in FY23, equating to a 30.5% reduction from our FY20 baseline, against our target of 50% by FY30. During FY23 we made two acquisitions (Avantus and Air Affairs) and resulting emissions will be included in our FY24 report when we have a full year of data.

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 reduction projects in FY23:

- Installation of electrical sub-meters at key UK sites, to enable the gathering of more accurate energy usage data to assist in the identification and reduction of energy consumption. A number of installations have taken place (at our Malvern and Haslar sites and at MOD West Freugh) and further sites have been surveyed.
- LED lighting has been installed in our Haslar, Malvern and Portsdown Technology Park sites and planning is underway for further sites.
- Reviewing our data has allowed us to identify and address anomalies. For example at the MOD Loch Gail site an unexpected increase in consumption was attributed to an incorrectly controlled heating unit.
- Preparation for installation of new Photovoltaic (PV) power solutions across UK sites, to enable greater self-generation of renewable energy.
- Installation of Telematics systems in UK corporate fleet vehicles, to identify usage patterns and opportunities to rationalise our corporate fleet, supporting a transition to low-emission vehicles.
- Changes to air-traffic control procedures, with the introduction of performance-based navigation approaches and revised continuation training for pilots to reduce requirements for flying time and so reduce consumption of jet fuel.
- Procurement of new electric aircraft tugs to replace diesel units, and procurement of lower-emission diesel ground power units and a new low-emission diesel runway sweeper vehicle.

A more comprehensive list of the activities that have been delivered in FY23, and planned activities for FY24 and beyond, can be found in the table on [pages 58 and 59](#). These directly support our Net-Zero plan.

Stakeholder engagement on climate change and sustainability

We have seen an increasing interest and focus on climate change from all stakeholders. We have been actively participating, sharing knowledge and best practice, in a number of cases leading and driving engagement across our industry and business community, for example as Industry Co-Chair of the Defence Suppliers Forum (DSF) (see [page 52](#)). We have also been engaging with our supply chain, via our industry working groups.

We continue to see an increase in climate change being included within customer requirements (for example we now annually publish a Carbon Reduction Plan on our website to meet UK PPN 06/21), and through social value requirements. As well as mandatory reporting we participate in voluntary climate change reporting, for example CDP (the Carbon Disclosure Project) and recognise there will be more reporting obligations in all of the geographies in which we operate. We will continue to monitor and review these evolving requirements, engage with shareholders and work closely with our customers and suppliers to ensure that we meet our obligations and stakeholder expectations.

Our employees show significant interest in climate change and regularly pose questions to leaders as part of our Global Employee Roadshow. We included a question on climate change in our Peakon employee survey in July 2022: "I would like to do more to help QinetiQ reduce its impact on climate change". The question scored 7.7 out of 10 (higher than the average score) and there were over 1,100 comments and suggestions. The survey has been valuable in informing our programme and also how we communicate.

We have launched a new Net-Zero channel as part of our "IdeaXchange" to make sure employees are able to create and collaborate on ideas and we are able to capture any suitable ideas into our plan. We have launched a new sustainability lunch and learn series, offering employees the opportunity to learn from internal and external speakers on a range of topics. We also use World Environment Day as an opportunity to engage with our teams through various virtual events. We ran our third "December Climate Change Challenge" campaign to promote how we can all contribute to tackling climate change.

For our leaders, we launched an engagement process to discuss their role in delivering the Net-Zero plan. This included an in-depth interview programme, led by our Human Factors team who are experts on culture change. We also introduced Net-Zero as part of the leadership incentives (see [page 73](#)) and have refined this for FY24 ([page 138](#)).



CASE STUDY

Vision 2050
sustainability
competition for
our early careers
community

We launched our first sustainability competition for our global Early Careers community, asking them "how do you see QinetiQ in 2050?" Supported by a series of sustainability and innovation workshops and mentors from our QinetiQ Fellows community, the teams developed a range of solutions considering biodiversity, renewable energy and culture.

8 teams, 66 ideas

Read more about our Net-Zero programme [pages 58 and 59](#)



It is exciting to see the range of great ideas from our people through the ideaXchange and the Vision 2050 competition, providing platforms to showcase our diversity."

Carol Borg, Group CFO

Sustainability continued

Net-Zero pathway initiatives

QinetiQ's Net-Zero GHG Emissions reduction programme: activities delivered to date and future plans

Achieving Net-Zero

Net-Zero Operations
(Scope 1 and 2 GHG emissions)Initiative
01

Completed in FY23

- Elimination of Sulphur Hexafluoride (SF6) from Flash X-ray equipment.
- Preparation for installation of new Photovoltaic (PV) power solutions across UK sites.
- Installation of new electrical sub-meters at key UK sites.
- First phase of installation of new Electric Vehicle (EV) charging units across UK sites.
- Installation of Telematics systems in UK corporate fleet vehicles.
- Changes to air-traffic control procedures with the introduction of performance-based navigation approaches, and revised continuation training for pilots.
- Efficiency improvements to our aircraft, for example through a weight-reduction programme.
- Procurement of new electric aircraft tugs, lower-emission diesel ground power units and lower-emission diesel runway sweeper vehicle.
- A range of energy efficiency improvements across our operations, for example through digital transformation projects.



Planned for FY24 and beyond

- Comprehensive plan for the removal of fossil fuels from our operations.
- Installation of new renewable power generation solutions across UK sites.
- Installation of additional electrical sub-meters, to provide greater granularity on our energy consumption.
- Trial of high-capacity energy storage solution, to capture energy generated by on-site, renewable power systems.
- Installation of additional EV charging units across UK sites.
- Sustainable Aviation Fuel (SAF) pilot project, to help guide a future adoption of SAF across our aviation activities.
- Phased rationalisation of our UK corporate vehicle fleet, with a transition to low-emission vehicles.

Net-Zero upstream
and downstream focus
(Scope 3 GHG emissions)Initiative
02

Completed in FY23

- Internal stakeholder mapping, to identify and engage with Scope 3 data owners from all areas of the business.
- Analysis of supply chain data, providing greater understanding of our emissions associated with purchased goods and services.
- Improved inclusion of environmental considerations within investment decisions, including mergers and acquisitions.
- Review of existing Business Travel policy and provider, and identification of areas for improvement to reduce emissions.
- Engagement with Business Development teams and internal product owners, to identify and calculate emissions data associated with sold products.



Planned for FY24 and beyond

- Development of a hybrid approach to reporting Scope 3 emissions, moving away from current spend-based methodology for key categories.
- Greater engagement across our supply chain, targeting emissions from purchased goods and services.
- Design of a new travel strategy, reviewing and reducing emissions associated with business travel and commuting.
- Greater engagement with corporate estate management teams outside of the UK, to review options for reducing emissions associated with leased assets.

Deliver critical internal and
industry-wide enabling activitiesInitiative
03

Completed in FY23

- Inclusion of Net-Zero into the non-financial component of all senior leaders' incentive scheme.
- Significant employee engagement and raised awareness through briefings, blogs, webinars, and Peakon Survey.
- Creation of a dedicated idea generation channel for collaboration and innovation around climate change.
- Early Careers Sustainability competition, to drive engagement and gather insight.
- Developed a Carbon Calculator Tool, to visualise the carbon footprint of activities, projects, and investment opportunities.
- Continued to play an important role on stakeholder steering committees and action groups, for example the Defence Suppliers Forum (DSF), ADS and TechUK.



Planned for FY24 and beyond

- Improved training for all employees and leaders, providing greater focus on environmental issues.
- Development of an improved emissions reporting toolset, to enable enhanced forecasting capabilities.
- Embedding of environmental impact criteria into investment approvals, technical assurance processes, and project reporting metrics.
- Development of a revised waste strategy.
- Development of a detailed Climate Transition Plan, in compliance with the Transition Plan Taskforce (TPT) guidance, building on our existing Net-Zero plan to further outline our strategy to contribute to and prepare for a global transition towards a low-carbon economy.

Contributing to Global Net-Zero

Co-create with customers,
invest in research and development
and care for the environmentInitiative
04

Completed in FY23

- Secured contracts with key customers for delivery of Net-Zero planning and strategy development.
- Secured agreement for additional funded Net-Zero research and concept development through our LTPA contract.
- Recognised by the UK MOD Sanctuary Awards for achievements in conservation and sustainability in relation to the renovation programme on St Kilda. The programme was Highly Commended in the Sustainable Procurement and Construction category.



Planned for FY24 and beyond

- Launch new IRAD (Internal Research and Development) approach for sustainable solutions.
- Continue to work closely with all customers to support their Net-Zero journey, for example as part of the LTPA.
- Undertake a review of our portfolio of solutions and explore new opportunities.

Sustainability continued

Sustainable solutions for customers

QinetiQ are supporting DE&S to deliver their Net-Zero strategy, starting with a Discovery Phase regarding plans to purchase more resilient and lower emission military capability. Working with Front Line Commands, DE&S and supplier groups, we have reviewed existing Acquisition and Support mechanisms, delivered a high-level overview of the data requirements for a new approach to carbon management and developed a comprehensive stakeholder engagement plan. These, combined with our advice on culture, behaviour, data, process and business change provide a strong foundation for meeting the MOD Net-Zero strategy. This work is being delivered through the Aurora Engineering Partnership.

Environmental management

We seek to deliver responsibly and sustainably for our customers, protecting the environment, enhancing biodiversity and minimising our GHG emissions. Our approach is underpinned by ISO 14001 certification in the UK and Canada. We have launched a new Environment Council, where Functional and Sector leaders come together to communicate, review and agree on issues, actions and standards of best practices that are enterprise-wide and/or have operational significance. Environmental matters are also reported to and reviewed regularly by the Board. (Also see [page 88](#)).

We have refreshed the environmental content of our mandatory training for employees and engaged and communicated with our people, to promote environmental stewardship (see [page 56](#)).

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 (approximately 95% of the total) have waste management action plans. We met the FY23 waste target, with 87.1% of underlying waste re-used or recycled (compared with 82.7% in FY22). 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 improvements.

Conservation and biodiversity

During FY23 there has been a global focus on biodiversity following COP15. 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:

- The rare, protected fen orchid has been rediscovered in the dunes at MOD Pendine after 20 years. This species needs open, scrub-free conditions and recent conservation work at the site has promoted this.
- Assessment and mitigation of underwater noise impacts on marine mammals have enabled complex activities to take place such as Exercise Atlantic Thunder at MOD Hebrides.
- Approvals have been obtained for seabed infrastructure reinstatement within a Marine Protected Area at MOD Loch Fyne.
- An area has been identified for turtle dove conservation activity at MOD Shoeburyness. Turtle doves are the fastest declining bird population in the UK.
- Protection and monitoring of the great crested newt, a European protected species, during ongoing restoration of a previously contaminated site at MOD Eskmeals.

We were delighted to have been recognised by the MOD Sanctuary Awards for achievements in conservation and sustainability in relation to the renovation programme on St Kilda in the Outer Hebrides. The project was Highly Commended in the Sustainable Procurement and Construction award category.

In FY24 we will continue to focus on environmental stewardship programmes, building greater connection with our Net-Zero plan. We will be reviewing policy and further improving training, awareness and environmental volunteering to engage our people.

Taskforce on Climate-related Financial Disclosures

We are committed to reducing our greenhouse gas emissions and ensuring that our business is resilient in a future climate-changed world. Our transition to Net-Zero requires us to proactively evolve and change as the world around us decarbonises, and experiences the physical impacts of climate change. We published our Net-Zero plan where we have committed to near-term and long-term targets to reach Net-Zero across our value chain by 2050 from a FY20 base year. Our targets have been validated by the Science Based Targets initiative. FY23 formed our foundation year and we have made good progress.

The Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD) recommends a reporting framework across four overarching themes (governance, strategy, risk management and metrics and targets). In line with the Financial Conduct Authority (FCA) 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 and on our website. We are committed to implementing this approach to provide investors and other stakeholders with information on climate-related risks that are relevant and material to our business. As best practice and guidance advances, we will actively seek to refine our reporting over time.

Compliance statement

We believe our approach is consistent with 10 of the 11 TCFD recommendations. In FY24 we will be focusing on further developing the quantitative aspects of our financial modelling. We will be reviewing our scenario modelling and seeking to refine our targets as our climate resilience approach progresses and evolves.

Governance

Disclose the organisation's governance around climate related-risks and opportunities

TCFD recommended disclosures:	Additional information
a) Describe the board's oversight of climate-related risks and opportunities	Page 97: Board Directors Page 138: Remuneration Committee
b) Describe management's role in assessing and managing climate-related risks and opportunities	Page 128: Audit Committee Page 80: Risk Management Page 73: ESG Governance Page 138 Leadership incentives Page 56: Leadership engagement Page 88: Non-financial information statement

The QinetiQ Board has overall responsibility for our ESG approach and climate change forms a core part of this agenda. It has oversight of the risks and opportunities resulting from climate change, and this is considered as part of our strategy. Our Group CFO Carol Borg is the Board Sponsor for the wider ESG programme, including climate change.

She has extensive ESG experience (see [page 97](#)). Both the Group CFO, and our Group Director of ESG provide regular reports and briefings on ESG and climate change to the Board and key Board Committees.

Board Meetings:

- In October 2022, climate change formed part of the Board's strategy day with a session led by the Group CFO to provide an update on progress and to discuss plans, including a focus on data in FY24.
- In July 2022 and in January 2023 we provided updates on progress and plans of the climate change programme.

Audit Committee

- In March 2023 an update on non-financial reporting including TCFD was presented.

Remuneration Committee

- Overseen by the Remuneration Committee, in FY23 we launched a new climate change goal as part of the non-financial collective goals for our leadership community. During FY23 the focus on climate change has evolved and strengthened as part of the FY24 Annual Bonus Plan for leaders ([page 138](#)).

In 2022 we created a new ESG Steering Committee, Chaired by the Group CEO, to provide oversight, leadership and scrutiny of our ESG commitments and initiatives across the Group including performance against our Net-Zero Plan. The Committee meets monthly and includes the Group CFO, Group Director of ESG and members of the QLT.

Leadership and delivery of the climate change programme are the responsibility of the Group Director of ESG, who reports to the Group CFO. The Climate Change Steering Group includes leaders and subject matter experts from across the business in key roles, ensuring we take the necessary multidisciplinary approach. The regular programme reviews and meetings create a senior forum for developing and implementing strategy and plans and for reviewing risks and performance. The Group CFO has oversight of the programme and reviews progress and plans.

In FY23 we created a number of new Functional Councils to support good governance across our business, where Functional leaders come together to communicate, review and agree on issues, actions and standards of best practice that are enterprise-wide and/or have operational significance. Relevant to our climate change programme are the Environment Council and the Risk and Assurance Council; the former is chaired by the Group Director of ESG and she is a member of the latter. As the councils mature, they will help to ensure that climate change is embedded in our risk and governance approach. Also that our governance structure, and oversight of policy and strategy for climate change is consistent (eg aligned with our Finance Council). In FY24 we will be strengthening inclusion of climate change in sector and functional performance reviews with the Group CEO and Group CFO.

As part of the introduction in FY23 of climate change into our leadership incentive scheme, we undertook a widespread engagement approach to working with senior leaders across the business to identify their role in tackling the risks and opportunities associated with climate change ([page 56](#)). This ongoing engagement and involvement by leaders strengthens our commitment and underpins our leadership engagement, oversight and governance.

Sustainability continued

Taskforce on Climate-related Financial Disclosures
continued

Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses strategy, and financial planning where such information is material

TCFD disclosures:	Additional information
a) Describe the climate-related risks and opportunities identified over the short, medium and long term	Page 80: Climate Change risk Page 17: Strategic framework Page 53: ESG framework
b) Describe the impact of climate-related risks and opportunities on QinetiQ's business, strategy and financial planning	Pages 50-51: Non-financial KPIs Pages 54-59: Net Zero plan Page 59: New IRAD funding
c) Describe the resilience of QinetiQ's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	Pages 52 and 56: Industry partnerships Page 84: Viability statement

Climate change is a significant global issue and considerations for businesses include physical risks (with 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. During FY23 we have seen unprecedented temperatures in the UK, devastating floods in Pakistan, a significant increase in energy prices due to the conflict in Ukraine, emerging reporting requirements on business and an increase in focus by our customers. It is important that we understand where these types of issues are material to our business.

In FY22 we undertook a Group-wide qualitative climate change risk review of our operations, our supply chain and our work for customers and considered how this could impact cost, revenue and asset value. We have considered the medium (2030) and longer term (2050). We considered risks site by site, to consider geographical and regional variation, reflecting different locations and also different business operations (for example delivering trials, managing our estate, our supply chain). We identified that our business is exposed to both physical and transitional risks (before mitigation activities) and opportunities which are listed in the table on [page 63](#).

Other issues were considered (for example, the impact on reputation) but were less material. We will continue to review our risks and opportunities as the external landscape and our business evolves over time and we will also refine our approach and look to create a quantitative approach and will report further information as this develops.

Impact on strategy and planning

These aspects are included in our principal risks on [page 80](#) and a description of our risk management approach is on [page 75](#). As part of our regular risk review, we do not believe these risks have materially changed. We recognise this is not a one-off exercise and have been focusing this year on how we ensure that we build the "business as usual" mechanisms, to ensure that we understand the risks, understand the impacts and can ensure we are resilient.

Our commitment to ESG and sustainability is part of our strategic framework (see [page 17](#)) and GHG emissions are one of our core non-financial KPIs (see [page 51](#)). ESG and climate change are embedded in our Integrated Strategic Business Plan (ISBP) process. In FY22 we developed and published our Net-Zero plan (see our full Net-Zero plan: www.qinetiq.com/en/our-company/sustainability/climate-change/net-zero) and FY23 has formed our foundation year of this programme (a detailed review is provided on [pages 54-59](#)).

In FY23, as part of the preparation of the ISBP, we strengthened our articulation of climate change to ensure we understand how accountability lies across the whole of the Group. This included a dedicated session on climate change as part of the Board's strategy day. We have revisited how we manage opportunity and risk management as part of the strategy.

We are driving our Net-Zero plan and will continue our investment in our initiatives detailed on [page 58-59](#) as well as addressing the need for greater horizon scanning and reporting and we have set up a new IRAD (Internal Research and Development) fund for FY24 to support sustainable and Net-Zero innovation ideas. We continue work to refine how to quantify 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. We will be further focusing on quantifying the growth potential of customer solutions, currently a relatively small part of our capability portfolio, but with recognised potential.

Type of risk	Cause	Risk effect (unmitigated)	Scenario and timescale	Mitigation
Physical	Increasing number or increasing severity of extreme weather events or flooding affecting sites.	May result in damage to infrastructure, which could disrupt operations on our estate and those sites we manage on behalf of our customers.	The likelihood and severity of these events is likely to increase in the medium and long term, particularly under the rising emissions scenario.	Risk assessments for our sites to identify any vulnerability to extreme weather or flooding events. Building climate resilience into business continuity planning.
Physical	Increasing number or increasing severity of extreme weather events causing disruption to supply chain.	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, particularly under the rising emissions scenario.	Risk assessment of supplier categories. Building climate resilience into business continuity planning.
Transition risk	Emergence of new regulation.	Across all of the territories in which we operate, we may be subject to greater regulatory requirements (for example increases in reporting) or carbon (GHG) pricing, which may result in additional costs, the need for additional resources or the failure to meet requirements.	This will be potentially more likely for scenarios where global decarbonisation is more rapid.	Monitoring of emerging policy and regulation to inform business planning (e.g. recognition of future reporting requirements is included in our long-term strategic plan). Reduction in emissions reduces our exposure to carbon pricing.
Opportunities	New products and services.	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).	Short to medium term, may increase in all scenarios.	Maintaining customer intimacy to understand future requirements. Regular engagement through industry working groups to understand and share best practice. Development of "sustainable solutions" portfolio and introduction of new IRAD fund.

Climate scenarios

While it is unequivocal that the climate is changing, the precise trajectory is dependent on the influence of activities in the past, the global action taken now and in the coming years and the rate at which that action is taken. To guide our strategy and planning, it has been helpful to consider different scenarios which 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 impacts.
- **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.

In FY22, we undertook our first scenario-analysis to assess the potential impact of climate change on our business and consider different possible futures. We used the scenarios above, based on the Representative Concentration Pathways (RCPs), which are used by the Intergovernmental Panel on Climate Change (IPCC). We considered two time horizons (2030 and 2050) so we were aligned with our Net-Zero targets and used a variety of data sources. We plan to review this approach regularly.

Climate change implications were considered through the FY23 ISBP process. A climate change event (a significant flood at a critical site) was selected as one scenario for financial modelling as part of the broader scenario impact assessment of our ISBP. The findings were presented at the March 2023 Audit Committee to inform the consideration of the recommended longer-term viability statement and going concern statement disclosures (see [page 84](#)). Through the ISBP process we have also identified potential business growth opportunity due to the climate change imperative that we share with our customers.

Sustainability continued

Taskforce on Climate-related Financial Disclosures
continued

Risk management

Disclose how the organisation identifies, assesses and manages climate-related risks

TCFD disclosures:	Additional information
a) Describe the organisation's processes for identifying and assessing climate-related risks	Page 80: Strategic risk management Pages 58-59: Net-Zero plan
b) Describe QinetiQ's processes for managing climate-related risks	Page 60: Environment Council
c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management	

Identifying risk

In line with TCFD recommendations, our risk assessment approach addresses both physical risks and transition risks. In FY22, to identify key risks and opportunities, we undertook a review of best practice and guidance and ran briefing sessions and workshops with key internal stakeholders, to explore what would be relevant to QinetiQ operations. In FY23 we have been reviewing and refining our risks to ensure that our assessments are current and that we are embedding these as business as usual. For physical risks we considered these primarily by site, and also considered issues such as our supply chain and business delivery. A range of potential risks have been identified (for example where there may be increased flood risk) and captured. We recognise that this needs to be a continuous process as there may be change either due to new emerging information or changes to our business (e.g. use of site, supplier, etc). 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. In FY23 we surveyed our site teams to explore if they were observing new issues or had experienced significant events; no material issues were identified.

To assess transition risks we undertake horizon scanning to identify any relevant changes. We have used a variety of sources of information. In FY23 we have been exploring how we can strengthen our horizon scanning and will be setting up some additional programmes in FY24.

The scenario analysis described above 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.

Management of risk

Ownership and management of individual risks are assigned to members of the QinetiQ Leadership Team (QLT) 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 80](#) in the risk section). The QLT is supported by our Chief Risk Officer and our risk managers, who are able to have more tactical and operational oversight. Risks are assigned owners. 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 [pages 58-59](#) for progress and plans for FY24 onwards).

We will continue to regularly review physical risks across our sites recognising potential for different impacts across different geographies, as part of our risk management process. Managing transition risks requires us to consider a range of factors which could impact our business in the future. So we routinely undertake horizon scanning for aspects such as emerging regulation and evolving markets (e.g. via our close engagement with customers on Net-Zero). Any new changes (e.g. new legislation) will be addressed in line with our standard processes.

Key to supporting the management of risks is raising awareness and engagement with internal stakeholders. We have developed a climate resilience "resource hub" for key internal stakeholders and have been adding content and providing regular updates in the community group and will use new stakeholder groups such as our Environment Council.

During FY23 we have acquired new businesses: Avantus with offices in the US and Air Affairs, with locations in Australia. Our focus in FY24 will be to undertake climate resilience reviews of these new parts of the QinetiQ Group. We will also be exploring how we can further include aspects of Net-Zero and climate resilience as part of our mergers and acquisitions (M&A) approach.

Integrating/embedding into risk management

Our risk management and control framework enables us to effectively identify, assess and manage risks, and climate change is 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 (see [page 75](#)).

We recognise the importance of continuous improvements and based on feedback, in FY24 we are running a climate change workshop for our procurement community to explore emissions reduction and climate resilience associated with our supply chain. We are also co-creating a sector programme on climate resilience, through our role in the Defence Suppliers Forum. We will also be looking at how we can share learning and guidance across site teams in FY24. As part of our regular review cycle of our policy and procedures, in FY24 the new Environment Council will be reviewing our Group policy to ensure that we have established and maintained adequate procedures, systems and controls to ensure the Group is able to manage risk and comply with its obligations.

Metrics and Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material

TCFD disclosures:	Additional information
a) Disclose metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	Page 55: Net-Zero targets Page 55: Validation of targets Page 138: Leadership incentives Page 51: Non-financial KPIs
b) Disclose Scope 1, 2, and if appropriate, Scope 3 GHG emissions and the related risks	Page 56: Scope 1 and Scope 2 GHG emissions Page 56: Intensity ratio Page 55: Scope 3 GHG emissions Page 56: Energy consumption
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	Page 80: Risk management Page 60: Waste target Page 54-59: Net-Zero plan

Metrics and targets

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 our GHG emissions.

- Over the years we have set a number of reduction targets and reported progress in the annual report.
- In FY21 we introduced Scope 1 and Scope 2 GHG emissions as one of our five non-financial KPIs (see [page 51](#)).
- As part of our Net-Zero plan, published in March 2022, we introduced new targets and have committed to near-term and long-term targets across our value chain (see [page 55](#)).
- We submitted our full set of Scope 1, 2 and 3 GHG emissions targets (near-term and long-term) to SBTi in January 2022, and received confirmation of validation by SBTi in June 2022; we were one of the first companies to achieve this (see [pages 54 and 55](#)).
- We have a waste reduction target ([page 60](#)) and plan to further develop this in FY24.

Disclosure of Scope 1, 2 and 3 emissions

- We have disclosed our Scope 1 and Scope 2 GHG emissions in the annual report and accounts for a number of years.
- FY23 Total Scope 1 emissions of 13,360 tCO₂e and Total Scope 2 emissions of 11,358 tCO₂e have been subject to independent limited assurance procedures (see [page 56](#) for details).
- We publish our intensity ratio by revenue of 16 ([page 56](#)).
- We also disclose our energy consumption ([page 56](#)) in line with SECR requirements.
- In FY22 we published our total Scope 3 emissions for the first time in the Annual Report and Accounts. We have published our latest Scope 3 emissions on [page 55](#) (269 kt CO₂e for FY22).
- Annually we publish a Carbon Reduction Plan on our website, in line with UK Government Public Procurement Notice (PPN) 06/21, which includes Scope 1, Scope 2 and aspects of Scope 3.

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

Our Net-Zero plan identified how we will address the reduction emissions through four initiatives and we describe the progress against these plans on [pages 58 and 59](#). As part of our risk management approach we are managing the risks associated with the delivery of this plan and these are described on [page 80](#). We also describe on [page 55](#) the challenge of Scope 3 data and the approach we are taking to address this.

We have been exploring the requirements and guidance of the Transition Plan Taskforce, and will be engaging with key stakeholders to develop a transition plan which builds on our published Net-Zero plan.

Targets used and performance

We use our Net-Zero targets to drive our Net-Zero plan, managing the risks to delivery and maximising opportunities. Progress against the plan is detailed on [pages 54-59](#).

On [page 56](#) we have reported a 30.5% reduction in our Scope 1 and Scope 2 emissions against our FY20 base year towards our target of 50% reduction by 2030.

In FY23 we introduced Net-Zero into our leadership incentive scheme and for FY24 this will be aligned with reduction in Scope 1, Scope 2 and aspects of Scope 3 emissions ([page 138](#)).

We currently have a waste target where we have been tracking the improvements to recycling and diversion from landfill ([page 60](#)). We will be reviewing this target in FY24.

Sustainability continued



Our people play a critical role in what makes our Company a great place to work. So we want working at QinetiQ to feel inspiring, for our people to realise their full potential and feel recognised for their contribution. It is also important to us that we have a positive social impact in the communities in which we operate.

Our people and communities



Our employee offering framework features six areas of focus: Safety & Wellbeing; Responsibility & Sustainability; Diversity & Inclusion; Adaptability & Flexibility; Learning & Development; Reward & Recognition – with our purpose, values and behaviours at the heart.

This year we have focused on embedding our employee offering by investing in and promoting the many advantages of working at QinetiQ, and actively demonstrating what our people can expect in return for the contribution they make towards our success.

As well as ensuring our people are familiar with our employee offering, we have refreshed how we communicate externally to promote QinetiQ as an employer of choice on our Career Site and via social media.

Safety and wellbeing

Safety

We are creating a safe and secure environment for us all to thrive, sharing expertise and knowledge across our whole Company and strengthening the positive impact we have on health and safety. Across the Group, we have seen a steady decrease of our Lost Time Incident (LTI) rate¹ from 2.05 in FY22 to 1.20 in FY23.

Lost Time Incident (LTI) Rate¹

FY23	1.20
FY22	2.05
FY21	2.67

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.

The LTI rate is one of our five non-financial KPIs (see page 51).

In FY22, driven by a desire to continuously improve our safety culture, we launched our Group-wide Safety Improvement Programme (SIP) and in FY23 appointed a Group Director Safety Excellence and Assurance. The SIP is based on feedback from employees across all our global sites and focuses on six core safety areas: culture; organisation; competencies; governance; processes; and technology. Working in partnership with dss+ (previously Du Pont Sustainable Solutions), the programme continues to deliver and we have:

- Enhanced our environment, health and safety incident management process to enable greater insights into safety performance data for the purpose of corrective and preventative action.
- Designed a new suite of global safety key performance indicators for improved safety performance measurement across the organisation.
- Launched a training and coaching programme to upskill our leaders in the areas of visible, tangible safety leadership and effective safety role modelling.
- Introduced a safety maturity assessment for our operating sectors to use throughout the year to measure the maturity of their safety culture.

As we make further improvements we are continuing to engage with our employees and dss+ and will undertake a follow-on global safety culture survey across all our sites. Underpinning our safety commitment and drive for effective safety role modelling, our leaders continue to have a common goal for safety as part of their leadership incentive scheme (see page 138).

In FY23 we received a safety prohibition notice from the Health and Safety Executive (HSE) as a result of the removal of explosive items from packaging in explosive magazines at the MOD Boscombe Down site. An investigation and appropriate actions are now completed.



As an early adopter of YuLife, I've been using the app for a couple of months and I am really enjoying it.

It is easy just to spend all day in the office or at home, sat at my desk, so it's a helpful prompt to remind me to get out and take a break.

The need to complete quests appeals to my competitive side and is encouraging me to do a bit more exercise!"

QinetiQ Employee

Wellbeing

Our wellbeing strategy focuses on the five pillars of physical health, mental health, personal growth, working environment and financial wellbeing. The wellbeing team partner with our colleagues in the SIP to support our safety culture and have established a jointly chaired Wellbeing Steering Group. We have been gaining insights from employee focus Group events in the UK, the US and Australia which will allow us to develop meaningful and impactful learning interventions for leaders, managers and our people in respect of psychological safety. Last year we continued to develop our global wellbeing offering by:

- Launching the YuLife service and mobile app for our UK employees, which encourages healthy habits and activities to support wellbeing.
- Hosting multiple financial wellbeing webinars.
- Introducing the QinetiQ Hardship Fund.
- Running regular wellness webinar events in the US.
- Utilising the Personal Development Fund as an enabler for employees to understand the benefit of development linked to their personal wellbeing.

Sustainability continued

Our focus in FY24 will be to address three priority themes that were identified through engaging with our people:

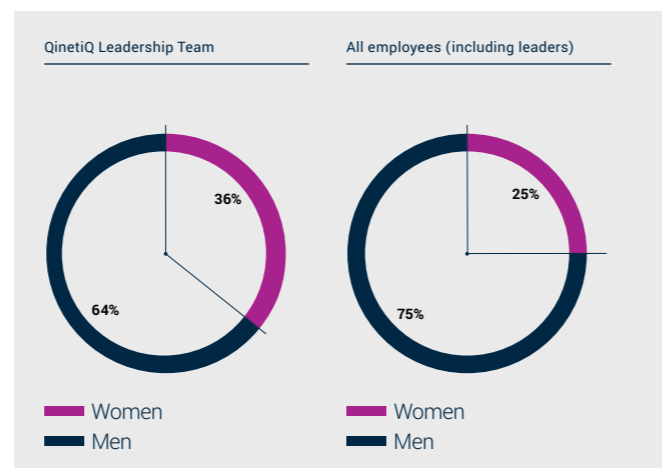
- **Leadership of wellbeing:** Provide managers with the tools and skills to proactively identify poor mental health and how to have supportive conversations with their teams.
- **Workload and stress:** Support all of our people through new resources on psychological safety (including identifying poor mental health), how to build personal wellbeing strategies which support sustainable ways of working and our mental health and how to seek support where it is needed.
- **Financial wellbeing:** Continue to provide support for financial wellbeing via educational campaigns and awareness of our QinetiQ Hardship Fund and undertaking a review of both our global Employee Assistance Programme and benefit offerings.

Diversity and inclusion

Advancing Diversity & Inclusion (D&I) is both a business and a social imperative. Our commitment centres on the success of our people and our ability to attract and retain the best talent in order to deliver for our customers. We aim to build a workplace that is inclusive, where our differences are not only embraced but make us stronger. Our focus in FY23 has been across three key themes: awareness of the importance of inclusion and diversity, inclusive leadership, and employee inclusion and belonging. Some of the key achievements we have accomplished this year include:

- Holding a number of global awareness campaigns including: dyslexia; mental health; Women in Defence; psychological safety; Black History Month; International Men's and Women's days; hormonal imbalance; Pride Month; disability; and domestic violence.
- Continuing to build D&I training and resources for all employees.
- Holding neurodiversity awareness sessions across the UK with more than 1,000 people attending.
- Maintaining D&I as part of our global leadership incentive scheme, with leaders delivering 918 interventions across the Company.
- Participation in the KPMG Cross Company Allyship Programme, supporting mentees from Black Heritage and Ethnic Minority backgrounds.
- Ensuring employees are aware of the channels through which they can raise concerns including: Speak Up confidential reporting (see [page 73](#)), Global Employee Voice (GEV) and Workday Peakon engagement survey.
- Winning a number of awards, including one of our female employees receiving the Women in Defence Award 2022, in the category of Resolute Spirit, recognising steadfast spirit to persevere while overcoming real adversity.
- Increasing indigenous representation in Australia's Early Careers programme.
- Running a fifth cohort of our global reverse mentoring programme, inspiring partnerships between junior and senior employees.
- Recipient of the 2022 HR Australia Excellence awards for Best Flexibility Program and Best Graduate Development Program, this program also won the 2022 Australian Defence Industry Award for Best Training & Mentoring Program.
- Participation in FTSE Women Leaders Review, reporting improved female representation in our Executive Committee plus direct reports, from 27.2% in FY22 to 27.8% in FY23.

This has all been supported through our seven employee-led networks and our D&I champions, a number of which are sponsored by members of the QinetiQ Leadership Team. These groups provide visible leadership and direct engagement to ensure employees feel that their differences are valued and represented.



In FY23 we have expanded the range of our gender pay gap from just QinetiQ Limited, and our latest report now includes key UK subsidiaries. QinetiQ Limited reported a reduction in its gender pay gap from 12.6% in 2021 to 11.3% in 2022 and Inzpire Limited had a gender pay gap of 28.6% for 2022, so the overall UK gender pay gap has increased to 12.9% for 2022.

Gender balance data

	FY23		FY22		FY21	
	Female	Male	Female	Male	Female	Male
Board Directors ¹	3 (33%)	6 (67%)	4 (44%)	5 (56%)	3 (37%)	5 (63%)
Senior managers ²	57 (19%)	244 (81%)	59 (20%)	240 (80%)	57 (19%)	239 (81%)
Other employees ³	1976 (25%)	5989 (75%)	1478 (22%)	5136 (78%)	1,447 (22%)	5,145 (78%)

¹ For more information on Board diversity see [page 116](#).

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 QinetiQ Leadership Team (QLT) but excludes our CEO and CFO who are captured under Board Directors.

³ Excluding senior managers, the CEO and the CFO.

We remain focused on progressing our D&I agenda, appointing a new Group Culture, Diversity & Inclusion Lead to our Global Employee Experience Team as part of our wider focus on improving employee experience and engagement. In addition, in the US, we have appointed a Director of Diversity, Equity, Inclusion & Belonging. In FY22 we set a global target of 30% women by 2030. In preparation for our next strategic phase, recognising that gender diversity is just one area of focus, we have revised and broadened our D&I ambitions to include progress towards greater ethnic diversity at all levels of the organisation and increasing representation of women and ethnicity in leadership roles and Early Careers programmes. This ensures our efforts are focused on developing a broader pipeline of talent both in leadership and those starting their career. We recognise in the US, 36% of our employees have self declared as black heritage or ethnic minority. This gives us a place to build on across the Group.

To support these ambitions an updated three-year (2023-2026) global strategy and delivery plan has been developed and in FY24 our primary focus will be on:

- Improving our diversity data to help us better understand our workforce and identify areas requiring more focus.
- Continuing our progress towards achieving greater diversity overall and specifically across leadership and Early Careers roles.
- Further developing leadership capability with a focus on inclusive leadership and engaging with our people to ensure all employee voices are heard and action is taken to respond to build an inclusive environment in which our people can thrive.

Employee engagement

This year we made a conscious choice to take a step change in our engagement approach, rebalancing our focus on our people through purposeful investments in our employee offering alongside greater emphasis on what is impacting our colleagues around the world, for example the cost of living, Adaptive Working, and skills development. Critical to all of our people is feeling valued and engaged, ensuring 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 that make QinetiQ a great place to work. The GEV representatives meet regularly with the Group CEO and Chief People Officer and have also met with the Chairman and Board members during the year (see [page 106](#)). In FY23 the GEV demonstrated that feedback has been listened to and is helping to shape our actions through supporting a number of changes, including the significant investment into our employee offering, support for cost of living, the introduction of financial wellbeing webinars, and the implementation of the QinetiQ Hardship Fund.

Our Adaptive Working approach and our global operating model means that we need to communicate with a geographically and temporally dispersed workforce. 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. To further our commitment of listening to employees we have a global Site Champion network, who focus on creating a sense of community, and our Speak Up programme (see [page 73](#)) provides our people with a number of ways to seek advice or raise any concerns they may have. In addition, we hold Global Employee Roadshows twice a year, providing an opportunity for our people to hear from the QinetiQ Leadership Team about our growth strategy and important topics from across the global business, and to enable them to ask questions of leaders.

Employee engagement is one of our five non-financial KPIs, reflecting its importance to our business strategy (see [page 50](#)). We adopt a continuous listening approach, using the Workday Peakon employee engagement platform, which means we benefit from regular insights that enable us to make informed decisions and direct focus where it is most needed. This helps us understand what is important to our people, so that we can take action at a global, business and team level.

It is an incredibly rewarding position. I'm lucky to be able to interact with so many amazing people from across the entire Company. I have the support of an incredibly enthusiastic group of volunteers and together we help shape change for the better across the Company."

Paul Dorsett,
Global Chair of the GEV

We measure engagement quarterly and continue to see a good level of participation (69%), similar to FY22 (71%). This year we have seen an increase in the overall engagement score from 7.1 (out of 10) in FY22 to 7.4 in FY23; the highest we have achieved as a Group since implementing this engagement approach. Employees highlighted that areas of strength are: communication of strategy; workload; flexibility; learning; and having the opportunity to develop their career.

Sustainability continued

Employee engagement continued

Our people also tell us that they value our Adaptive Working approach and the ability to balance work and personal commitments. In FY23 we demonstrated that feedback through the GEV and Peakon has been listened to and is helping shape our actions. This included the significant investment into our employee offering, with support for the cost of living, more opportunity for learning and development, and improving our ways of working. Our voluntary attrition was 14.3% in FY23 compared with 13.8% in FY22, (noting that our number may be affected by our two major acquisitions) with some hotspots in the US and Australia.

The focus in FY24 will be on evolving our employee offering, creating choice and meeting the diverse needs of our people with emphasis on reward, equipment provision, and ensuring a good match between organisation and individual values. We will focus on listening to feedback, taking action to respond and 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.

Our QinetiQ Leadership Community (QLC) was created this year to connect our senior leaders globally, strengthening collaboration through shared purpose, knowledge, experience and learning. The inaugural QLC conference was held in Washington DC, US in July 2022, providing the opportunity for leaders to develop our approach to delivering our strategy and goals. Regular virtual events have been held throughout the year providing opportunity for strategic and financial updates, spotlights on specific topics and dialogue about our priorities. This focus will continue in FY24 to ensure we build on this collaborative approach, working across teams and geographies, to create value for our customers, people and shareholders.

Adaptability and flexibility

Over the last few years we have learnt a great deal about how to adapt to different working environments and situations. Our Adaptive Working approach, in place for just under two years, is an important part of our employee offering and is a key differentiator in the market. It empowers us to make decisions about where, when and how we work, so that we can achieve the most effective outcomes for our customers, while retaining the benefits of work/life balance, greater flexibility and more focus on safety and wellbeing. In FY23, we looked to maximise the value of this approach in our overall employee offering. For example, we implemented a global Site Improvement Fund for investing in creating an engaging on-site workplace for our people. We are introducing options for different working patterns such as a 4.5-day week or 9-day fortnight in the UK in FY24. This follows the successful launch of similar flexible working approaches in our Australian and US Sectors.

Learning and development

We are a people business and our skilled scientists and engineers are at the heart of our customer offering, so we actively promote and support skill development for our people. Our philosophy is to enable development through a combination of live and virtual training, self-led learning, on-the-job experience and by providing access to resources and toolkits. This year we continued to grow our digital learning capability to help more people access learning faster, improving productivity and reducing the costs associated with face-to-face, external training courses. We have been building digital capability and on-boarded a new digital learning experience platform (Q Skills), which is currently being utilised for the Test & Evaluation Sovereign Skills Programme (TESSP). This allows us to host bespoke QinetiQ-created content and develop learning paths for specific communities. It also enables self-directed learning and participants can explore a wide range of skills-based content relevant to their needs. Our learning portfolio continues to develop and in FY23 we have focused on improving access to training through our managed learner service, and internally developing new content for our UK Team Essentials and Leadership programmes. With personal development, people can realise their capabilities and their potential, thrive at work and achieve goals associated with their role. As part of our investment in our employee offering, we prioritised this as an area for improvement, providing all of our employees across the globe with access to a Personal Development Fund. This fund has provided every employee with the choice on how to drive their ongoing professional growth and skills development to enrich their careers. It has proven to be a success with over 5,000 individual bookings across a wide range of development opportunities.

With a focus on our technical community, we have:

- Welcomed five new Fellows, three new Senior Fellows, and promoted one Fellow to Senior Fellow. Our Fellow programme recognises the expertise, achievements and impact of our global technical, scientific, engineering and business experts and leaders.
- Launched Fellows and Futures aimed at connecting our global Technical Community with colleagues in their early or mid-career providing mentoring and collaboration and driving innovation through diversity of thought, experience and perspective.
- Continued encouraging learning and professional development of our Technical Community, through quarterly engagement sessions and an annual face-to-face event, enabling them to contribute to innovation, shape our strategy, build links with academic institutions and partner companies, and develop and mentor the next generation of scientists and engineers.

Additionally, this year we looked to leverage our skills and expertise globally through the TESSP. QinetiQ has developed an innovative knowledge transfer and development programme, capturing and codifying existing UK knowledge and expertise in order to build a blended and engaging learning programme that upskills individuals and creates capability in Australia. The programme provides participants with the opportunity to upskill and work alongside and be mentored by our global Test & Evaluation experts at the UK MOD's world-class air, land and maritime environments. This approach equips participants with the technical, behavioural and leadership competencies to be leaders in the Test & Evaluation field, investing in both our people and long-term business growth. The first participants arrived in the UK mid-February 2023 for a three-month experiential learning period at MOD Aberporth, MOD Shoeburyness and Winfrith.

In FY24 we are focused on:

- Developing and delivering Leadership Development interventions as part of the wider transformation programme in creating the culture for our next phase of growth.
- Developing a plan to embed the Group Strategic Resourcing and Strategic Workforce Planning framework and market implementation.
- Collaborating with our Sectors to understand how they approach learning and development and create consistency in areas such as coaching, mentoring, induction, management and development.
- Focusing on career growth and skills development through continued investment in the Personal Development Fund and our talent management approach.

Early Careers

Our Early Careers approach across the Group provides a rich and rewarding learning experience for individuals as they start their career with us. Demonstrating our commitment to Early Careers is one of our non-financial KPIs (see [page 51](#)).

In the UK we focus on graduates and apprentices, as well as Year in Industry students and summer placements. 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. We continue to focus on ensuring our Early Careers community are involved in meaningful work, with access and opportunity to develop their business knowledge, personal skills and understand how their work contributes to meeting our customers' requirements. We have seen an increase in the number of apprentices being recruited.

In addition, more graduates are being recruited and we have a stable level of Year in Industry students working with us during their degree programmes. As a patron and a founding member of The 5% Club, we remain committed to achieving 5% of our workforce being within our Early Careers population. We continue to make progress towards this and commit to publishing a breakdown of our UK Early Careers community (see table below) including the percentage they comprise of the UK workforce.



UK	FY23	FY22	FY21	FY20
Apprentices	85	53	72	67
Graduate Programme	128	105	98	50
Sponsored Students ¹	26	24	24	2
% UK Workforce ²	4.2	3.3	3.6	2.3

¹ includes 8 week paid work experience and Year in Industry placements.

² UK workforce is 5,672.

We do not include reskilling numbers in this table; the number of experienced employees using apprenticeships to reskill was 39 and covers a number of different disciplines (e.g. Human Resources, engineering etc.).

In Australia, we had 26 graduates on our 18 month graduate programme (this includes two cohorts). And we have a further 35 people participating in Early Careers programmes, including within our new acquisition Air Affairs. As we continue progressing our Indigenous Reconciliation Action plan, in the last 12 months we have increased the number of dedicated traineeships and apprenticeships for Indigenous Australians. We were proud to win "Graduate Program of the Year" in the Australian Defence Industry Awards for a second consecutive year and be awarded an Excellence Award for "Best Graduate Development Programme" at the 2022 Australian HR Awards.

Reward and recognition

Reward & Recognition is key to our people strategy and an important part of our global employee offering. Our approach is 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 FY23 paid £1,250 to each employee.
- We continue to invest in Pay & Progression, addressing market anomalies and managing in-year role and grade progression, with an investment of £1.8m in FY23.
- Through Thank Q, our global recognition scheme, we celebrated 3,386 individual people and 1,140 teams, with 5,152 awards.

Sustainability continued

Reward and recognition continued

Recognising the cost of living challenge, in October 2022 we made a significant investment in a range of improvements to reward and benefits. This extensive package included increases to salaries, commitment to deliver above the real living wage, and creation of the QinetiQ Hardship Fund. We also made market improvements for our Global Grade 13 and 14 population (mid-level managers), by extending our Leadership Incentive Scheme. In June 2022 we once again celebrated the contribution of our people at our Global Recognition Gala. Bringing together colleagues at live events in Australia, the UK, and the US, as well as virtually from Germany and Canada, we recognised 145 people, via 47 awards in eight categories. In addition, the Project Vampire team were recognised with the Outstanding Achievement award for their work in facilitating the launch of a Banshee Jet 80+ from the deck of the Royal Navy's HMS Prince of Wales aircraft carrier for the first time, off UK waters.

Looking forward to FY24, we plan to continue our investment in our employee offering. We will be focused on ensuring we continue to embed our Employee Offering enhancements and evolve in response to the market and employee feedback as well as in support of enacting our long-term strategy driving sustainable performance. Our leaders will continue to be incentivised for their collective contribution to non-financial KPIs, specifically around the areas of safety, employee engagement and Net-Zero (see [page 138](#)).

Responsibility and sustainability: community impact Volunteering

At QinetiQ we focus our volunteering efforts in three key areas: skills-based; environmental; and STEM (Science, Technology, Engineering and Maths) outreach, through which our employees provide real-world experiences to inspire the next generation of scientists and engineers.

We have a network of STEM outreach leads in the UK and Australia who support our volunteers. Across our UK sites we've engaged with approximately 8,000 children, supporting approximately 60 schools and youth groups. We value the expertise of partners; for instance, in the UK we are working with the Jon Egging Trust in continuing to understand the needs of young people, and we co-created an interactive workshop on the value of apprenticeships. During FY23 we launched our first virtual work experience and ran a series of STEM outreach events, including our annual Powerboat Challenge at our site in Haslar. Our annual support for International Women in Engineering Day resulted in a global awareness campaign and a large event for five schools with 60 young women and 10 teachers participating.

Environmental volunteering has provided opportunities for teams to make a difference and contribute to conservation initiatives while building their understanding of conservation, biodiversity and climate change. We also recognise the significant wellbeing benefits that this brings with the opportunity for connection, fresh air and for learning.

Charities

In addition to volunteering, we continue to support a number of charities. During FY23 in the UK we completed our three-year partnership with UK Defence charity SSAFA and continued our relationship with the Jon Egging Trust. In Australia, we partnered with Legacy, a charity focussed on supporting the families of Defence Veterans and raised A\$15,000. In Canada, we've donated to Ottawa Food Bank and Root Cellar. In the US we supported Our Military Kids, whose mission is to recognise the children's service and sacrifice, by providing grants for extracurricular activities.. Please see our website for more information:

<https://www.qinetiq.com/en/our-company/sustainability/community-investment>

In FY24 we intend to continue to grow our volunteering, focusing on creating positive impact in our communities.

Our defence partnerships

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. In 2016 we were awarded Gold Award status by the UK Ministry of Defence (MOD) in their Defence Employer Recognition Scheme. This 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 revalidated in 2022 and were delighted to receive our Gold Award from Major General Swift in March 2023. 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. A new covenant with enhanced support of forces and reservists' spouses and families will be published later in 2023.

In the US, we have an Outreach programme for Veterans through Circa and Military Offices Association of America and participate in military hiring events through Recruit Military and Corporate Grey. We contribute to the Virginia Veteran Values (V3) Program and have been participating in "Hiring our Heroes" events. In Australia we are pledge partners with Soldier On and attend their network events which has resulted in attracting talent into the business. We are also signatory to the Prime Minister's Veteran Employment programme.



QinetiQ receiving the UK MOD Defence Employer Recognition Scheme Gold award from Major General Swift.

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

Governance and leadership of ESG

Our approach to ESG is sponsored by our Group CFO and actively supported by our Board. Our Group Director of ESG leads our strategy and programmes, working with leaders across the business, and provides regular papers and briefings to the Board. These cover all material ESG issues, including ESG strategy, climate change, stakeholder engagement and reporting, ethics, Speak Up, D&I and community (see [page 102](#)). This provides oversight of our approach, including progress against programmes and plans.

In FY23 we introduced a new ESG Steering Committee, chaired by our Group CEO, meeting monthly. We have also launched new Functional Councils to support aspects of our business, providing additional focus on safety, people, and environment as well as risk and assurance, and governance. [pages 88 and 89](#) detail our policy and assurance approach.

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 2030 and 2050. We continue our goal to embed ESG into our strategy and our day-to-day business. ESG factors are linked 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 was expanded in FY23 to include climate change.

In FY24 we will mature the role of the Functional Councils and further drive change through the leadership incentive scheme, which will be more strongly aligned with our Net-Zero target.

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. In FY23 we worked with the Institute of Business Ethics to gain an independent, expert perspective on our Code of Conduct. Their feedback was very encouraging and we have used their advice and updated and published the 2023 version of the Code, which is available on our website.

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

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.

Speak up

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 via our Code of Conduct and Supplier Code of Conduct, both published on our website (see above).



Governance



Sustainability continued

Business ethics, doing business the right way continued

Throughout the year, we have promoted the importance of speaking up and the various different contact routes, via awareness campaigns, in the Code of Conduct and in our mandatory ethics training. We have improved how employees can find and access Speak Up contact details, launching a new highly visible button on the homepage of the Global Portal (our Group Intranet). We promoted our Speak Up Guide for Managers, supporting them in creating an open and inclusive environment, where our people feel confident to raise concerns, and managers know how to listen to and support anyone who may come to them with an issue. For third parties, we have promoted our Speak up contacts 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 108](#)).

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 FY24 will be to continue to promote and raise awareness on Speak Up.

Anti-bribery and corruption

Our anti-bribery and corruption (ABC) programme is designed to support our people and business partners to demonstrate the highest standards of ethical conduct within all jurisdictions in which we operate. Our zero-tolerance approach to bribery and corruption in any form is explicitly stated in our Code of Conduct, which provides a decision tool to support ethical decision making, helping us to operate our business responsibly and maintain the trust of our stakeholders. This is supported by the provision of practical guidance through our ABC training, which includes challenging scenarios to help our people know what to do if they were to come across issues such as bribery and fraud.

Our Group-wide ABC procedures include measures and guidance for our people to assess risks, understand relevant laws and speak up about concerns. We identify and assess any exposure to bribery and corruption risk when engaging third parties, and these risks are subject to on-going monitoring and periodic updating. We have enhanced ABC procedures for the appointment of Commercial Intermediaries, including the use of external third-party due diligence, with all appointments and renewals subject to Group CEO approval, with increased reporting requirements for all payments made to Commercial Intermediaries overseen by the Board. We take a continuous improvement approach to enhancing our ABC programme, acting upon findings from our internal assurance programmes, engaging with industry peers and seeking feedback from our people.

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 (we have moved from e-learning to live training), 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 statement is published on the homepage of 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 (see [page 89](#)). We believe that this integrated approach is effective in ensuring our business acts responsibly and respects all human rights. More information, including all our annual modern slavery statements, can be found on our website: www.qinetiq.com/en/our-company/sustainability/business-ethics.

In FY24 we will continue to make progress against our modern slavery action plan and we will be reviewing and updating policy to support our approach to human rights.

Working with our supply chain

Our supply chain is an extension of our own Company. We ensure that our suppliers are committed to the same standards of safety, security, sustainability and governance as we are.

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 (SMEs) and non-traditional defence suppliers, removing barriers to entry and promoting inclusive procurement.

Our QinetiQ Collaborate series aims to ensure good practices are shared throughout our supply chain and wider external stakeholders. We provide a consistent platform for learning through panels of subject matter experts from across the defence and security industry.

In FY23 we ran events on modern slavery and on SME engagement. We also continue our work with the Aerospace and Defence Procurement Group (ADPG) and JOSCAR (an industry collaboration).

We have a Sustainable Procurement Guide for our suppliers and have updated our supplier Code of Conduct. Both documents are available on our website:

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

Recognising the cost of living crisis, we understand the importance of cash flow for our suppliers. As signatories to the UK Prompt Payment Code, we report our payment performance as required by UK legislation. We have brought down and standardised our UK payment terms to net 30 days. We are also seeking accreditation from the Real Living Wage Foundation which applies not only to our workforce but also to our supply chain.

In FY24 we will continue to develop our approach to sustainable procurement and run further Collaborate events.

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 Chief Risk Officer (CRO) holds responsibility for risk management across the organisation, ensuring the provision of risk expertise and support to the Sectors and Functions. The CRO is also responsible for reporting risk information to the QinetiQ Leadership Team, the Board and its Audit and Risk & 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 global risk management framework supports and develops a positive risk culture that spans 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 business is an established part of the way we conduct business. Continual cycles of review and improvement of our risk maturity keep 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 QinetiQ 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.

The Organisational Design process necessitated a refresh of the mechanisms and approaches to risk management and presented an excellent opportunity to perform a complete refresh of our Principal Risks. The key change to Group Risk Management has been to reflect the maturity of our US and Australia Sectors. As established Operating Sectors, they both manage and report risks in the same way as our UK Operating Sectors, removing the legacy risks associated with the US and International businesses; which were reported as Principal Risks in FY22.

The invasion of Ukraine, current geopolitical landscape and enduring impacts of Electrical and Electronic Equipment (EEE) component shortages have affected a number of our principal risks. Our UK Strategy risk has been retired as a Principal Risk from our Group Risk Register following our growth in other territories and the re-focus on the need for the UK to meet a dynamic range of defence threats that QinetiQ is able to support.

Innovation is ubiquitous across QinetiQ. It is fundamental to everything that we do. As such, it is not something that could fail across the Group. We chose to retire our Innovation Principal Risk in favour of making it a key consideration for all of our other risks; to make sure that we have considered the effect that innovation has on our risks, and how our risks could affect the way we innovate across the Group.

Our final tailoring measures were to increase focus on the integration of our acquisitions, emphasise the digital and data elements of the digital transformation and the splitting of our People Principal Risk into Strategic Workforce Planning and Culture risks, to enable us to target each more effectively.

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.

As part of our Strategic Review, we undertook an extensive survey of industry insight, competitor analysis and best-practice advice to challenge our Principal Risks from an external perspective.

Our ongoing programme of Safety Improvement has given us a clear picture of our exposures and the work streams we will undertake in order to continually mature Safety for our employees, supply chain and customers. This enables us to clearly articulate and target Health and Safety as a Principal Risk; giving it appropriate priority. QinetiQ has a holistic approach to Security risk, based on four interlocking pillars of physical, people, information and cyber. During our refresh process, it was felt necessary to separate out cyber as a Principal Risk due to its prevalence in the work that we do and the context we operate in.

Supply chain pressures from component availability, global financial volatility and acquisition investment that QinetiQ has made this year means that it is prudent to manage Macroeconomic Volatility as a Principal Risk. The volatility in the current macro-economic environment has allowed us to reconsider this as a principal risk. In addition to keeping abreast of trends and changes by leveraging of our internal capabilities and external reserves and advisor network. The cost of living crisis has been pro-actively managed by the People and Rewards team with financial reward adjustments to protect our employees, so is not a Principal Risk at present.

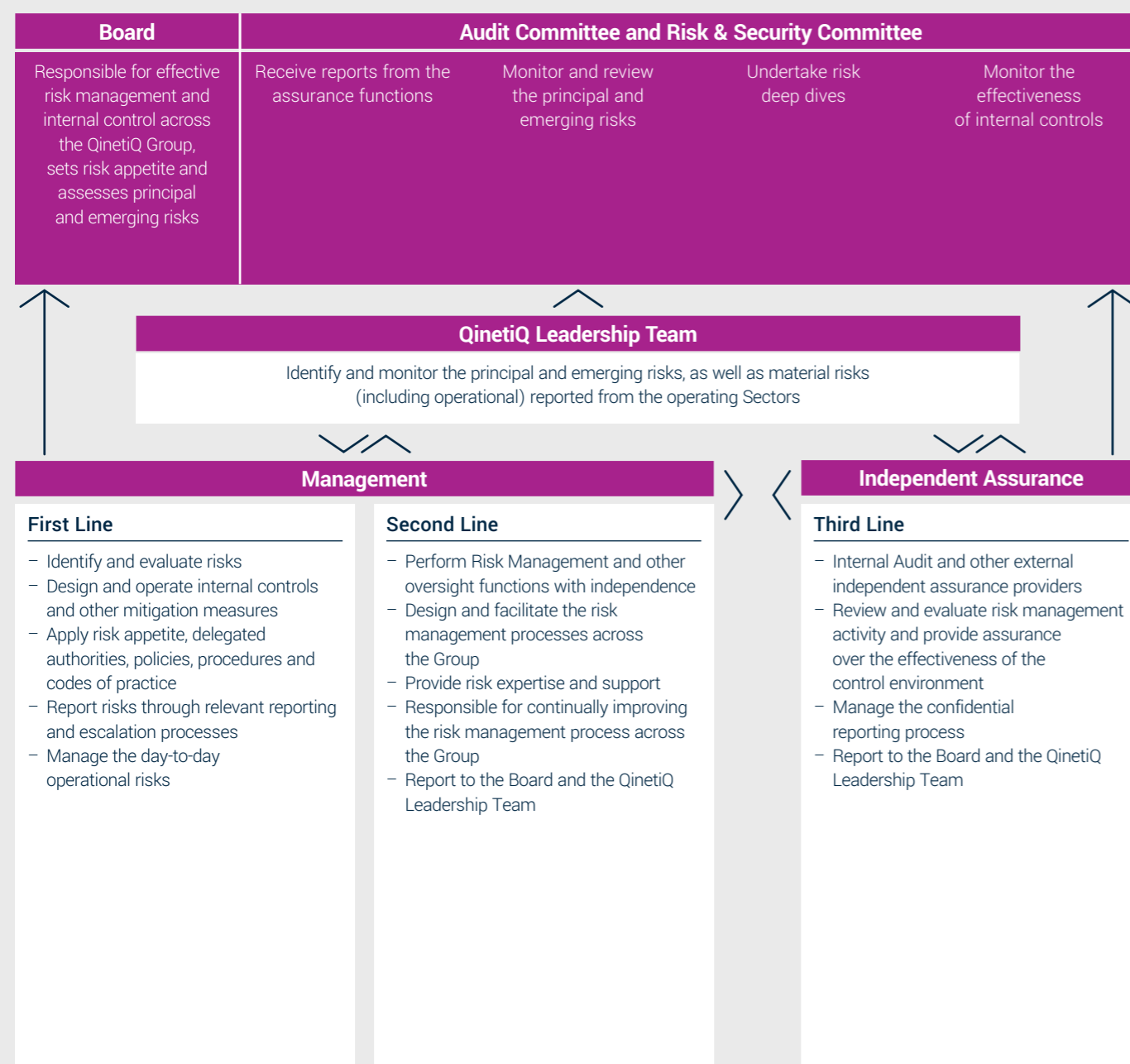
The legacy of COVID-19 is evident in our supply chain and the more flexible way we approach on-site working. It is not a Principal Risk in itself, but we have grown our Group Business Continuity Management capability in order to enhance our resilience against the risk of future material disruptions.

Risk management continued

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 the QinetiQ Leadership Team and Board, and the third line dual-reporting to the relevant Board Committees. The first line is performed by operational management, who own and manage compliance in accordance with the QinetiQ Operating Model; the second line is performed by independent, assurance and risk functions; and the third line is performed by the Internal Audit team and external assurance providers.



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.

	Cautious	Balanced	Eager
Commercial			
Opportunities relating to increased market share where we have proven delivery into existing markets			█
Opportunities that translate proven delivery into new markets		█	
Opportunities that translate new capability or delivery into existing customers		█	
Opportunities that involve new capability or delivery into new markets	█		
Operational			
Operational delivery		█	
Compliance with legal and regulatory requirements	█		

Strategic risks

UK large contract renewals

Risk	Impact	Mitigation	
A material element of the Group's revenue is derived from large UK Government contracts which are set to expire over the next five years to 2028. These include the 25-year Long Term Partnering Agreement (LTPA), the 10-year Engineering Delivery Partnership (EDP), and the 5-year Weapon Sector Research Framework.	These large contracts and framework positions contribute a material proportion of the Group's revenue and earnings.	Performance excellence against current contract deliverables, and a deep appreciation of why and how we have to evolve our offerings to deliver resonating customer value now and into the future. This is certainly the case across our two largest UK contracts, the LTPA and EDP. 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 of Test, Trials, Training, and Evaluation (T3E). Since transitioning to fully output-based delivery on the LTPA in 2019, we have demonstrated excellent financial performance on the contract. Maintaining this strong Cost Performance Index (CPI), through optimising efficient delivery in new and agile ways significantly reduces customer affordability challenges. EDP continues to evolve, and following a successful 2* review of our performance at the year 4 anniversary, we have re-baselined the contract KPIs to better reflect the changing demands of our Customers, and our ever-closer working relationship. We continue to focus our efforts on long-term, output-based contracting, maximising efficiencies, and increasing the potential for more innovative engineering delivery. Our relationship with the Aurora Partners remains strong, providing a stable foundation to support DE&S, Strategic Command and the Front Lines.	<p>Metrics All financial KPIs Customer Satisfaction</p> <p>Responsibility Chief Executive UK Defence Chief Executive UK Intelligence</p> <p>Risk appetite Balanced</p> <p>Likelihood/Impact Medium/High</p> <p>Proximity/Velocity 2–5 yrs/Low</p> <p>Strategy Distinctive Offerings Disruptive Innovation</p>

Risk management continued

Strategic risks continued

Acquisition integration			
Risk	Impact	Mitigation	
M&A activity remains a key element of our strategic growth planning, to expand our customer offerings within our home markets of the US, the UK and Australia, as well as in our priority growth markets. There is a risk that integration may not realise the maximum potential benefits of these new business combinations.	Adverse impact on the Group's financial performance.	<p>Robust governance is underpinned by the M&A and Integration Committee, which reports to the Board, and the relevant Integration Steering Committees for each newly acquired company.</p> <p>All acquisitions are thoroughly assessed for strong strategic alignment, for value creation potential and for integration risk and deliverability. Comprehensive due diligence involving internal experts and a broad range of external advisory companies underpins risk management through the transaction and is the basis for integration planning. Integration itself typically involves external advisory support, and governance reviews of integration are now conducted for three years following completion.</p> <p>Portfolio rationalisation is ongoing where appropriate, including for example, the recent disposal of the Space NV business.</p>	<p>Metrics Inorganic Growth Revenue & Profit</p> <p>Responsibility Chief Strategy Officer Sector Chief Executives</p> <p>Risk appetite Balanced</p> <p>Likelihood/Impact High/High</p> <p>Proximity/Velocity 1–2yrs/Low</p> <p>Strategy Global Leverage Distinctive Offerings</p>

The digital and data programme

Risk	Impact	Mitigation	
The Digital and Data 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 QinetiQ 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.	Technical, Operational and Cultural debt which prevent proper zero trust technologies.	<p>QinetiQ Leadership Team work-stream sponsorship and Group-wide stakeholder engagement ensure robust requirement identification and focussed investment. This is supported by a CEO-led steering group and a Global Digital & Data Programme Board.</p> <p>Budget and scope are managed through a robust governance model reporting to the QinetiQ 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.</p> <p>Benefits realisation is managed through a strong focus on change management to drive adoption and the required changes to behaviours. The Digital & 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.</p>	<p>Metrics Customer Satisfaction Employee Engagement All financial KPIs</p> <p>Responsibility Chief Enterprise Services Officer</p> <p>Risk appetite Balanced</p> <p>Likelihood/Impact High/High</p> <p>Proximity/Velocity 0–1yr/Medium</p> <p>Strategy Global Leverage Distinctive Offerings Disruptive Innovation</p>

Operational risks

Significant breach of relevant laws and regulations			
Risk	Impact	Mitigation	
<p>We operate in highly regulated environments across many jurisdictions, at a time when there is a rising regulatory landscape for businesses to comply with.</p> <p>Non-compliance presents a risk to people, property and the environment, as well as having the potential to compromise our ability to conduct business.</p>	<p>Non-compliance can result in penalties, as severe as temporarily shutting down the business down, plus the reputational damage, and for a public company, impact to the share price.</p> <p>Not adhering to laws and regulations could also lead to serious accidents.</p>	<p>QinetiQ has a mature enterprise risk management programme, with a focus on maintaining and strengthening safety and regulatory compliance across the Group.</p> <p>The QinetiQ Operating Model defines responsibility through the organisation, and there is a cultural programme led by the QinetiQ Code of Conduct that helps drive attitudes and behaviours. In addition, there are policies and procedures, and a mandatory training programme applicable to all employees.</p> <p>QinetiQ has adopted the Three Lines Model, structuring a compliance and assurance framework that enables a risk-focused approach to compliance, alongside an assurance programme that includes reporting regularly to the Board and internal senior management.</p> <p>Continuous improvement is driven using a range of approaches such as audit and evaluation, focused training, strategic improvement programmes, and business objectives. The effectiveness of our internal control environment continues to be assessed at Board level, helping identify any potential gaps in assurance over key risks.</p>	<p>Metrics Health, Safety & Environment Mandatory training compliance ABC (including commercial intermediary) monitoring</p> <p>Responsibility Chief Risk Officer Group Director Legal/ Company Secretary</p> <p>Risk appetite Cautious</p> <p>Likelihood/Impact Medium/High</p> <p>Proximity/Velocity 0–1yr/High</p> <p>Strategy Global Leverage Distinctive Offerings</p>

Security

Risk	Impact	Mitigation	
QinetiQ operates in a dynamic global threat environment with high-value assets, people and data, which could be desirable targets for criminals, competitors, pressure groups and state actors. A breach of physical, personnel or Information Security could lead to the loss of information or harm for our employees, customers and broader stakeholders.	Significant reputational damage, erosion of business advantage, direct penalties and possible exclusion from some types of government contracts.	<p>As a key supplier in National Security supply chains and international Operational capabilities, we must ensure that organisational security meets government 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.</p> <p>Our programme of continuous security improvement is underpinned by annual strategic security reviews and aligned to key work streams for Transformation, Culture Development, Global Information Interoperability and then Digital Programme.</p>	<p>Metrics Security Dashboard Group Functional Councils</p> <p>Responsibility Chief Enterprise Services Officer</p> <p>Risk appetite Cautious</p> <p>Likelihood/Impact Medium/High</p> <p>Proximity/Velocity 0–1yr/High</p> <p>Strategy Global Leverage Distinctive Offerings</p>

Risk management continued

Operational risks continued

Project, Programme and Portfolio Management (P3M) capability			
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 evolving requirements. We must continually innovate and develop our competency frameworks, professionalism, 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 of our robust P3M framework in order to provide a scalable and consistent approach to delivering benefits on time, cost and quality. Work is ongoing to update and roll out the Global P3M Competency Framework and the P3M Delegations process, ensuring Project Manager skills and experience are matched to the project complexity. Project Management Offices (PMOs) have been embedded in each business unit, and are actively implementing GPE outputs; including the Global Competency Framework and the P3M Delegations process.	<p>Metrics All financial KPIs Customer Satisfaction Revenue and Profit</p> <p>Responsibility Group Director Performance Excellence</p> <p>Risk appetite Cautious/Balanced</p> <p>Likelihood/Impact Medium/Medium</p> <p>Proximity/Velocity 1–2yrs/Medium</p> <p>Strategy Global Leverage Distinctive Offerings Disruptive Innovation</p>

Climate change resilience and Net-Zero

Risk	Impact	Mitigation	
QinetiQ Group must reduce GHG emissions and ensure the risks and opportunities resulting from the changing climate and decarbonising economy are understood. Failure to embed climate change into our strategy and processes will result in the Group not being resilient to supply chain challenges or legislative requirements and will leave our operations exposed. We may also not be able to meet customer requirements or optimise our position in a decarbonised future.	Negative impact on the Group's market position, competitiveness, and future growth.	We have a strong track record of environmental stewardship and have published our Net-Zero plan but recognise that there is more we can do. We have developed a Net-Zero plan and are committed to science based targets (approved by SBTi) to drive our emissions to Net-Zero by 2050 or sooner. We have in place initiatives across the Group to ensure that we are embedding our Net-Zero transition plan: 1. Investment in energy efficiency projects to deliver Net-Zero operations to reduce our Scope 1 and Scope 2 emissions. 2. Development of programmes to deliver reductions in Scope 3 emissions. 3. Delivery of critical internal and industry-wide enabling activities (e.g. cost of carbon, and remuneration incentives). 4. Working with our customers to develop sustainable solutions and protecting biodiversity. We have undertaken a comprehensive review of the risk of climate change to our business. This includes embedding climate change into business as usual, integrating opportunities into our strategy and ensuring efficacy through leadership oversight with supporting tracking metrics. We continue to improve this approach. ➡ See ESG section on page 54	<p>Metrics Reduction of GHG emissions Stakeholder satisfaction Customer satisfaction; Employee engagement TCFD outputs</p> <p>Responsibility Group Chief Financial Officer</p> <p>Risk appetite Balanced</p> <p>Likelihood/Impact Low/Medium</p> <p>Proximity/Velocity 3–5yrs/Low</p> <p>Strategy Global Leverage Distinctive Offerings Disruptive Innovation</p>

Cyber			
Risk	Impact	Mitigation	
There is a greater than normal risk of cyber-attack due to QinetiQ's relative priority as a target for state offensive cyber actors and ongoing global geopolitical issues. An attack could impact QinetiQ, our customers and/or our suppliers globally, regardless of the immediate or intended location of the target. The highest threat and impact of an attack is to the UK Sector activities but an attack could be targeted anywhere in our Group, via our customers or our supply chain.	Potential for significant reputational damage, as well as interruptions to delivery and service provision. There is also the possibility of the withdrawal of our accredited status (our 'licence to operate') resulting in exclusion from some types of government contracts, cyber domain work and subsequent impact on orders, revenue and profit.	As a key supplier in the multiple country National Security supply chains, we must ensure that the organisation's security meets governments' and other relevant requirements worldwide. – The implementation 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 – Operational assurance exercising This activity is supported by a wider digital investment programme implementing a mixture of culture and technological improvements across the Group. This activity will provide more consistency across the Group globally, along with a modern Enterprise Architecture.	<p>Metrics Cyber Dashboard Operational Reporting</p> <p>Responsibility Chief Information Security Officer</p> <p>Risk appetite Cautious</p> <p>Likelihood/Impact High/High</p> <p>Proximity/Velocity 0–1yr/High</p> <p>Strategy Global Leverage Distinctive Offerings</p>

Health and safety

Risk	Impact	Mitigation	
Due to the variety, complexity and hazards associated with QinetiQ's operations, there is a risk of an unplanned and uncontrolled event occurring on a QinetiQ site, resulting in serious injury or fatality to employees, contractors, visitors and members of the public or other third parties.	Failure in the moral duty to our employees. Regulatory enforcement action, criminal prosecution of the Company and/or individuals, reputational damage and financial compensation claims.	A global safety improvement programme will enable QinetiQ to increase its safety culture maturity and deliver sustainable safety improvements, including: – Improving the effectiveness of global safety processes to achieve overall risk reduction – An aligned and globally integrated three lines of safety assurance approach – Enhanced safety performance measurements providing insights on incidents and other metrics – Enhancing competence and upskilling employees to become better safety leaders and role models – Reviewing technology as an enabler for safety We are working to embed the new QinetiQ Operating Model (QOM) into the safety organisation, management system and our Operating Sectors. Use Global Roadshows and Q-Talks to clarify upcoming safety improvements and how these will both impact our people and enable our organisation to improve its safety culture maturity. ➡ See Health and Safety on page 67	<p>Metrics Safety culture maturity score Employee engagement</p> <p>Responsibility Group Director Safety Excellence & Assurance</p> <p>Risk appetite Low</p> <p>Likelihood/Impact Medium/High</p> <p>Proximity/Velocity 0–1yr/High</p> <p>Strategy Global Leverage Distinctive Offerings Disruptive Innovation</p>

Risk management continued

Operational risks continued

Strategic workforce planning			
Risk	Impact	Mitigation	
There is a risk that we fail to grow and adapt our planning, development and employee value proposition for the right capability to deliver excellence from our customers in the longer term.	Negative impact on the Group's market position, competitiveness, and 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, Diversity and Inclusion (D&I) Plans, and career management approach through the release of the Personal Development Fund and Talent Management Systems. The People function is developing a global methodology for harnessing future capability requirements, assimilating better understanding of the skills gaps and identifying strategic solutions to mitigate the these. A high-performance culture is central to our People strategy, supported by engagement, talent review and reward strategies. This is further enabled through our Adaptive Working principles which have capitalised on the diverse ways that our people work.	Metrics Reward Growth Career Progression Skills Development
			Responsibility Chief People Officer
			Risk appetite Balanced
			Likelihood/Impact Medium/Medium
			Proximity/Velocity 1–2yrs/Medium
			Strategy Global Leverage Distinctive Offerings Disruptive Innovation

Culture			
Risk	Impact	Mitigation	
Developing an inclusive, high-performing culture where our people can thrive will maximise our potential. We operate in a rapidly changing and disruptive landscape and there is a risk that we do not develop global, agile and integrated ways of working to ensure successful delivery for our customers and achievement of our strategic goals.	Negative impact on the Group's market position, competitiveness, and future growth.	We have implemented our QinetiQ operating model and we are investing in developing our culture to ensure our people can thrive and be at their best. We are focusing on leading and engaging our people through strong leadership, embedding our approach to inclusion, diversity and belonging, people management and development supported by aligned rewards, systems, tools and processes that enable performance and help us embed our new ways of working.	Metrics Business performance Leadership Employee engagement
			Responsibility Chief People Officer
			Risk appetite Balanced
			Likelihood/Impact High/High
			Proximity/Velocity 1–2yrs/Medium
			Strategy Global Leverage Disruptive Innovation

Financial risks

Macroeconomic volatility			
Risk	Impact	Mitigation	
Failure to anticipate and plan for a volatile macroeconomic environment. Specifically failure to understand the impact on the QinetiQ Group of: – Inflation changes – Interest rate movements – Foreign currency	Adverse impact on the Group's financial performance, and future growth strategy.	We seek to manage the risk in various ways: – Existing contract understanding of inflation impacts – Analysis of target customer base in the event of macroeconomic shocks – New terms and conditions appropriate for uncertainty around inflation – Deployment of our Treasury policy that avoids speculation on foreign exchange and interest rate risks (i.e. hedging, % of fixed v floating rates) As part of the strategic planning process, we model the resilience of our financial position against different macro-economic scenarios.	Metrics All financial KPIs Growth
			Responsibility Chief Financial Officer
			Risk appetite Balanced
			Likelihood/Impact Medium/High
			Proximity/Velocity 3–5 years/Low
			Strategy Global Leverage Distinctive Offerings Disruptive Innovation

Viability statement

Assessing the prospects of the Group

This viability statement should be read in conjunction with the Group's Growth strategy on [pages 17 and 18](#).

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 of that order intake as well as contracted order backlog, and the cost base required to support this enables generation of low-case, base-case and high-case profit forecasts. Capital expenditure and working capital requirements are also collected, reviewed, approved and an operating cash flow produced for the Plan period. This is then overlaid with inorganic growth assumptions as well as detailed tax, interest, funding and other non-operating assumptions to produce a five year net debt/cash forecast including relevant covenant and funding metrics;
2. An annual budget process that covers the first year of the five-year planning horizon in detail;
3. 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 each of the principal risks set out on [pages 77 to 83](#), and 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 77 to 83](#)) 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 99](#), 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 QinetiQ 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 2028. This period is deemed appropriate as the Group has significant contract cover out to 2028 driven by long-term contracts. New debt committed in FY23 also aligns to the time period with expiry in FY27. This is also 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.

Assessing the viability of the Group

The scenarios applied consider the key risks facing the Group, as summarised in the Risks Management section on [page 75](#).

These include:

- The loss of a major contract
- A major environmental event
- Sensitivities on growth metrics in the plan such as margin achievement and revenue growth
- Sensitivities based on our cash position including interest rate rises, increased dividend payments and increased working capital burden
- Sensitivities linked to the economic environment including inflation and FX risk.

Viability statement continued

The impact of each scenario is assessed in terms of revenue, operating profit, net cash/(debt) and loan covenants (leverage and interest cover ratio). They are considered individually and aggregated through two combined stress-tests, covering financial downturn and poor trading conditions.

The Group has significant forecast growth resulting in a return to positive net cash from FY26. The sensitivities assume that the Group continues to have access to Revolving Credit facilities of £275m (expiring September 2025) and that the term loan of £270m can be extended (expiring September 2027). This level of liquidity is deemed sufficient for all of the viability scenarios analysed.

The financial impacts are inherently subjective and highly variable, but have provided an indicative assessment to the Board. None of the risks, applied individually, have a material impact on long-term viability (in terms of breaching our available facility headroom or associated covenants). Despite being unlikely, the Directors have considered mitigations that could be put in place to offset the risks. The Group

has a number of cost control levers that could immediately be drawn on to control cash outflows. In addition it continues to explore its portfolio of assets to ensure they remain relevant to the strategic ambition (through disposal of non-core assets). The revolving debt facility has the option to increase further by an additional £125m, prior to considering the reduction of dividends. All of these options can be drawn on to ensure the Group remains a going concern and does not breach covenants.

Confirmation of longer-term viability

As noted on [page 129](#), 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 2028.

Scenarios modelled	Links to principle risks
<p>Scenario 1 – Loss of major contract renewal Loss of a major contract within the period.</p> <p>Assumptions: Revenue and margin removed from the end of the current contract in FY27.</p>	UK large contract renewals
<p>Scenario 2 – Major environmental event For the purposes of this scenario we have assumed a failure at the exposed area that would result in significant flooding. This flooding would, despite mitigation measures, damage the equipment and infrastructure resulting in significant remediation work to safely restore capability.</p> <p>Assumptions: There would be an immediate impact to our ability to deliver. The impact has been modelled through lost backlog, pipeline revenue and reputational damage, together with lost recoveries from staff impacted.</p>	Climate change and Net-Zero
<p>Scenario 3 – Profit margin downgrade Profit margin is downgraded as a result of a major project write-down through poor project management, a health and safety fine and/or overspend on our cost base.</p> <p>Assumptions: A 1% reduction in profit margin, no impact on revenue.</p>	P3M Capability Health and Safety
<p>Scenario 4 – Reduction in revenue growth Revenue grows at a slower rate through the planning period driven by a slow-down in customer spending, failure to integrate acquisitions, a cyber incident or failure to plan the future resource and skillset needed.</p> <p>Assumptions: Revenue restricted to 5% organic growth per annum.</p>	Acquisition integration Cyber
<p>Scenario 5 – Increased working capital burden Economic environment causes delays in customer payments or high inventory levels driven by supplier shortages to manage demand.</p> <p>Assumptions: Cash conversion restricted to 85%.</p>	Operational risk

Scenarios modelled	Links to principle risks
<p>Scenario 6 – Pressure to increase dividend payments Shareholders increase pressure on the Company due to strong performance and peer pressure to increase dividend payments.</p> <p>Assumptions: 10% increase in dividend payments through cycle.</p>	Operational risk
<p>Scenario 7 – Pressure on interest rates Global interest rates continue to rise due to macro-economic factors, global events and government interventions, rather than flattening out as expected in the short/medium term.</p> <p>Assumptions: Doubling of interest rates over the five-year planning horizon.</p>	Macroeconomic
<p>Scenario 8 – Higher FX rates Macro-economic trends, global events and government interventions may cause foreign exchange rates to move in unfavourable directions (mainly an increase in the USD:GBP and AUD:GBP rates) such that the returns of the US and Australia businesses are worth less in GBP terms.</p> <p>Assumptions: 25% increase in FX (USD) rates</p>	Macroeconomic
Combined stress tests modelled	Scenarios used
<p>a) Financial downturn (liquidity) – if interest rates increase, shareholders will require greater ROI so dividends may need to increase. Increased interest rates may further cause cash flow problems for customers, leading to slower payments and reduced cash conversion.</p> <p>Likelihood moderate given macroeconomic environment.</p>	5, 6, 7
<p>b) Poor trading performance (profitability).</p>	1, 2, 3, 4, 8
<p>c) Combination of all profitability related scenarios.</p>	1-8

Going concern

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 41](#). 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 42 to 46](#) sets out details of the financial position of the Group, the cash flows, drawn and committed borrowing facilities (including associated covenants), liquidity, and the Group's policies and processes for managing its capital and financial risks.

This past year has seen continued unrest and growing conflict across many regions of the world. The defence and security context continues to elevate the market needs for our six distinctive offerings. Both our addressable market and our confidence in capitalising on that market opportunity continues to grow. The Group enters the new year with a healthy balance sheet and leverage position, and strong order backlog and pipeline. 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 Risk Management section on [pages 75 to 83](#). In reaching its conclusion on the going concern assessment, the Board also considered the findings of the work performed to support the statement on the long-term viability of the Company and the Group. As noted above, this included assessing forecasts of severe but plausible downside scenarios and further downside stress testing related to the Company's principal risks. 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 from 25 May 2023.

Section 172 (1) statement

We are committed to our responsibilities to promote the success of the Company under section 172 of the 2006 Companies Act.

The Board of Directors confirms that it has acted to promote the long-term success of the Company for the benefit of the shareholders, having due regard to matters set out in section 172(1)(a) to (f) of the Companies Act 2006:

s. 172(1) matter	Relevant disclosures
(a) The likely consequences of any decision in the long term	Company purpose – page 16 Business model – pages 14 to 15 Strategy – page 17 Dividend policy – page 46 Longer-term viability statement – page 83
(b) The interests of the Company's employees	Improving the safety, health and wellbeing of our people – page 67 Engaging with our people – page 69 Developing our people – page 70 Rewarding and recognising our people – page 71 Non-financial information statement – page 88 Board employee engagement – page 106 Diversity and inclusion – page 68
(c) The need to foster the Company's business relationships with suppliers, customers and others	Business ethics – doing business the right way – page 74 Anti-bribery and corruption – page 74 Human rights – page 74 Modern slavery – page 74 Supply chains – page 74 Supplier stakeholder management – page 26 Sanctions, embargos and compliance – page 74
(d) The impact of the Company's operations on the community and the environment	Responding to climate change – pages 54 to 65 Greenhouse gas emissions and energy management – page 56 Investing in our community – page 26 TCFD disclosures – page 61
(e) The desirability of the Company maintaining a reputation for high standards of business conduct	Stakeholder propositions – pages 26 to 27 Our sustainable business model – pages 12 to 13 Our values – page 16 Our culture – page 16 Our approach to responsible and sustainable business – page 60 Internal controls – page 129
(f) The need to act fairly between members of the Company	Investor engagement – page 107 The Annual General Meeting – page 94

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 our investors, customers, employees, and local communities.
- Board risk management procedures that 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 75 to 83](#)).
- The Board setting the Group's purpose, values and strategy, ensuring it is aligned with our culture (see [page 104](#)).
- Direct and indirect stakeholder engagement (see [pages 56 and 105](#)).
- External assurance, received through audits, stakeholder surveys and reports from brokers and other advisers.
- Specific training for our Directors and senior managers (see [page 119](#)).
- Regularly scheduled Board presentations and reports, for example: customer engagement, risk register reports, health and safety reports, confidential reporting, defence process review, dividend policy, people and culture strategy, and operational business updates.
- Corporate responsibility oversight, including business ethics, anti-bribery and corruption, human rights, modern slavery, 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.
- Many of these topics are regularly reviewed through the Board risk management process and the Audit Committee, Risk and Security Committee and Remuneration Committee.

Our Group Chair, 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 which ensure that stakeholder factors are addressed where judged relevant.
- Standing agenda matters presented at each Board meeting: for example, the CEO presents updates on the financial overview, strategic progress, investor relations, business development, and operational progress. The Company Secretary also presents at each Board meeting detailing 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.
- A consistent approach to minute-taking with details as to when section 172 factors are being considered.

Board activity and principal decisions in FY23

The principal decisions taken by the Board in FY23 are detailed on [pages 101 to 102](#). These decisions cover a variety of topics, including our ESG strategy; Group portfolio optimisation decisions and investment decisions. Due to the nature of these decisions, a variety of stakeholders are considered as part of 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 2006 is provided by reference to the following locations:

Non-financial information	Section	Pages
Business model	Business model	14
Policies	Non-financial information statement	88
Risk management	Risk management	75
Principal risks	Risk management	77
Key Performance Indicators	Key performance indicators	48
ESG	Environmental Social Governance	52
Board Diversity Policy	Corporate Governance	116

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 73). There is guidance on our standards, 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 and in FY23 it was reviewed by external experts (page 74).
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 (see page 74), both are available on our website. Speak up and the Code of Conduct form part of the Business Ethics Committee and ESG SteerCo agenda and updates are part of ESG papers for the Board. Confidential reporting is overseen by the Audit Committee; the process is described on page 105 .
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. 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 Safety Council meetings, through QinetiQ Leadership Team (QLT) meetings and regularly as part of the Board Risk and Security Committee (see page 126). We track Lost Time Incidents (LTI) as a key non-financial KPI (page 50), and have shown an improvement compared with FY22. Safety programmes are described on page 66 and listed in our operational risks (page 81).
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 QLT as well as regular oversight by the Board. Our Inclusion 2025 programme, including an improvement in gender diversity, is described on pages 68 and 69 . Data and progress against the Board's Diversity and Inclusion Policy is described on page 116 .

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 page 60). 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 ESG SteerCo, the new Environment Council (page 60) and the Board Risk and Security Committee. 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 in the UK. On page 56 we show the positive improvement against our target and Scope 1 and Scope 2 GHG emissions, which form one of our non-financial KPIs (page 50). Our policy is part of regular governance review and self-certification, as well as external audit, to ensure we are meeting certification requirements. Our Net-Zero plan (pages 54-59) has oversight by the Environment Council, ESG SteerCo and the Board. Risks associated with climate change are on page 80 and our TCFD disclosures on pages 61-65 .
Waste management	We recognise that reducing waste meets our sustainability goals and improves efficiency. On page 60 we outline the progress against our target. The effectiveness is governed via our assurance processes and KPIs with oversight by our QLT 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.

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 72). The effectiveness is monitored by the ESG team, with oversight by the ESG SteerCo 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 ESG 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 123).
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 by the ESG team. 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, ethical 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 (ESG SteerCo, Business Ethics Committee and Board). We believe that this integrated approach is effective in ensuring our business acts responsibly and respects human rights. (See page 74).
Modern slavery	We recognise our responsibility to comply with all relevant legislation, including The UK 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 updated annually, signed by our Board and published on our website. The effectiveness is monitored via our assurance programme and leadership oversight (QLT and Board). See page 74 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 monitored via our assurance programme and leadership oversight (QLT 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 74 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 addressed by our policies. The effectiveness is monitored via our assurance programme and leadership oversight (QLT 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 (see page 73).
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 QLT 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 74 .
Commercial intermediaries	Managing commercial intermediaries is one of a suite of key policies 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, has QLT and Board oversight, and is subject to our assurance process and self-certification.
Gifts and hospitality	Our Gifts and Hospitality policy is one of a suite of policies which supports our zero-tolerance approach to ABC. It provides clear guidance on what is appropriate and how to record. This policy has QLT and Board oversight, and is subject to our assurance process and self-certification.



Board of Directors
An experienced and strategically focused Board who continue to be paramount to the Company's long-term sustainable success.

Read more on [page 96](#)



Purpose, values and culture
Our purpose communicates the Group's strategic direction and intentions to our stakeholders.

Read more on [page 104](#)

Corporate Governance

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Board decision making: ESG
The Board agreed the importance of continuing to identify and invest in ESG matters as a whole and specifically for the Net-Zero programme supporting on programmes such as ESG data improvement.

Read more on [page 102](#)

Board decision making: acquisitions
The acquisitions of Avantus and Air Affairs in the US and Australia provide positive momentum for us to deliver sustainable performance in the years ahead.

Read more on [page 101](#)



Corporate Governance

Governance framework

The Board is accountable to shareholders for its standards of governance and as a UK-listed Company our governance is based on applying the principles and provisions of the UK Corporate Governance Code. See [page 93](#) for further information.

The UK Corporate Governance Code is publicly available at www.frc.org.uk.

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 section 172(1) responsibilities and its governance framework

Code principle A

- Section 172(1) statement – [pages 86 to 87](#) and [101 to 102](#)
- Board of Directors – [pages 96 to 98](#)

Code principle B

- Our strategy – [page 17](#)
- Section 172(1) statement – [pages 86 to 87](#) and [101 to 102](#)
- Company purpose – [page 104](#)
- Culture – [pages 104 to 105](#)

Code principle C

- Strategic report – [pages 1 to 89](#)
- Audit Committee report – [pages 120 to 125](#)
- Risk & Security Committee report – [pages 126 to 129](#)

Code principle D

- Social – [pages 66 to 72](#)
- Stakeholder engagement – [pages 105 to 108](#)
- Section 172(1) statement – [pages 86 to 87](#) and [101 to 102](#)

Code principle E

- Social – [pages 66 to 72](#)
- Employee engagement – [page 106](#)

2. Division of responsibilities

Explains the roles of the Board and its Directors

Code principle F

- Governance framework – [page 95](#)
- Division of responsibilities – [page 109](#)

Code principle G

- Governance framework – [page 95](#)
- Board of Directors – [pages 96 to 98](#)
- Division of responsibilities – [pages 109 to 111](#)

Code principle H

- Section 172(1) statement – [pages 86 to 87](#) and [101 to 102](#)
- Time commitment – [page 110](#)

Code principle I

- Board and Committee processes – [page 110](#)

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 112 to 119](#)

Code principle K

- Board of Directors – [pages 96 to 98](#)
- Nominations Committee report – [pages 112 to 119](#)

Code principle L

- Director effectiveness – [pages 117 to 118](#)

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 120 to 125](#)

Code principle N

- Fair, balanced and understandable – [page 121](#)

Code principle O

- Risk management – [page 129](#)
- Audit Committee report – [pages 120 to 125](#)
- Risk & Security Committee report – [pages 126 to 129](#)

5. Remuneration

Describes the Company's remuneration arrangements in respect of its Directors, how these have been implemented in FY23, and details of our remuneration policy

Code principle P

- Directors' remuneration report – [pages 130 to 158](#)

Code principle Q

- Directors' remuneration report – [pages 130 to 158](#)

Code principle R

- Directors' remuneration report – [pages 130 to 158](#)

Group Chair introduction

Introduction to Governance



Dear Shareholder,
I am pleased to present this year's corporate governance statement. This report provides an overview of the system of governance adopted by the Company and will enable our shareholders to evaluate the manner in which the UK Corporate Governance Code's Principles and Provisions have been applied by the Company."

For the year ended 31 March 2023, the Board considers that the Company fully applied the principles and complied with the provisions of the Code, with the exception of provisions 38 and 41.

For more details on these exceptions, see [page 94](#)

While being a British company, we operate internationally and our governance structure respects the special arrangements in place to protect the national security interests of our government customers globally. Over the year, the Board has worked closely with the Company's executive and senior leadership teams on the reset of the Group's global growth strategy, evolving it to more closely align with the recently announced AUKUS strategic alliance, and playing a key role in challenging, shaping and developing the Company's latest five-year Integrated Strategic Business Plan.

Fast-evolving geopolitical and regulatory environment

More than ever this year, we have seen increasing pace in the change of geopolitical events around us, and none more so than in the defence and security arena. This has been particularly characterised by the conflict in Ukraine, and the rising cost of living that has directly affected so many of the countries that our people and customers operate in. As a result, the Company's purpose of protecting lives and securing the vital interests of our customers, feels even more relevant today and looking towards the future, than ever before. This has also come at a time when the pace of regulatory change relevant to our industry has brought more rigorous and demanding governance requirements for our business to meet.

In response, the Company's executive and leadership teams, supported by the experience and stewardship of the Board, have acted swiftly to implement key changes to its strategy, structure, processes, and employee offerings, to put it in the best possible position to meet these challenges. I have highlighted a number of these below, and you can read more about this in the following corporate governance statement.

Board activities

FY23 saw the Company deliver a strong underlying operating performance at Group level, and I have been particularly pleased to see the improved performance of our US business, with its newly established leadership team.

The Board has also overseen the Group's largest US acquisition and a further strategically important acquisition in Australia, representing a major step towards achieving our strategic growth ambition in the US, the world's largest defence and security market; and further establishing the Group as a long-term, strategic partner to the Australian Defence Force. Underpinning its strategic position as a market leader in threat representation, training, and test and evaluation services.

The Board has also played a vital role in guiding and steering a substantial structural reorganisation of the Group's business. Designed to better empower Sector leadership teams, embed functional expertise directly in our Sectors, and enable efficient Group-level functional leadership. All of which will better enable effective delivery to our customers, drive the Company's strategy and, ultimately, enhance returns for our investors.

In dealing with the renewal of our Directors' remuneration policy at this year's AGM, the Remuneration Committee has considered at some length how best to incentivise our leaders and employees to achieve both the organic and inorganic growth ambitions of the Company, actively engaging with our investor community to secure the valuable benefit of their views and insights.

Additionally, the Audit Committee has been actively monitoring, and planning for, the significant changes we expect to the audit, risk and internal control provisions in the UK Corporate Governance Code, and the proposed changes in the non-financial reporting and audit environment, to ensure we are well placed to implement these when necessary.

A fuller summary of the Board's activity during the year can be found on [pages 101 to 102](#), further information about the Group's stakeholder engagement can be found on [page 56](#), and [pages 105 to 107](#).

Group Chair introduction continued

Environmental, Social and Governance (ESG)

QinetiQ is committed to responsible and sustainable business practice and 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 aspects, which are being delivered through our ESG function. We are proud of the significant progress made to date on our ESG strategy and programmes, and we continue to support the business in its ambition to embed this further into corporate strategy and decision making.

Health, safety and wellbeing

At QinetiQ, health, safety and wellbeing remain our number one priority. Our commitment to look after our people, customers and visitors while ensuring the public is never harmed by the work we do is at the heart of our culture.

Further information on this can be found on [pages 66 to 72, and 104 to 105](#).

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 high 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. The Company continues to spend considerable time on engagement with our people to embed and harness the benefits of our Company values.

Board and management succession

In August 2022 we welcomed Steve Mogford to the Board. Steve brings a wealth of international defence and security sector experience from both executive and non-executive roles, and this experience further enhances the skill sets of our Board while supporting our global development ambitions. Steve will become the Senior Independent Director upon the retirement of Michael Harper at the 2023 AGM.

At the end of 2022, Lynn Brubaker stepped down as Non-executive Director. We recognise that this has impacted the gender balance on the Board which stands at 33% women, and we do not therefore currently meet the target of 40%. This coming year will see continued focus on evolving the composition of the Board to best align with, and support, the Company's global growth strategy, while continuing our efforts to meet gender and ethnicity targets.

A new QinetiQ Leadership Team (QLT) was announced this year, which included both promotion of internal talent and new appointments, bringing the leadership skills and expertise needed to drive the Company's global growth ambitions. Ensuring a diverse culture on the QLT is crucial to improving effectiveness, encouraging constructive debate, delivering superior performance and enhancing the success of the Company. We currently have a QLT comprising 36% women. We continue to be committed to our gender and ethnic minority diversity targets for the QLT.

Evaluating the Board's performance

Central to setting the correct tone is the review of the Board's own performance. Following on from the external assessment carried out in FY22 by Tom Bonham-Carter of The Effective Board LLP, a further external review was conducted in FY23 to assess how we are progressing against last year's recommendations.

Please see [pages 114 to 119](#) for further information.

Remuneration

This year was the third and final year of the Directors' Remuneration Policy that was approved by shareholders at the AGM in 2020 (the Policy). During this year, the Board's Remuneration Committee has 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 with the interests of, and returns delivered to, shareholders.

The Remuneration Committee, led by its Chair, Susan Searle, has been working with advisors and consulting with investors to develop the Company's new Remuneration Policy, which will be presented for approval by shareholders at the 2023 AGM.

The Company has also introduced new, enhanced reward schemes for its employees, aimed at supporting its people with the rising cost of living in a number of its home countries, including additional support through a hardship fund available to those who have been most affected.

Exceptions to UK Corporate Governance Code Compliance

Provision 38

During FY23, the Remuneration Committee agreed that the Chief Executive's pension contributions should be reduced such that, with effect from 1 January 2023, it would be aligned with the maximum level available to all UK employees (currently 10.5%). That change has been implemented and, consequently, the Company is now compliant with the UK Corporate Governance Code Provision 38.

Provision 41

The Company has not formally consulted with employees in forming the new Remuneration Policy, and is therefore not compliant with Provision 41 of the UK Corporate Governance Code which requires details of engagement with the workforce to explain how executive remuneration aligns with the wider Company pay policy. However, the Company has engaged with its Global Employee Voice during this process. Further details on employee engagement can be found on [page 24](#).

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 20 July 2023 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

As ever, 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

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.



Board leadership and Company purpose continued

An experienced and strategically focused 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



Neil Johnson
Group Chair

Nationality: British
Appointed: April 2019

N R RS

Skills, competence and experience:
Neil's former CEO experience and current roles as a plc Group Chair and Non-executive Director bring 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 and 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.



Steve Wadey
Group Chief Executive Officer

Nationality: British
Appointed: April 2015

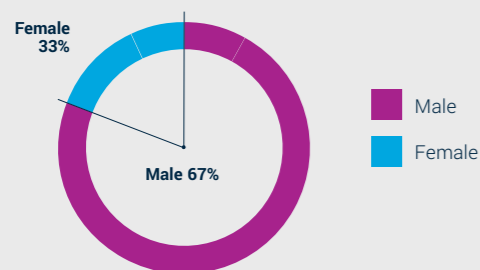
RS

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

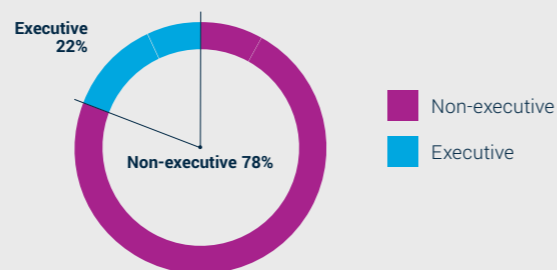
Steve is a Fellow of the Institution of Engineering and Technology, the Royal Aeronautical Society, and the Royal Academy of Engineering. He was previously a member of the Prime Minister's Business Advisory Group, Co-Chair of the National Defence Industries Council Research and Development Group, and a Non-executive Director of the UK MOD Research and Development Board. He 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.

Board Gender Diversity



Independent Directors




Carol Borg
Group Chief Financial Officer

Nationality: Australian
Appointed: October 2021

RS

Skills, competence and experience:
Carol has a wealth of global financial expertise and ESG leadership to bring 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 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



Steve Mogford
Independent Non-executive Director

Nationality: British
Appointed: August 2022

A N R RS

Skills, competence and experience:
Steve has vast experience in both executive and non-executive roles across a range of sectors. In particular, his long and comprehensive international defence and security sector experience equip him to further develop the skill sets of our Board while supporting our global development ambitions. Steve has a first-class honours degree in astrophysics, maths and physics from London University.

Formerly the Chief Executive Officer of United Utilities Group PLC, Steve started his career at British Aerospace at its North West based military aircraft business. During his long career with the Company he held a number of senior positions before being appointed Chief Operating Officer and a member of the BAE Systems plc Board. He then joined Finmeccanica, Italy's principal defence and security company as Chief Executive of SELEX Galileo. He also served on the Board of G4S plc as Senior Independent Director up to its acquisition in 2021.

Other appointments:
N/A



Michael Harper
Deputy Chair and Senior Independent Non-executive Director

Nationality: British
Appointed: November 2011

A N R RS

Skills, competence and experience:
Michael has deep 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. His 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



Shonaid Jemmett-Page
Independent Non-executive Director

Nationality: British
Appointed: May 2020

A N R RS

Skills, competence and experience:
Shonaid has widespread experience as an executive and non-executive director spanning a variety of sectors, including industrial and technology-based businesses with international operations. This, combined with her extensive financial experience, are invaluable in her role as Chair of the Audit Committee. Shonaid is a Fellow of the ICAEW.

Previously she 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 Greencoat Wind plc, MSAmIn plc, and Non-executive Director at GKN plc.

Other appointments:
Non-executive Chair of Cordiant Digital Infrastructure Limited, Senior Independent Director of ClearBank Limited and Non-executive Director of Aviva plc.

Board leadership and Company purpose continued

**Skills, competence and experience:**

Gordon brings considerable 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.

Gordon's 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, a member of the Advisory Board of C3.ai Inc. and His Majesty's Constable of the Tower of London.

**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 she 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, Non-executive Director of Gooch & Housego PLC and Chair of Greenback Recycling Technologies Ltd.

**Skills, competence and experience:**

Larry is an experienced executive and non-executive from 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 most recent executive experience was as President and Chief Executive Officer of CSRA, which was acquired by General Dynamics in 2018. Previously, 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. Larry started his career as an Intelligence Officer in the U.S. Marine Corp.

Other appointments:

Operating Executive for the Carlyle Group and Non-executive Director and Chair of KLDisccovery Inc and Two Six Technologies; Non-executive Director of CNSI; and independent Director of Shift5.

**Skills, competence and experience:**

James was appointed Company Secretary in July 2022.

James joined QinetiQ as an in-house lawyer in 2004, progressing through various roles to Head of the Group Legal and Intellectual Property team, before becoming Group Director Legal and Company Secretary. Prior to QinetiQ, James worked as in-house Legal Counsel at Transport for London, and has a background in London-based private legal practice.

Other appointments:

N/A.

Committee membership key

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

Board activity

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

Topic	Key activities
Strategy and operations	<ul style="list-style-type: none"> Reviewed and considered the Company's purpose, values and strategy. See more on pages 16 to 17 and page 104 Approved the FY23 component of the Group's five-year Integrated Strategic Business Plan (ISBP). See more on page 83 Undertook in-depth reviews of business strategy and performance Undertook 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
Financial performance	<ul style="list-style-type: none"> Approved the Company's annual budget, business plan and KPIs, and monitored performance against them. See more on pages 48 to 51 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
Internal control and risk management	<ul style="list-style-type: none"> Reviewed and approved the Group's risk appetite and reviewed the Group's principal and emerging risks, the processes for identifying them, 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
Leadership, people and culture	<ul style="list-style-type: none"> 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
Engagement, environment and community	<ul style="list-style-type: none"> Undertook an annual review of the Group's stakeholders – who they are, methods of engagement, outcomes and feedback. See more on pages 2 to 27, and 105 to 108 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
Governance and legal	<ul style="list-style-type: none"> Approved the Group's section 172(1) statement. See more on pages 86 to 87 and 101 to 102 Approved the Notice of the AGM Undertook an annual compliance review of the UK Corporate Governance Code and DTR7

- Received updates from each of the Group's Sectors and Functions 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, environmental, legislative and geopolitical landscape, particularly as regards the political climate in Ukraine and global economic pressures
- 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
- 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 (the process of which is described further on [page 108](#))
- Received reports from the Chair of the Remuneration Committee on its activities, recommendations regarding remuneration strategy and decisions regarding the Group Chair's, Executive Directors' 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
- Reviewed regular reports on our approach to ESG issues - see more on [page 102](#)
- Reviewed the activities of, and approved a financial commitment to, the Company's environmental programmes, Net-Zero plan and charitable and community initiatives
- Reviewed the results of the internal Board and Committee effectiveness evaluations
- Reviewed and approved matters reserved for the Board and its Committees' terms of reference
- Reviewed and approved the Group's annual Modern Slavery and Human Trafficking statement, published on [www.QinetiQ.com](#)

Board leadership and Company purpose continued



CASE STUDY

Board Engagement

In March 2023 Shonaid Jemmett-Page, General Sir Gordon Messenger and Steve Mogford visited MOD Boscombe Down, a key hub for our aviation operations, to gain a deeper understanding of the complexities of the site, to review risk and assurance processes and talk to our delivery teams across a range of activities.

Following an overview of the site, and its regulatory and compliance landscape, the Directors visited the Civil Flying Organisation, including the world's first and premier test pilot school, ETPS; the Aviation Engineering Centre, which delivers aircraft design, manufacturing and flight test activities under both civil and military approvals; and the Hypobaric Facility during an emergency response exercise, which provided an opportunity to discuss the intricacies of operating a high-hazard facility.

The visit allowed engagement with a significant number of employees, all of whom have a role to play in delivering a safe and compliant environment for our people and facilities. The Directors were able to engage with and constructively challenge developments across UK sites which have seen a focus on understanding and tracking key compliance drivers, alongside the latest progress of our Safety Improvement Programme.



A Board that is committed to understanding how the Company operates at its frontline."

Neil Johnson
Group Chair

Board decision making

In making decisions, the Board of Directors is cognisant of undertaking its legal duties, including its duty under section 172(1), in the way that is most likely to promote the success of the Company for the benefit of its members as a whole, and the need to have regard to the factors set out therein; see pages 86 to 87 for more information. 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. M&A – Acquisitions of Avantus Federal & Air Affairs Australia

Background – In the third quarter of the financial year, the Company made two strategically important acquisitions. Firstly, its largest ever acquisition, Avantus Federal LLC in the US, a leading provider of cyber, data analytics and software development solutions to the US Department of Defense, Intelligence Community, Department of Homeland Security and other Federal civilian agencies. Secondly, the strategically important addition of Air Affairs in Australia, further establishing the Group as a long-term, strategic partner to the Australian Defence Force and underpinning its strategic position as a market leader in threat representation, training, and test and evaluation services.

Board discussion – During the year the Board was kept up to date on the progress of these acquisitions via updates from the CEO and CFO at each Board meeting, and through dedicated briefing sessions from the Chief Strategy Officer. The Board was able to provide guidance and challenge on the strategic fit, investment returns and integration considerations associated with the acquisitions, and also test that lessons learned from previous acquisitions had been considered and applied by the management team, before ultimately granting final approval for the transaction to complete. The Board was also able to consider and help guide the funding strategy adopted by the Group for the acquisitions, including consideration of the terms of its borrowing plans and how these would be repaid.

Board stakeholder considerations and impact – During its briefings, the Board had the opportunity to understand, consider and challenge each transaction's impact on investors, customers, and employees, particularly focusing on the following issues:

- Employees – the integration, incentivisation, development and succession planning for senior management and staff of the acquired companies; and opportunities that would be created for the Group's existing employees.
- Customers – the business development opportunities that would be created with existing and new customers; and synergies that could be realised between existing skills and technology of the Group, and new skills and technology that would be acquired, that could be combined to provide more valuable offerings for our customers.
- Investors – the implications for the Group's forward funding, capital structure and forecast investor returns.

Outcome and next steps – As a result, both acquisitions were able to successfully proceed to completion, underpinned by robust integration plans to ensure that customer and employee benefits, and investor returns, can be achieved as effectively as possible. The acquisitions represent a further major step towards achieving the Company's strategic growth ambitions in two of the world's key defence and security markets. Through ongoing updates to the Board on the progress of integration, at regular Board meetings, the Directors are able to continue to help steer and challenge the effectiveness of the integration of both Avantus and Air Affairs in terms of the Company meeting its delivery commitments to its customers and its returns commitments to its investors.

2. US – Development of leadership team

Background – Following various performance challenges in the prior FY22 financial year, the Nominations Committee oversaw the process of making changes to the senior leadership team of the US Sector. Alongside the organisational restructure of the Group, various changes were made to the US leadership team; to enhance its strategic, operational and performance delivery capability, ensuring it was appropriately skilled and resourced to deliver on the US elements of the Group's reset strategy, organically grow the business, and also effectively integrate planned US acquisitions within its existing business.

Board discussion – Through a combination of feedback from the CEO, CFO and Chief People Officer on the evolution and development of the US leadership team, and a site visit to various parts of the US business as part of the Company's annual Strategy Board meeting, the Board has kept itself apprised of the performance and effectiveness of the newly recruited team, and provided the benefits of individual Directors' collective experience and skills in both creating and leading high-performing senior leadership teams.

Board stakeholder considerations and impact – In continuing to have oversight of the performance of the US Sector, the Board appraised the ability of its leadership team to deliver on the business strategy, and lead the recovery of the Sector from the effects of the performance challenges of the prior financial year. This included considering the skills required to achieve both the organic and inorganic growth required to meet investor expectations on the level of shareholder returns the Group would achieve; providing guidance on the type and level of incentivisation offered to employees in the US business; and inputting into assessments of the skills and expertise required to both respond to the changing needs of the Company's US customers and develop the business to be able to deliver against the evolving mission of those customers.

Outcome and next steps – The improvements made in the US leadership team have led to sustained improvements across all metrics used to measure the performance of the US Sector, particularly in terms of new contracts won; the quality of delivery to customers, particularly within its robotics manufacturing business; its supply chain management capability; its financial performance results; and its levels of employee engagement.

Board leadership and Company purpose continued

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

Background – During FY23 the Board regularly engaged on ESG aspects to provide oversight and support.

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 ESG strategy is designed to meet stakeholder expectations across ESG themes, aligned with our business strategy. FY23 has been the foundation year of our Net-Zero plan with a number of programmes implemented across the four work streams. The Board included a focused session on climate change as part of the October strategy day and a dedicated session on non-financial reporting for the Audit Committee in March.

Board stakeholder considerations and impact – The Board was kept up to date on investors', customers', and employees' views. The transition to Net-Zero is of material interest to society and the Board supported a new Net-Zero plan and received regular updates on progress in the foundation year.

- Customers – The UK MOD has indicated the growing importance of climate change, and so our CEO Steve Wadey has actively engaged, as Industry Co-Chair of the Climate DSF Change and Sustainability Steering Group, to understand how we can support their wider objectives through leading and mobilising across the sector.
- Employees – We have introduced a number of new engagements on Net-Zero with employees, to ensure their views are heard (e.g. Peakon, Global Employee Roadshow) and they can contribute their ideas (eg IdeaXchange).
- Shareholders and debt providers – The Board has regularly spoken with shareholders on ESG aspects including Net-Zero.

Outcome and next steps – As part of the October 2022 strategy review, the Board agreed the importance of continuing to identify and invest in ESG matters as a whole and specifically for the Net-Zero programme, supporting on programmes such as ESG data improvement.

4. Group reorganisation and new operating model

Background – At the outset of the financial year, the Company embarked on the most significant restructure of its organisation in the last five years. Creating four operating Sectors; 'UK Defence', 'UK Intelligence', 'US' and latterly 'Australia', supported by six Group functions. The rationale for the reorganisation was to better empower Sector leadership teams, embed functional expertise directly in our Sectors, and enable efficient Group-level functional leadership. Alongside this, a new QinetiQ Operating Model was introduced as the principal architecture of what we do and how we do it, providing clarity on the roles and responsibilities within our organisation, and guiding our high-performing inclusive culture. The purpose of this process was to support the rest of the Group's strategy, focused around and aligned to the AUKUS alliance, and provide clarity on our delivery to the Company's customers.

Board discussion – Both prior to and during the design and implementation of the restructuring process, the Board received regular briefings from, and had the opportunity to interact with, the CEO and Chief People Officer, as part of the regular schedule of Board meetings. These allowed the Board to contribute to shaping the new structure of the organisation, and provide the benefits of their experience and insights from similar types of restructurings they have been involved in, to help steer how the process would be implemented in a way that would achieve the key objectives of the Executive team.

Board stakeholder considerations and impact – The Board's discussions included consideration of the purpose of the restructure; how it aligned to and supported the Group strategy, including enhancing returns for investors; its impact on and benefits to employees; and how it would ensure ongoing compliance by the Company with its legal and regulatory obligations and responsibilities wherever it operates in the world. In particular, the Chairs of the Audit and Risk & Security Committees provided direct input, to help ensure that the restructure of the Company's 'three lines model' (first and second line assurance, and third line audit process) would better support its effective and efficient delivery to customers and rigorous compliance with laws and regulations relevant to its evolving business.

Outcome and next steps – The successful delivery of an effective organisational restructure by the second trading quarter of the financial year, through an efficient process which mitigated any adverse impacts of change on the employees of the Company as far as possible, and ensured the Company could continue to perform to a high level in delivering to its customers. Throughout the year, the CEO and Chief People Officer have provided ongoing updates to the Board on the outcome of the restructuring process, which have enabled the ability to identify any opportunities for further improvements in the operations of the Company. Additionally, the Chairs of the Audit and Risk & Security Committees have undertaken a number of planned interventions with operational and functional teams in the business to assess and help improve the effectiveness of the Company's three lines model'.

Management and control of US subsidiaries

QinetiQ's US Sector is comprised of QinetiQ Inc and its subsidiary operating companies, including Foster Miller Inc and the newly acquired Avantus Federal group. These companies operate under a Special Security Agreement (SSA) between QinetiQ and the US Defense Counterintelligence & Security Agency (DCSA), which governs how the rest of the QinetiQ Group interfaces, collaborates and works with the companies in the US Sector. The controls established by the SSA are required by the US National Industry Security Program for main facility security clearances, to appropriately mitigate foreign ownership, control or influence to the extent that it could adversely affect the interests of US national security. QinetiQ Group plc, QinetiQ Inc and the US Department of Defense (DoD), represented by the DCSA, are parties to the SSA, which establishes procedures that regulate the management and operation of our US Sector, to achieve that mitigation. Under the SSA, the Board of Directors of QinetiQ Inc is comprised of three types of Directors, all nominated by QinetiQ Group plc, as the foreign owner of QinetiQ Inc., and approved by the DCSA. The three types of Director appointments are Outside Directors, Inside Directors and Officer Directors of QinetiQ Inc.

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

The Officer Directors are responsible for the day-to-day operations of the US Sector, and serve as a liaison with the wider QinetiQ Group. These positions are held by Shawn Purvis, President and CEO of the US Sector and Andy Manner, who is a consultant to Shawn. The Officer Directors must ensure that the procedures and requirements of the SSA are effectively implemented, and have an obligation to maintain the security of classified and export-controlled information entrusted to QinetiQ Inc and its subsidiaries, as well its ability to perform on classified contracts and participate in classified programs. They must be resident US citizens who either have, or are eligible to possess, personal US security clearance.

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

Supplementary information

The Board has seven meetings, each scheduled 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 FY23.

Board and Committee attendance – 1 April 2022 to 31 March 2023:

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

¹ Lynn Brubaker resigned from the Board on 31 December 2022.

² Steve Mogford was appointed to the Board on 1 August 2022.

³ General Sir Gordon Messenger was unable to attend the Audit Committee meeting on 13 May 2022 due to a conflict with a prior commitment.

⁴ Michael Harper was unable to attend the Audit Committee, Remuneration Committee and Nominations Committee meetings on 23 March 2023 due to a conflict with a prior commitment.

⁵ In compliance with the UK Corporate Governance Code, and the Committee Terms of Reference, Steve Wadey and Carol Borg are not members of the Audit, Nominations and Remuneration Committees, and Neil Johnson is not a member of the Audit Committee.

Board leadership and Company purpose continued

The significance of our purpose, values and culture

Our Values		
<p>Integrity</p> <p>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.</p>	<p>Collaboration</p> <p>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, driving ambition. We know that working together is the best way to meet our stakeholders' needs.</p>	<p>Performance</p> <p>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.</p>

<p>Our Purpose</p> <p>Protecting lives and securing the vital interests of our customers</p>
<p>Our Vision</p> <p>The chosen partner around the world for mission-critical solutions, innovating for our customers' advantage</p>
<p>Driven by Mission-led Innovation</p> <p>Applying our unique technical expertise across the product lifecycle, helping our customers to create, test and use defence and security capabilities as needed to meet their mission requirements</p>
<p>Creating a safe and secure environment for us all to thrive</p> <p>Through our core values of Integrity, Collaboration and a High-Performance Culture, and our Company behaviours of Listening, Focusing and Keeping Our Promises</p>
<p>Delivered through a customer-focused growth strategy</p> <p>Global leverage – Building an integrated global defence and security company to leverage our unique technical capabilities Distinctive offerings – Co-creating high-value differentiated solutions for our customers in experimentation, test, training, information, engineering and autonomous systems</p>
<p>We deliver safely, responsibly and sustainably for the benefit of all our stakeholders</p>

The Board has supported the review and further refinement of the Company's purpose, to ensure it continues to capture the Board's view of the Company, its evolving global strategy and its role in society. Our purpose communicates the Group's strategic direction and intentions to customers, employees, partners, investors, the local communities we work in, and its wider stakeholders. It is reconfirmed on an annual basis, to ensure it continues to reflect our strategy, values and desired culture. Our values make clear our priorities and form the foundations of the Company's culture.

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 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 QinetiQ 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 to 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 teams, 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 give 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 QinetiQ 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 QLT-led Safety Improvement Programme (SIP) to drive a step-change in our safety culture.

Stakeholder engagement

Engagement and collaboration through our value chain are 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 interests 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

The section 172(1) statement on [pages 86 to 87](#) explains how the Directors have had regard to the matters set out in section 172(1)(a) to (f) of the 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, 107, 108
Employees	pages 26, 106
Customers/suppliers	page 26
Environment	pages 52 to 65
Social	pages 66 to 72

Further information about how the Directors have accounted for stakeholders in their decision making is set out on [pages 101 to 102](#).

Board leadership and Company purpose continued

Employee engagement

We have experienced, diverse and dedicated employees who are recognised as key assets 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, 66 to 72](#), and 106.

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 employees in person.

The process set out below describes how the Board continued to be able to effectively gain the views of 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 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. Elected employees from across QinetiQ sites in all home countries represent the employees to the leaders of the Company

- Regular contact with Neil Johnson
- Two meetings with Susan Searle, the Chair of the Remuneration Committee
- Regular meetings with the Chief People Officer, who reports to the Board on culture, employee and people strategy, and employee engagement

Global Employee Roadshows

Delivered quarterly by the QinetiQ 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

Regular virtual QinetiQ Leadership Community (QLC) events – delivered by the QinetiQ Leadership Team (QLT)

Providing updates to the direct reports of the QLT on latest operational, financial, strategic, and key stakeholder issues

- The members of the QLC feedback to their teams by way of Q-Talks, team meetings and one-to-one meetings

Monthly virtual Q-Talks

Delivered by members of the QLC, 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 69 to 70](#)

- After each survey, the Group Director Employee Experience 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 policies 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 mechanisms 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

2022

May

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

July

- Governance meetings ahead of AGM
- Trading update and analyst briefings
- AGM
- US Investor Roadshow
- Farnborough International Air Show

October

- Q2 post-close trading update

December

- Completion of Air Affairs acquisition and shareholder engagement

June

- Annual Report published

August September

- Announcement of Avantus Federal acquisition and shareholder and analyst engagement
- Group Chair meetings with shareholders

November

- Interim results announcement
- Analyst briefings
- Interim results investor roadshow
- 'Best of British' Investor Roadshow
- Completion of Avantus Federal acquisition and shareholder and analyst engagement

2023

January

- Q3 Trading update and analyst briefings

April

- Q4 trading update and analyst briefings

February March

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 FY23 the CEO, CFO and Investor Relations team collectively met with over 40% 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.

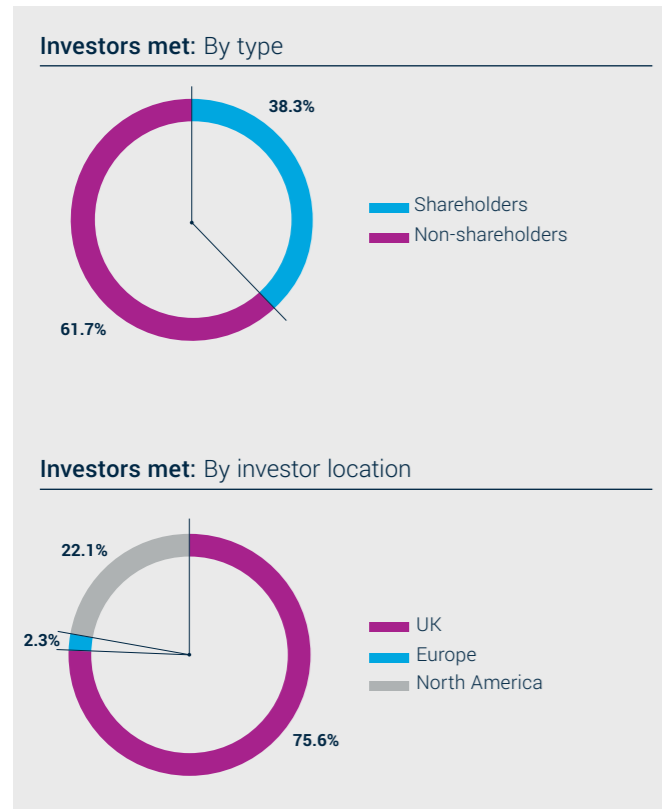
This year has seen increasing engagement, particularly with investors in the US. The Investor Relations team and the CFO held a short Investor Roadshow in July, overall 22% of the contacts made during the year were with investors based in North America. As at 31 March 2023, North American institutional investors accounted for 22% of the share register, compared to 14% at the same time last year. We continue to be proactive in investor engagement.

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 20 July 2023 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.

Board leadership and Company purpose continued



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 issues raised, and was satisfied that the process in place is fit for purpose.

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 all 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	<ul style="list-style-type: none"> • Provides overall leadership and ensures effectiveness of the Board • Sets the agenda, character and tone of the Board meetings and discussions 	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Maintains a close dialogue with the Group Chair and CEO 	<ul style="list-style-type: none"> • Supports and deputises for the Group Chair as required
Group CEO Steve Wadey	<ul style="list-style-type: none"> • Develops the Group's strategy for consideration and approval by the Board and provides effective leadership of the QinetiQ Leadership Team in its delivery of strategy • Develops the Group's business model and manages the Group's operations • Oversees the development and implementation by the QinetiQ Leadership Team's corporate, safety and environmental policies and standards 	<ul style="list-style-type: none"> • 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 • Ensures the Board is kept fully apprised of the Group's operational and safety performance, risks and opportunities that may affect or contribute to the delivery of the strategy
Group CFO Carol Borg	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Communicates (with the CEO) the Group's financial performance and strategic progress to investors and analysts
Senior Independent Non-executive Director Michael Harper	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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 Michael Harper Shonaid Jemmett-Page General Sir Gordon Messenger Steve Mogford Larry Prior Susan Searle	<ul style="list-style-type: none"> • 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 broad collective experience and individual expertise and insights 	<ul style="list-style-type: none"> • Monitor and assess the Group's culture, use appropriate and effective means to engage with employees and acquire an understanding of other stakeholders' views • Assess the effectiveness, support and constructively challenge the Executive Directors • Play a lead role in the functioning of the Board's Committees
Company Secretary James Field (appointed 22 July 2022)	<ul style="list-style-type: none"> • 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 and Committee Chairs for setting the agenda for Board and Committee meetings and for high-quality and timely information and 	<ul style="list-style-type: none"> • 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 QinetiQ 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 UK Corporate Governance 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 and Susan Searle, who both have served on the Board for more than nine years, was subject to a rigorous review by the Nominations Committee in March 2023. When making this assessment for Michael (who has served on the Board since November 2011) and Susan (who has served on the Board since March 2014), the Nominations Committee based its decision on the fact that all continue to demonstrate integrity and independence in their advice and challenge. Neither Michael nor Susan were 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. Further to this review, it was announced on 23 March 2023 that Michael Harper is to retire from the Board at the conclusion of the 2023 AGM.

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. As part of the appointment process, consideration is given to assess Non-executive Directors' ability to devote time to an additional directorship. Prior to undertaking an additional external role or appointment, the Non-executive 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 three other companies, Aviva plc, Cordiant Digital Infrastructure Limited and ClearBank Limited. She is the Chair of Cordiant Digital Infrastructure Limited, which is an investment trust listed on the Special Funds Segment of the FTSE, rather than a full operating company. Therefore by their nature, the time requirements for these roles are not as significant as at a FTSE 250 operating company such as QinetiQ. The Group Chair has 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 & 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 for the Board and the terms of reference of each Committee, which are regularly reviewed and approved by the Board, 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 Director Legal & 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 continued

Nominations Committee report



QinetiQ aims to have the best people leading our business and delivering to our customers today, and a diverse and talented pipeline ready to lead the business tomorrow.”

This has been a year of planned change and consolidation for the Committee, as we continue to embed succession plans designed to maintain the effectiveness of the Board and its Committees, in-step with the Company’s strategic priorities.

You can read more, later in this report, about the development of our Directors and our talented senior management team. I would particularly like to highlight the following considerations of the Committee during the last year:

Lynn Brubaker has served on the Board since January 2016, and made the decision to retire in December 2022, having brought the benefit of her extensive aerospace and international experience, and provided strong and insightful support to QinetiQ’s pursuit of its global growth strategy. On behalf of all Board members and the Company, I thank Lynn for her excellent support, and wish her the very best for the future.

During the year, we completed the new appointment of Steve Mogford to the Board, bringing a wealth of experience in both executive and non-executive roles across a breadth of sectors, including defence, security and aerospace. He is ideally equipped to develop further the skill sets of our Board, while supporting our global growth ambitions.

Michael Harper has served on the Board since November 2011. During his tenure, he has been instrumental to the Board in his roles as Deputy Chair and Senior Independent Director, providing strong support, guidance and advice to the Board and the Company’s senior leadership, and acting as a valued sounding board to his fellow Board members. On 23 March 2023 we announced Michael’s intention to retire from the Board with effect from the conclusion of the 2023 AGM. He will be much missed, and we all wish him well in a richly deserved retirement. However, we were pleased to be able to announce that, upon Michael’s retirement, Steve Mogford will step into the role of Senior Independent Director.

Susan Searle, who has served on the Board since March 2014, has this year, in her role as Chair of the Remuneration Committee, led the development and refinement of the Company’s latest three-year Directors’ Remuneration Policy which is to be approved by shareholders at the 2023 AGM.

The Nominations Committee undertook its usual assessment of Directors’ continued independence for the year in review, and further information on the Committee’s effectiveness can be found on [pages 117 to 118](#).

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 at this year’s AGM.

Neil Johnson
Nominations Committee Chair

Dear shareholder

I am pleased to present the Nominations Committee report. The Committee’s ambition is to ensure we have the best people leading and governing our business today, and a competitive, diverse and talented pipeline of people, ready to join and lead the business tomorrow. The right high-performing people will have the necessary experience, skills and creativity of thinking to shape and drive the Company’s strategy in a fast-evolving geopolitical environment. The Committee remains very focused on bringing diverse perspectives into the Company, to help shape our strategic decisions in a way that complements and reflects the knowledge and skills of the Company’s growing business.

Key responsibilities:

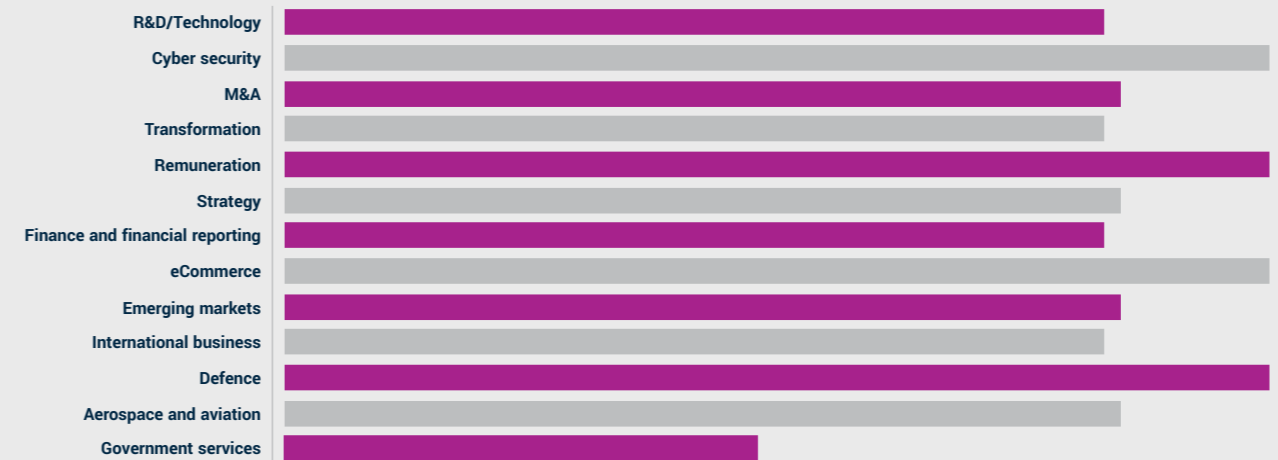
- Keep under review the structure, size and composition of the Board
- Succession planning for Directors and other senior Executives
- Keep under review the leadership needs of the organisation, both Executive and Non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace
- In accordance with the Board Diversity Policy, identifying and nominating, for the approval of the Board, appropriately diverse 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

FY23 activity highlights:

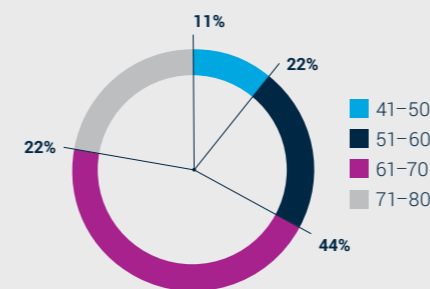
- Reviewed the structure, size and composition of the Board and its Committees, including the skills, experience, independence and diversity of its members, in anticipation of Non-executive Director changes to the Board and its Committees
- Led the process to recruit a new Non-executive Director
- Reviewed 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

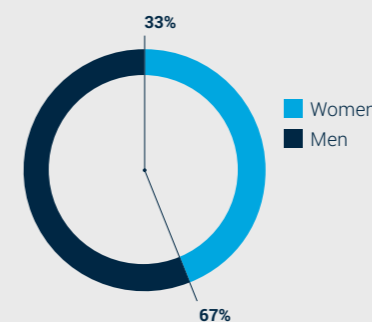
The chart below demonstrates the skills and experience of the Board members:



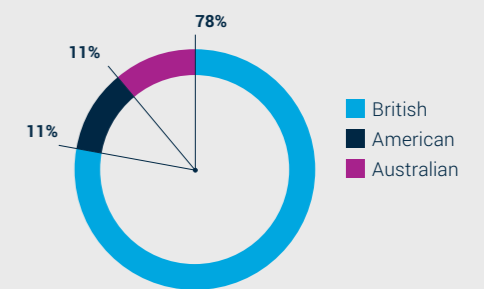
Board members – Age



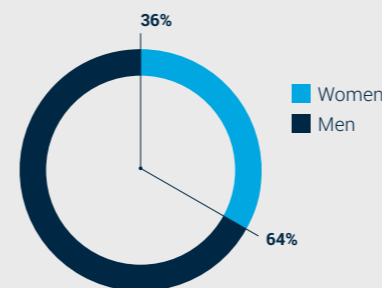
Board members – Gender balance



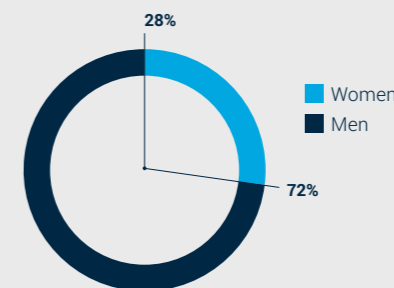
Board members – Nationality



QinetiQ Leadership Team – Gender balance



Direct reports to the QLT – Gender balance



Composition, succession and evaluation continued

Succession planning

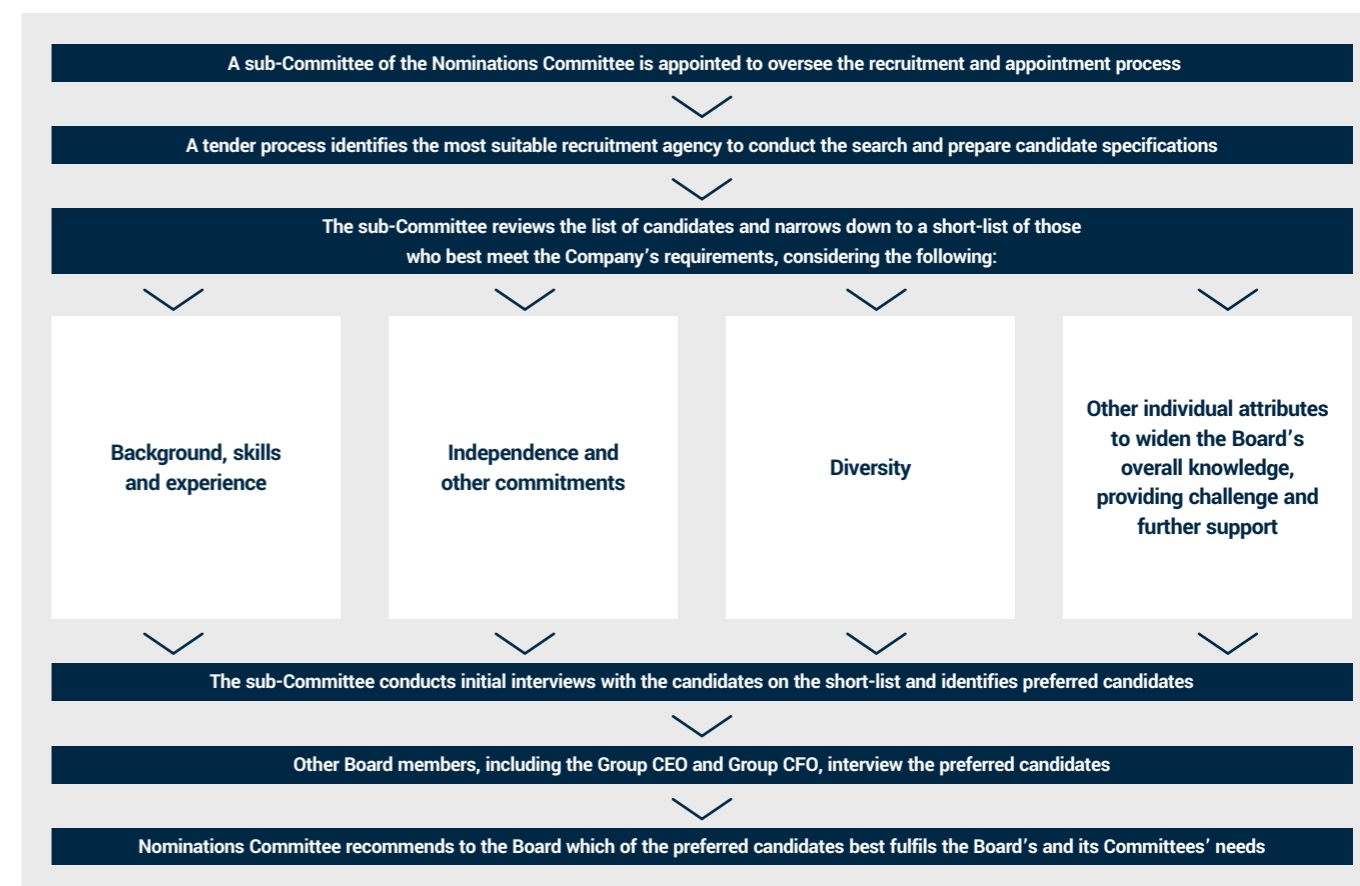
Board and Committees

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 2023, 2024 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	<p>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.</p> <p>The matrix considers the following:</p> <ul style="list-style-type: none"> Diversity, including age, gender and ethnicity (see more on page 113) Background, professional skills and experience (see more on pages 96 to 98 and 113) The number and balance of Executive and Non-executive Directors Length of tenure (see more on page 115) Independence (see more on page 110) 	<ul style="list-style-type: none"> The appointment of Steve Mogford as Non-Executive Director At the conclusion of the 2023 Annual General Meeting, Michael Harper will step down as a Director of the Company, and Steve Mogford will assume the role of Senior Independent Director thereafter An additional appointment is planned in the current financial year, to bring further skills which support the Group's alignment of its strategy to the AUKUS strategic alliance
Ensuring that we get access to the best candidates	<ul style="list-style-type: none"> Regularly reviewing the recruitment agencies that we use and to 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 	<ul style="list-style-type: none"> Russel Reynolds Associates (who has no other connection to the Group or to any individual Directors) was used for the recruitment of Steve Mogford
Ensuring accountability and success of the Board's performance	<ul style="list-style-type: none"> Annual Board effectiveness and performance evaluation, using an external provider every three years. See more on pages 117 to 118 Annual review of the Group Chair's performance led by the Senior Independent Director. See more on page 118 Annual independence review of the Non-executive Directors. See more on page 110 Continued assessment of the Non-executive Directors' time commitment. See more on page 110 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 118 A thorough induction programme for new Directors. See more on page 119 Annual training for the Board as a whole and on an individual basis. See more on page 119 	<ul style="list-style-type: none"> The FY23 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 section 172(1) can be found on 86 to 87

The effectiveness of the Committee's succession plans is demonstrated by the appointment in FY23 of Steve Mogford, who has enhanced the Board's experience in the international defence and security sectors and brought valuable executive and non-executive director experience.

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.



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
Neil Johnson	2 April 2019	2 April 2025	2 April 2028
Shonaid Jemmett-Page	19 May 2020	19 May 2026	19 May 2029
General Sir Gordon Messenger	12 Oct 2020	12 Oct 2026	12 Oct 2029
Steve Mogford	1 Aug 2022	1 Aug 2028	1 Aug 2031
Larry Prior	2 Aug 2021	2 Aug 2027	2 Aug 2030
% of Directors	0-3 years: 14.3%	4-6 years: 57.1%	7-9+ years: 28.6%

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 QLT, 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 visits to the Company's operations. This gives Committee members the opportunity to observe senior managers' working practices and relationships with their stakeholders first-hand. These reviews complement 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.

Composition, succession and evaluation continued

In FY23, the Group was restructured into four new operating sectors, supported by six Group functions. With effect from 1 July 2022, a new QinetiQ Leadership Team (QLT) was appointed, and this will be fundamental to deliver 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 Amanda Nelson to Chief People Officer and Mike Sewart to Chief Technology and Operating Officer. The appointment of Gary Stewart as Chief Executive for the Australia Sector, following the retirement of Andy Thorp at the end of April 2023, is further demonstration of these plans being put into action. Gary brings more than 20 years of experience within the international defence industry.

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 with 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 104](#)), 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 Policy, which applies to the Board, and all of its Committees - the main objectives of which are:

- To achieve and maintain targets on Gender and Ethnic Diversity on the Board and its Committees

- To ensure that the membership of the Board and its Committees 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 both gender and ethnic diversity at a number of levels of the business, including:

- A female CFO
- The Audit and Remuneration Committee Chairs are female
- Female representation on the QLT has increased from 33.3% in 2022 to 36.4% in 2023
- Female representations of the direct reports to the QLT has increased from 27% to 27.8%, and remains a key area of focus
- One member of the QLT comes from an ethnic minority background

In respect of FY23 the Board has not yet met the targets in Listing Rule 9.8.6(9) that at least 40% of the Board should be female, and that there should be a Director from a minority ethnic background. We do however meet the target that our CFO is a woman. The Board continues to be dedicated to accomplishing these targets and 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.

Voluntary disclosures required under Listing Rule 9.8.6 as at 31 March 2023

(a) Table for reporting on gender identity or sex

	Number of board members	Percentage of the board	Number of senior positions on the board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
Men	6	67%	3	1	50%
Women	3	33%	1	1	50%
Not specified/prefer not to say	N/A	N/A	N/A	N/A	N/A

(b) Table for reporting on ethnic background

	Number of board members	Percentage of the board	Number of senior positions on the board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
White British or other White (including minority-white groups)	9	100%	4	2	22%
Mixed/Multiple Ethnic Groups	N/A	N/A	N/A	N/A	N/A
Asian/Asian British	N/A	N/A	N/A	N/A	N/A
Black/African/Caribbean/Black British	N/A	N/A	N/A	N/A	N/A
Other ethnic group, including Arab	N/A	N/A	N/A	N/A	N/A
Not specified/ prefer not to say					

The employee Diversity & Inclusion (D&I) policy

[Pages 68 to 69](#) 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 with oversight by our Executive team, and is underpinned by our Inclusion 2025 Strategy. To help us reach our goals we have 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.

During the year we continued to see a significant increase in employee activity and engagement around D&I. We are confident that this will continue in 2024 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, with an externally facilitated review required at least every three years. As illustrated by the chart below, FY22 was the first in the three-year cycle when an external evaluation was undertaken by Tom Bonham-Carter of The Effective Board LLP. In FY23 a follow-up independent review was undertaken through The Effective Board LLP. Neither Tom Bonham-Carter, nor The Effective Board LLP has any other connection to the Group.



The principal sources of data used to assess the effectiveness of the Board and its Committees were questionnaires completed by 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 and investment of the shareholders' funds to ensure the Company is successful while managing the risks inherent in its strategy, operational plans and operating environment. This was 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 across the spectrum of its stakeholders.

For the individual Directors, there were questions on each Director's 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 external 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, the specific observations made, and any recommendations given or improvements suggested. Following which, those results were presented to and discussed by the Board and its Committees.

The overall outcomes of the evaluations were positive, evidencing that improvements had been made, acting on the prior year's recommendations, and 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 engagements outside of meetings.

Composition, succession and evaluation continued

Director effectiveness continued

The key strengths and material areas for further attention identified by the FY23 Board and Committee evaluation are shown below.

Key strengths	Areas for further attention
The effectiveness of the Board's support to the further development and implementation of the Company's strategy, aligned to its purpose and vision.	Review monitoring and information received on the integration planning and benefits realisation elements of the Company's acquisitions process.
The Board continues to work well as a unit, with Board discussions being constructive and the Executive Directors being transparent with the Board and open to advice.	Review need for improvements to the Group-wide control and assurance framework, including clarity between the roles and responsibilities of the first and second lines of assurance within the Company's 'three lines model'.
Good progress is being made with the ESG agenda. The Company's Net-Zero plan has been published; the whole ESG Programme is incorporated within the Integrated Strategic Business Plan process; and there are ESG targets in all senior leaders' performance plans, which are cascaded down through the organisation. The Company is also making efforts to help customers and suppliers with their own emission management, and is therefore able to report these under Scope 3 of TCFD. See more information on ESG on page 53 .	Increased assessment of emerging risks which have impacted the Company and lessons learned as a result. A specific example being assessment of the effectiveness of business continuity plans and procedures.

When comparing the outcome of the FY23 evaluation against principal areas for improvement identified through the FY22 review process, the following progress has been seen:

Areas for further attention	Progress during the year
To review the Board's programme of monitoring each business unit.	The schedule of strategic focus items that the Board reviews as part of its annual cycle of meetings now includes specific agenda items for each operating Sector, including updates on the financial and operational performance of the business units comprised in each Sector.
In light of section 172, to review the Company's suppliers and how the Company engages with them.	This has been reflected in three principal improvements: (i) increased ESG monitoring and reporting on efforts to reduce the carbon footprint of our supply chain; (ii) data on supply chain performance as part of regular operating Sector updates to the Board; and (iii) consideration of supply chain risk, as part of the Chief Risk Officer's standing report to the Risk & Security Committee.
To continue to monitor, oversee and challenge the Company's safety culture.	As well as the continuing health and safety update provided by the CEO at each Board meeting, a dedicated Safety Update report will be provided to the Board, twice a year, by the Chief Technology & Operating Officer. This will ensure the Board has access to up-to-date data, and appropriate opportunity to constructively challenge the Company's progress and improvements in this area.

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 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, during the year, all Directors have demonstrated a 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 new Non-executive Directors, is illustrated by the diagram below.



Meetings and Director site visits

As global coronavirus restrictions have eased, we have been able to resume a programme of physical Board meetings and Director visits at our sites both in the UK and internationally. Locations for meetings and site visits are agreed annually and are arranged by the Company Secretary with assistance from the QLT as appropriate.

During the year the Board held physical meetings in Farnborough and London in the UK, and Virginia in the US, as well as some Board meetings that continue to be held virtually.

In March 2023, the Group Chair paid a visit to our QTS business headquarters in Ashford, where he received a tour of their manufacturing facility to see first-hand what was being built for customers. He was able to engage in discussion with employees regarding the expansion of production capabilities and plans for further developing QTS's technology offerings in relation to mission rehearsal needs.

Also in March 2023, Steve Mogford visited MOD Boscombe Down as part of his induction. Shonaid Jemmett-Page, General Sir Gordon Messenger and James Field were also in attendance. The experience provided Shonaid, Steve and Gordon with an opportunity to better 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 includes the Company Secretary keeping the Board briefed on relevant regulatory changes, and arranging external training, as required.

During the year PwC briefed the Board on forthcoming changes to the external audit and governance environment, and Ashurst provided training on legal and regulatory updates.

Audit Committee report

The main tasks of the 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 all reporting, including the Annual Report and Accounts. 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 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 enhancing the internal control environment, including preparedness of our control frameworks in advance of UK corporate governance requirement changes, expansion of the internal audit programme to cover the approach to acquisitions, and focus on safety improvement and high-risk project management in internal audits.

During the year, we have acquired two companies, Air Affairs (Australia) and Avantus (United States of America), in addition to disposing of the Space NV (Belgium) business. The Committee reviewed the disclosures and accounting to ensure they were appropriate. The year-end impact is discussed in detail in the Significant Judgements section on [pages 121 to 123](#).

The US continues to be an area of focus for the business and therefore for the Committee, and this year has seen investment in the US leadership team to ensure they are positioned for growth pay dividends as they delivered strong year-on-year growth. Further the US leadership team has been actively integrating the recently acquired Avantus business. As the business grows, we need to ensure that there remains a robust system of internal control and risk management which is commensurate with our growth ambitions. To this end, the Committee maintains a regular relationship with the US Special Security Arrangement (SSA) Audit Committee, sharing best practice and ensuring alignment of scope and coverage.

We received feedback from the FRC in January primarily related to our accounting for Research and Development Expenditure Credits (RDEC). Following an in-depth review including with both the Audit Committee and our external auditors, we have concluded to change our accounting policy and align our reporting with peers effective from the year ending 31 March 2023.

Finally the Committee has embraced the relevant aspects of the quickly evolving sustainability agenda, including target setting, assurance and reporting. The Task Force on Climate-related Financial Disclosures (TCFD) reporting, on [pages 52 to 74](#), was reviewed and endorsed by the Committee.

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

The Group has complex long-term contract accounting and every year the Committee spends much of its time reviewing the accounting policies and judgements implicit in the Group's financial results. In FY23, we have also reviewed the accounting judgements associated with the disposal of Space NV and the acquisitions of Avantus and Air Affairs. 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.

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 FY23 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 FY23 Annual Report and Accounts, 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.

Response to regulator engagement

During the year we engaged with the FRC on our accounting policy for RDEC and several other items. As summarised in the issues and judgements table, we updated our accounting policy for RDEC to account for it within operating profit. As a result of additional feedback received, we have enhanced the disclosures in the annual report on several topics including goodwill impairment reviews, pensions, SSA and TCFD.

The Company recognises that the FRC's review was based on the Annual Report and Accounts for the year ended 31 March 2022 and did not benefit from detailed knowledge of the Company's business or an understanding of the underlying transactions entered into. The FRC's review provides no assurance that the Company's Annual Report and Accounts are correct in all material respects; the FRC's role is not to verify the information provided but to consider compliance with reporting requirements. The FRC's letters are written on the basis that it (and its officers, employees and agents) accepts no liability for reliance on them by the Company or any third party, including but not limited to investors and shareholders.

Key issues and judgements impacting FY23 accounts

Issue	Key uncertainties and judgements	Review and challenge by the Committee	Conclusion
Impairment of goodwill and acquired intangibles	The Group holds goodwill on its balance sheet in respect of various Cash Generating Units (CGUs).	The Committee reviewed the outputs of management's annual impairment testing exercise, noting the use of external advisers to prepare the technical assumptions (discount rates, long-term inflation) which have also been verified as appropriate by the external auditors.	The Committee acknowledged that there was a wide range of outcomes to the impairment test, which is sensitive to outer-year cash flows. These cash flows include certain assumptions around utilisation of aircraft, renewal of existing contracts and successful winning of new business opportunities. On challenging management, the Committee concluded that no impairments need to be recorded in the year.
Germany impairment assessment	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.	The Committee held detailed discussions with management and the external audit team, specifically challenging revenue, profit and technical assumptions.	
	There is a low level of headroom in respect of the QinetiQ Germany CGU and applying a reasonable level of sensitivity to the assumptions would lead to an impairment.		

We foster an ethos of continuous improvement and I am proud of the progress we have made this year."

Dear Shareholder,

I am pleased to present the report of the Audit Committee for the work carried out by the Committee during FY23. 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.

Audit, risk and internal control continued

Issue	Key uncertainties and judgements	Review and challenge by the Committee	Conclusion
<p>Long-term contract accounting</p> <p>Risk assessment on key contracts</p>	<p>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.</p> <p>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, and resultant contract profitability.</p>	<p>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).</p>	<p>The Committee concluded that management's best estimates were reasonable.</p>
<p>Provisions and contingent liabilities</p> <p>Pendine and other provisions</p>	<p>The Group holds provisions in respect of legal, regulatory and environmental issues. Judgement is required in determining whether provisions are required.</p> <p>Specifically, a provision is held in respect of a serious incident at the MOD range at Pendine in a previous financial year.</p>	<p>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 c.£15.0m being recorded together with an equally offsetting Other Receivable).</p>	<p>The Committee concluded that management's best estimates were reasonable.</p>
<p>Specific adjusting items</p> <p>Digital investment</p>	<p>The Group reports underlying performance which excludes the impact of specific adjusting items. Following the change in accounting policy relating to the capitalisation of intangible assets for software as a service in the prior year, the current one-off period of digital investment is included as a specific adjusting item.</p>	<p>The Committee receives an update on the nature and quantum of specific adjusting items, as well as management assessment as to their appropriate use.</p>	<p>The Committee agreed with management's assessment that the current Digital investment and other such items are distorting in nature and it is therefore helpful to the reader to separate their impact.</p>
<p>Accounting for Research and Development Expenditure Credits ('RDEC')</p> <p>Change in accounting policy</p>	<p>The Group receives Research and Development Expenditure Credits in the UK in relation to its direct and indirect R&D activities.</p>	<p>The Committee reviewed both of the accounting policy options, as well as a benchmarking of commonly adopted market practice.</p>	<p>The Committee acknowledged that both IAS 12 and IAS 20 are acceptable policy choices, but that given the more common adoption of IAS 20 it is appropriate for the Group to change its accounting policy.</p>
<p>Acquisition accounting</p> <p>Customer relationship intangibles</p>	<p>During the year the Group completed two strategic acquisitions. Intangible assets relating to customer relationships, existing technology and trade names were recognised as fair value adjustments to the opening balance sheets. The most material of these is the customer relationships intangible within Avantus.</p>	<p>The Committee reviewed the findings and assumptions used, noting the use of external advisers to prepare the technical calculations. In particular the Committee challenged the forecast growth rates assumed in the calculations and the useful economic lives applied to the resultant intangible assets.</p>	<p>The Committee concluded that the assumptions and outputs made by management were reasonable.</p>

Issue	Key uncertainties and judgements	Review and challenge by the Committee	Conclusion
<p>Pensions</p> <p>Net pension asset valuation</p>	<p>The Group's net pension asset decreased significantly during the year due to the economic turmoil and increase in gilt yields, reducing the value of the LDIs and related asset backed securities. This more than offset the reduction in liabilities which were impacted by higher discount rates.</p>	<p>The committee reviewed the results on the valuation exercise, and key assumptions used, noting the use of external advisers to prepare the calculations.</p>	<p>The Committee concluded that the assumptions and outputs made by management and the external advisers were reasonable.</p>
<p>Taxation</p> <p>Key judgments including recoverability of losses</p>	<p>The key accounting assumptions relating to tax include tax provisioning, acquisition related tax balances, the recoverability of deferred tax balances relating to historical losses and the impact of statutory rate changes.</p>	<p>The committee reviewed the key judgments taken by management, particularly relating to the future recoverability of deferred tax relating to losses, which will depend on the future financial results of the relevant entities.</p>	<p>The committee concluded that the judgments made by management were reasonable.</p>

Going concern and viability statements

The acquisitions of Avantus and Air Affairs during FY23 took the Group into a net debt position, this meant that we have paid particular attention to these assessments, specifically considering if covenants may be breached. With consideration to the available information, 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 through to 31 March 2028. The Committee 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 83](#), including the detail on how the process was conducted.

Internal control environment

Internal Audit

The Group Internal Audit function operates independently within the business, as part of the third line under QinetiQ's adoption of the Three Lines Model (see [page 76](#) for further details). The function works closely with the business, providing an independent input 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.

Group Internal Audit reports to the Committee, formally reporting four times during the year. The Committee approves the annual audit plan, reviews findings, and assesses 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 an assessment of high-risk project and programme management processes, a focus on the progress of the internal safety improvement programme, and reviews of the UK subsidiary businesses that have been acquired by QinetiQ in recent years.

The overall assessment following the audit and assurance activity in the period is that the control environment is considered to be effective, with an open culture focused on growing the business in a sustainable way for the future.

The effectiveness of the Group Internal Audit function was assessed by the Committee in the period, using a survey and questionnaire that was completed by members of the Committee, the external auditors, and a number of senior managers from across the organisation. The outcome was that the function remains effective in its activities, while noting the need to strengthen the team and consider using external expertise for more technical or specialist areas.

Moving forward into the next financial year there are a number of priorities for the function including, but not limited to, helping address the new UK corporate governance requirements, working with the business to mature further the internal assurance model, as well as focusing efforts to deliver assurance on the integration of more recent acquisitions in the US and Australia.

Risk Management

The Group Risk Management function operates independently within the business, as part of the second line under QinetiQ's adoption of the Three Lines Model (see [page 76](#) for further details). The function works closely with the business, providing an independent input 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. The Committee notes improvements in identifying and mitigating emerging risks, such as macroeconomic and supply chain risks, and also notes early signs of improvements in embedding the three lines of assurance model, since the recruitment of a Chief Risk Officer in January 2023.

Prevention and detection of fraud

The Committee reviews the effectiveness of the control environment annually, which includes considering the Group policies, processes and controls for the detection and prevention 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.

Audit, risk and internal control continued

Treasury strategy and compliance

The Group Treasury policies and procedures provide a robust framework of internal controls for the management of treasury risks faced in a net debt environment. These include monitoring of leverage and availability of liquidity through Group cash forecasting, meeting our covenant compliance and legal requirements for our banking partners and managing our financial exposures to foreign exchange and interest rate fluctuations. We seek to continually challenge and review this framework to ensure that it is fit for purpose and robust to meet the changing nature of financial risks as faced with the collapse of Silicon Valley Bank, the new higher interest rate environment and the banking sector's policy on investing in the defence sector, which impact the availability of liquidity.

Tax strategy and compliance

Group tax policies and procedures were tested with the identification of a significant VAT error in the year. There were internal control failings in both systems and processes which gave rise to a material adjustment and payment to HMRC relating to the underpayment of prior year obligations. There was early engagement with the tax authority, in line with our open and transparent approach to tax risk management. The control environment was tested and reviewed and further procedures were adopted immediately to close out the risk and check whether there were other instances of similar errors. We continue to engage with the tax authority to demonstrate the operation of these controls. The tax authority has suspended its penalty subject to compliance with these controls and meeting compliance obligations over a six month period of review.

Task Force on Climate-related Financial Disclosures (TCFD) and future non-financial reporting

In FY22 we were one of the first companies required to report, in line with Listing Rule 9.8.6(R)(8) which addresses the four TCFD recommendation pillars (Governance, Strategy, Risk and Metrics) and 11 disclosures. We are committed to continuous improvement as guidance and methodologies mature. For the FY23 reporting (see [page 61](#)) aligned with the TCFD recommendations, we are able demonstrate a number of refinements, for example in our approach to Governance (e.g. the establishment of a new Environmental, Social and Governance (ESG) Steering Committee providing a monthly oversight). The Committee reviewed the proposed disclosures and endorsed assumptions and judgements applied by management.

With the growing body of non-financial reporting requirements ahead, the Committee requested a deep dive review and a standing agenda item to continue to be briefed on this evolving area of interest. An overview of the various new requirements across relevant geographies was discussed, (including the new International Sustainability Standards Board (ISSB) sustainability-related financial reporting standards; and reporting in both the US and Australia) and the next steps and investment needed to ensure that we remain a leader among our peers.

External Audit

PwC audit scope

Reflecting the changing composition of the Group, the FY23 audit scope has been expanded to include key financial statement line items and the acquisition accounting relating to the acquisitions made during the year. Consistent with last year, QinetiQ Australia, QinetiQ Inc. (C5ISR) and QinetiQ Limited are full 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 auditors independence

The Committee is responsible for the Group'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 auditors.

In order to safeguard the auditor's independence and objectivity, and in accordance with the 2019 FRC's ethical standard, the Group 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 Group's policy for the engagement of the auditors 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 Group's own policy.

The 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 auditors require the prior consent of the Group Chief Financial Officer or the Chair of the Audit Committee, and any services exceeding £50,000 in value require the prior consent of the Committee as a whole. For work that is permissible by type, the Committee will take into consideration the size of the contract in proportion to the Group'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 the Group's policy that no former PwC employee may be appointed to a senior position within the Group without the prior approval of the Group Chief Financial Officer.

Review of non-audit work during the year

The Committee reviews the cost and nature of non-audit work undertaken by the external auditors 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. Fees paid to PwC are set out in note 8 to the Consolidated Financial Statements on [page 181](#) and include one off fees relating to the opening balance sheet and acquisition accounting for Avantus and Air Affairs.

Non-audit related fees paid to the auditor during the year were £0.15m (FY22: £0.66m), representing 8% (FY22: 59%) of the audit fee. This included £0.11m (FY22: £0.09m) relating to the review of the half-year results. FY22 included approved fees relating to an incomplete acquisition. Our annual review of the external auditors takes into account the nature and level of all services provided.

Review of the effectiveness and the independence of the external auditors

At its September meeting the Committee discussed the effectiveness of the external audit for FY22. It concluded that there had been several challenges and there were learnings to be taken for both PwC and the Group. As a result an additional week was incorporated into the reporting timetable. It was 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 2017 Annual General Meeting (AGM) following a tender process. PwC are now in their sixth year as auditors with a new external audit engagement partner, John Ellis, who took the lead for FY23 audit cycle and will 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 during FY27 to ensure that new auditors are appointed for the FY28 audit cycle.

The Committee and the Board will be recommending PwC's re-appointment at the 2023 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 the Group operates. The Group Chair, Group Chief Executive Officer, Group Chief Financial Officer, Group Financial Controller, Group Director Internal Audit, Chief Risk Officer and representatives of the external auditors attended all Committee meetings by invitation during the year. Twice a year we also welcome the Chair of the US SSA Audit Committee to update us specifically on the internal controls and risk management across the business.

The Committee met with PwC and the Group Director 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

In 2023 the effectiveness review of the Committee was conducted by The Effective Board LLP. This process is described further on [pages 117 to 118](#). 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

We await the outcome of the Financial Reporting Council's consultation on Audit Committee minimum standards and the implementation of regulatory standards to address the response in respect of the corporate governance and audit reforms. The Committee will review its processes and implement changes to its operations, as may be required. We will also monitor the Group's implementation of any required changes resulting from the reforms.

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.

Audit, risk and internal control continued

Risk & Security Committee report



We have strengthened our processes to match growing threats and ensure we are secure and effective in the modern age."

Dear Shareholder,

I am pleased to present our Risk & Security Committee report for FY23, which describes our activities and areas of focus during the year.

The Risk & Security Committee risk management responsibilities

The Risk and Security Committee has a close relationship with the Audit Committee which enhances the efficiency and effectiveness of Board oversight. The Committee provides further scrutiny and assurance to the Board that the required UK and international standards in risk management, security, health and safety, are achieved. This includes 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 75 to 83](#), 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.

The Committee members and I have, together with the Chief Enterprise Services Officer, Group Director Security, Business Services Director and Chief Risk Officer, 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. As a defence and engineering Company, we must remain alert about our risks and strengthen our processes to address increasing geopolitical instability.

Key highlights FY23

- Tapped key talent for our CIO and CISO roles and on-boarded our Chief Risk Officer
- Matured our governance structure and our global view on risk
- Stood up the Security & Information and Risk & Assurance Councils as key new bodies to reinforce Group-wide awareness of risk and assurance
- Delineated and interlinked security risks into four pillars
- Embedded a sense of modernity into our risk and assurance approach

FY24 priorities

- Ensuring effective first line compliance and second line assurance activities
- Monitoring progress on the Global Interoperable Infrastructure Project
- Improving the consistency of risk reporting across the Group
- Continuing 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 responsibilities

The Committee's 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 75 to 83](#))
- To oversee the Group's physical and non-physical security systems, including monitoring security exposures and security culture, and considering emerging security issues
- 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 geopolitical instability and supply chain disruptions.

Risk & Security Committee structure

All members of the Board are members of the Risk & Security Committee, which is chaired by General Sir Gordon Messenger. The Chief Enterprise Services Officer, the Group Director Security, the Chief Information Officer, the Chief Information Security Officer, the Chief Risk Officer and the Group Director – Internal Audit attend 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 QinetiQ 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	<ul style="list-style-type: none"> • Review risk management structures and reporting lines (i.e. effectiveness of control environment) • Evaluate effectiveness of risk reporting processes • Review effectiveness of risk identification processes • Consideration of any security issues relating to the appointment of external auditors
Risk monitoring exposures	<ul style="list-style-type: none"> • Review of risk register and key exposures • Monitor Health, Safety and Environmental performance • Scrutinise Internal Audit reports with respect to risk and security issues • Oversee international business governance • Oversee application of apply anti-bribery and corruption measures

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.

Cyber security

Our cyber security procedures have been strengthened considerably in recent years in response to the increasing threat this poses to businesses, and it remains an area that we keep under continuous review.

We continue to develop our cyber capability leveraging deep technical expertise and knowledge to support all our business areas. The threat in this area continues to evolve with the introduction of advanced Artificial Intelligence tools (such as ChatGPT) making identification of phishing emails, malware and false social media profiles increasingly difficult to identify. This will form a key part of our security training and education programme in FY24.

The Committee continues to receive regular reports from the CIO and CISO on the maintenance of adequate cyber security systems, work undertaken to improve cyber security capabilities and lessons to be learnt from high-profile data breaches.

Audit, risk and internal control continued

All employees have to complete mandatory cyber, information, physical and personnel security training each year, which focuses on our policies, procedures, culture and behaviour aligned to known threats. Our Group intranet also includes a comprehensive Security Knowledge Library which is used both individually and by leaders for regular security engagements at team level. This approach substantially improved security culture and behaviour during FY23.

Governance

Self-certification process

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

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

Generic MOD compliance system

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

The system is designed to give the MOD customer confidence that QinetiQ is able to provide impartial advice during any competitive evaluation of a procurement opportunity where the Group wishes to operate on both the "buy" and the "supply" sides. The aim is to achieve a balance between meeting the needs of the procurement customers in the MOD (principally Defence Equipment & Support) and the need to allow QinetiQ the flexibility to commercialise research into the supply chain and pursue its planned business activities, without compromising the defence or security interests of the UK. The Board nominates two senior managers to act as Compliance Implementation Director (CID) and Compliance Audit Director (CAD).

Anti-bribery and corruption

The Committee oversees a zero-tolerance approach to bribery and corruption, as confirmed by the Company's anti-bribery and corruption policy and the supporting local policies that apply to members of its Group. The Group also has in place a range of procedures, including regular training targeted at potentially risk-exposed roles of the employees, Group and local gifts and hospitality policies, and Group and divisional procurement, contracting and partnering practices, which are designed to prevent bribery. See more on [page 74](#).

Data privacy

The Company respects the personal data privacy of its customers, employees and other individuals in respect of whom it and members of its Group process personal information. The Group therefore has in place policies which mandate the lawful processing and protection of such personal information in accordance with applicable laws and procedures which are designed to achieve the same. A report on GDPR compliance is presented to the Committee at each Committee meeting.

Effectiveness review

In 2023 the effectiveness review of the Committee was conducted by The Effective Board LLP. This process is described further on [pages 117 and 118](#). The performance of the Committee was rated highly overall, and the Committee agreed it would continue to focus on cyber risk and security in FY24.

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 76](#), 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 of 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 discussions with 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 in the year included those emerging risks that could impact the Group's business model and future performance and therefore require 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 75 to 83](#). 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

Directors' remuneration report

Directors' remuneration report



It is against the backdrop of strong FY23 performance that I am pleased to propose our new Directors' Remuneration Policy to further incentivise our ambitious growth agenda."

Dear Shareholder,

As the Group Chair notes in his statement on [page 4](#), FY23 was a year of excellent performance. This was reflected in the incentive out-turns where stretch financial targets were exceeded on orders, profit, cash and revenue; a truly exceptional performance.

It is against the backdrop of strong FY23 performance that I am pleased to propose our new Directors' Remuneration Policy to further incentivise our ambitious growth agenda.

Reward decisions for FY23

The Remuneration Committee awarded base salary increases of 3.6% for both the CEO and CFO effective 1 July 2022. Both salary reviews are aligned with the Rewarding for Performance guidance used for all UK employees and below the 4.0% budget for the July 2022 salary review.

The annual contribution to the Bonus Banking Plan (BBP) for FY23 for the CEO and the CFO is 98.2% and 96.8% of the maximum respectively, recognising their personal performance during a year when the Company delivered exceptional performance led by our Executive Directors.

The FY23 contingent share award under the Deferred Share Plan (DSP) will be made at 100% of the maximum reflecting stretch revenue growth in-year, an excellent result. This DSP award will not vest in full unless the performance underpin is met in FY26 that the level of operating profit for FY23 is at least maintained.

The FY23 CEO single figure on [page 146](#) is lower than FY22, despite the higher FY23 annual incentive payment, largely due to no DSP contingent shares vesting as no award was made based on FY20 performance.

The Committee considered the FY23 incentive out-turns 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.

New Directors' Remuneration Policy

During FY23 the Committee has spent a significant amount of time considering the new Directors' Remuneration Policy for approval at the July 2023 AGM to ensure that it is aligned with our strategy and growth ambitions. We have consulted widely with our shareholders as our proposal evolved and we are grateful for the input we received which has greatly assisted the Committee in finalising our proposals.

The Committee's desired outcomes from the review of our Policy, are to:

- Simplify the approach to incentives.
- Align more to market in terms of incentive structure.
- Be more aligned to the global and private equity markets where we are increasingly competing for talent.
- Drive sustainable annual performance supporting our ambitious growth strategy and long-term value creation.
- Provide clearer separation between the annual and long-term incentives.
- Ensure alignment between the Executive Directors, QinetiQ Leadership Team and other senior leaders.

The Committee believes that the new Policy and, in particular, the proposed new annual and long-term incentives, achieve the desired outcomes.

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

The Bonus Banking Plan (BBP) will be replaced by an Annual Bonus Plan (ABP), with the current 200% of salary maximum remaining unchanged. The ABP is a more market-standard structure, with 70% of any outcome payable in cash at year end and 30% deferred into shares which vest after two years. This provides the same level of cash opportunity each year as the BBP.

The Committee is also proposing the introduction of a new Long-term Performance Award (LPA) to replace the Deferred Share Plan (DSP). The DSP has supported incremental annual growth but is no longer appropriate to motivate and reward our increased ambition. The LPA will be targeted on achieving stretching levels of performance, aligned with market guidance and the new FY27 ambition, beyond those of the current incentives with an increased reward opportunity. For the Executive Directors, the LPA will have a maximum award of shares to the value of 250% of salary for exceptional levels of performance over a three-year period, followed by a two-year holding period post-vesting.

The LPA is a similar construct to a Performance Share Plan whereas the DSP is restricted shares with a one-year pre-grant performance condition. The higher LPA maximum opportunity reflects the different nature of the award and the higher level of performance required with commensurately more stretching targets.

Implementation for FY24

Subject to shareholder approval at the AGM, the Committee intends to operate new incentive plans for FY24 as described in the Policy section on [page 136](#) and above.

The ABP for FY24 is based on the same financial metrics as in prior years (orders, profit and cash) with stretch targets set against the delivery of the Integrated Strategic Business Plan (ISBP). Financial metrics have a 70% weighting and non-financial targets have a 30% weighting based on the achievement of personal and common goals, with the focus of the latter on ESG metrics.

The FY24 LPA will be made immediately after shareholder approval at the AGM, with a 3-year performance period commencing 1 April 2023.

The performance metrics for the FY24 LPA will be cumulative underlying operating profit, Return on Capital Employed (ROCE) and total revenue growth to drive consistent profit performance, robust investment selection and value creation for our customers through collaboration.

Employee engagement and reward

Recent discussions provided a clear indication that our shareholders want to understand the measures we have taken to ensure that our employees are supported in these difficult times. The Company's leadership has made a number of interventions in FY23 to the long-term benefit of our employees including: in the UK, a minimum salary review of £1,500 in July 2022 and a further £1,500 in December 2022 to the benefit of our lower paid employees; in the US, greater support for employees with the increased cost of medical provision; in Australia, greater investment in scarce skills to negate the impact of market attrition; and globally, establishing a hardship fund to provide immediate financial support to those in the most need.

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

The CEO and the Chief People Officer have held regular discussions with our Global Employee Voice on reward matters. The social section on [page 52](#) 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 FY23 the stretch profit target was achieved resulting in a maximum payment for the Company element of the AEIS of £1,250. In addition, high-performing employees can earn up to an additional 5% of salary based on personal performance.

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 FY24. Looking forward, the Company will continue to invest in our enhanced global reward strategy and employee offering.

Conclusion

Supporting leadership to drive Company performance and developing the new Directors' Remuneration Policy were the primary areas of focus of the Remuneration Committee in FY23. The Committee believes that we have a talented QLT and, as the Company continues to grow and expand internationally, we are mindful of our global competitive environment and the increasing levels of responsibility.

The Company performed exceptionally well in FY23. As we now enter the next phase of growth we need simple stretching incentives which offer enhanced opportunities for leadership aligned to the ambitious 5 year strategy. For FY24 the Committee looks forward to implementing the new Policy to support the Company in delivering its growth targets.

I am very grateful for the time shareholders have given us this year and I hope that we can rely on your vote in support of the Directors' Remuneration Policy and FY23 Report at the AGM on 20 July 2023.

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
25 May 2023

Directors' remuneration report continued

Remuneration at a glance

Components, alignment, application and changes (subject to the approval of the new Directors' Remuneration Policy at the 2023 AGM)

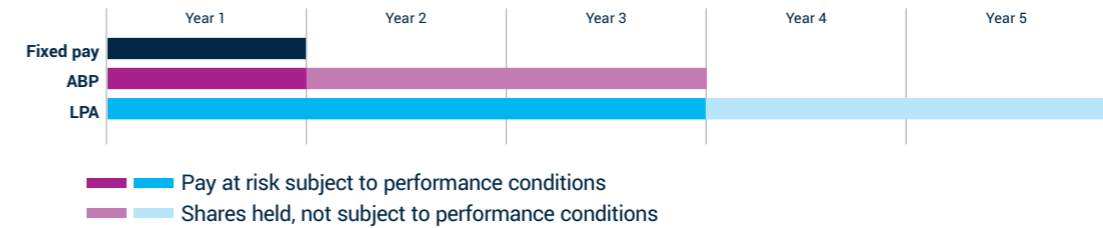
Annual fixed pay	Link to strategy	Application in FY24
<p>Salary</p> <p>Executive Directors' base salaries are set on appointment and reviewed annually, or when there is a change in position or responsibility. Typically, base salaries will be increased by a similar percentage to the average pay increase for all employees of the Group.</p>	<p>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.</p>	<p>No change to current Policy.</p>
<p>Benefits</p> <p>Benefits include a car allowance, health insurance, life assurance, income protection and taxable expenses.</p>		<p>No change to current Policy.</p>
<p>Pension</p> <p>Executive Directors currently receive 10.5% of base salary allowance as cash in lieu of pension which is equivalent to the UK workforce pension available to all employees.</p>		<p>No change to current Policy.</p>

Annual variable pay	Link to strategy	Application in FY24
<p>The new Annual Bonus Plan (ABP) introduced for FY24 onwards will be as follows:</p> <ul style="list-style-type: none"> 70% of any outcome will be payable in cash at year end and 30% will be deferred into shares, which vest after two years. The maximum incentive for Executive Directors will be 200% of salary. The performance measures used for the ABP will be the same as those used in prior years. For FY24 these are orders, operating profit, cash flow, common goals (which include ESG metrics) and personal goals. As in FY23 a weighting of 70% financial and 30% non-financial metrics will be used for FY24. 	<p>The ABP rewards strong sustainable financial performance through a 70% weighting on core financial metrics, driven by the implementation of our strategy.</p> <p>The ABP also rewards non-financial performance through the delivery of key Common Goals related to environment (Net Zero roadmap), employee engagement & inclusion, and safety and the achievement of personal goals.</p> <p>The partial deferral of any ABP payment into shares drives a long-term and sustainable focus aligned to the interests of shareholders.</p>	<p>For FY24 the Remuneration Committee revised the annual incentive weightings by reducing the orders metric to 20% (previously 25%) and increasing the profit metric to 30% (previously 25%) to support the drive for profitable growth. Cash will remain at a 20% weighting.</p>

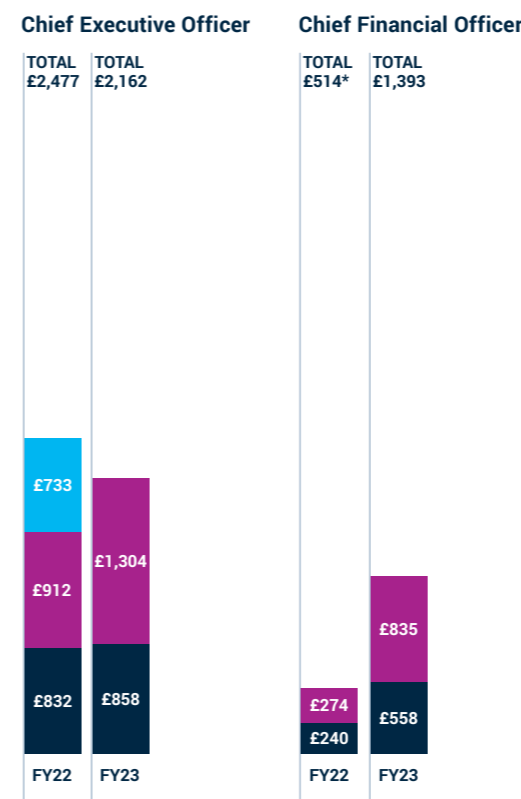
Long-term variable pay	Link to strategy	Application in FY24
<p>The new Long-term Performance Award (LPA) introduced for FY24 onwards will be as follows:</p> <ul style="list-style-type: none"> Three-year performance test with any shares vesting subject to a further two-year holding period. The maximum LPA award for Executive Directors will be 250% of salary for the delivery of truly stretching financial targets. The performance measures used for the LPA for FY24 will be earnings, ROCE and total revenue growth. No more than 20% of each element of the award will vest at threshold levels of performance. 	<p>The LPA has a clear link to strategy and incentivising growth:</p> <ul style="list-style-type: none"> Cumulative Earnings: To deliver consistent operational performance over the longer term. Understood, relevant and actionable for QinetiQ senior leaders. Returns: To drive robust investment selection and delivery. Total revenue growth: To drive value creation through collaboration and market leverage. <p>The payment of any LPA in shares which must be held for a further two years drives a long-term and sustainable focus aligned to the interests of shareholders.</p>	<p>Each LPA will be based on key financial metrics aligned to Company strategy with weightings set to provide an appropriate balance between the metrics.</p> <p>For the FY24 LPA the metrics are earnings (underlying operating profit on a 3-year cumulative basis, 35% weighting), ROCE (average EBITA over three years divided by average capital employed, 35% weighting) and total revenue growth (30% weighting).</p>

Timing

To create strong alignment between executive remuneration and the long-term interests of our shareholders, the ABP is paid in part in deferred shares vesting two years after the award was earned. The LPA has a three-year performance period, after which any vested shares must be retained by the executive for a further two years.

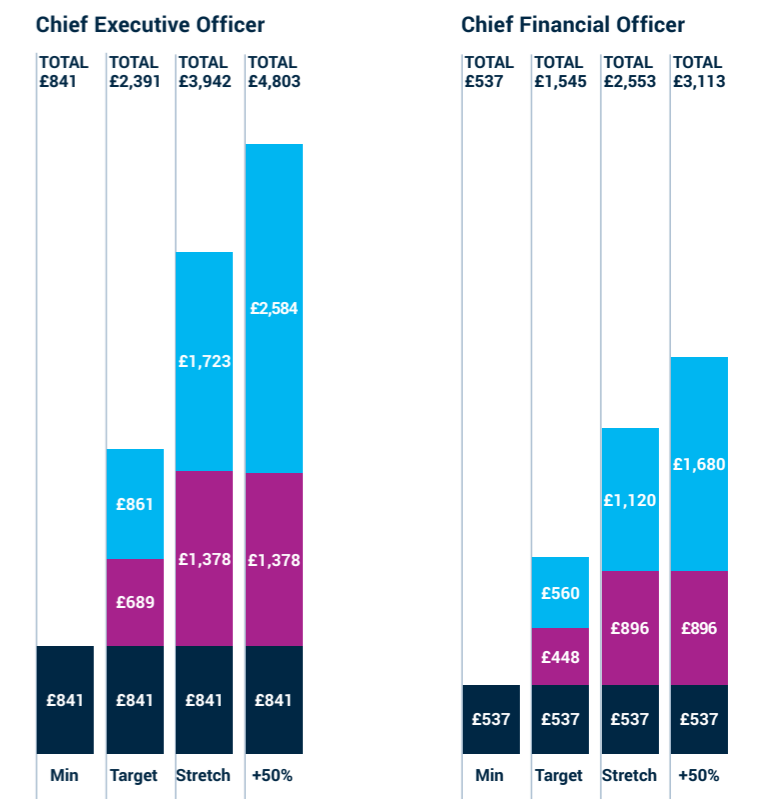


Single Figure FY23 (£'000)



Key
 ■ Fixed pay
 ■ Annual variable pay
 ■ Long-term variable pay
 * FY22 excludes £100,000 'Other'.

Illustration of FY24 potential (£'000)



Key
 ■ Fixed pay
 ■ Annual variable pay
 ■ Long-term variable pay
Minimum – Fixed pay (FY24 base salary, plus taxable benefits and pension allowance)
Target – Fixed pay plus ABP at Target (100% of base salary) and LPA at Target (125% of base salary)
Stretch – Fixed pay plus ABP at Maximum (200% of base salary) and LPA at Maximum (250% of base salary)
+ 50% Share price appreciation – Stretch plus 50% share price appreciation (on 100% of LPA)

Directors' remuneration report continued

2023 Directors' remuneration policy Q&A

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

- The principles of the new Policy are:
- A simplified approach with greater alignment to market practice and separation between annual and long-term incentives;
 - To drive sustainable annual performance, supporting our ambitious growth strategy and long-term value creation;
 - Balance between supporting organic and inorganic growth;
 - Drive collaboration across our teams; and
 - Retain, attract and incentivise top talent.

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

QinetiQ's annual incentive scheme and long-term share plan deliver shares which must be retained after any award is paid or vests. In our ABP, 30% of the award is deferred and held as shares and is therefore subject to share price exposure. In our LPA there is a three-year vesting period for any shares and then a further two-year holding period.

In addition, the Executive Directors are required to build and hold a significant shareholding in the Company of 300% of salary for the CEO and 200% for other Executive Directors.

Q How does your Policy reward the implementation of Company strategy?

Our strategy, as detailed in our five-year Integrated Strategic Business Plan (ISBP), aims to deliver sustainable and long-term growth in our business and to increase value to our shareholders.

The Policy focuses on the achievement of stretching but sustainable annual and three-year financial performance targets aligned to the ISBP, balanced with Common Goals and personal objectives, to provide strategic alignment and support the growth ambition of the Company.

Q How does the Policy drive corporate culture?

Our annual bonus scheme includes a 30% weighting towards non-financial metrics including common goals (which include ESG metrics) and personal objectives.

Common goals are based on ESG targets for employee engagement & inclusion, progress towards the Net Zero target and the overall safety maturity of the Company.

The personal objectives measure the 'what' and the 'how' to ensure that key personal deliverables are achieved through collegiate and collaborative behaviours.

Q How does the Annual Bonus Plan (ABP) work?

- The ABP is an annual incentive plan with a one-year performance measurement period, with any award paid partly in deferred shares;
- A maximum award of 200% of salary is available each year;
- At the end of the first year 70% of the award is paid as a cash bonus;
- The remaining 30% is deferred and held in shares, which are subject to share price exposure;
- The deferred shares are held for two years;
- The financial metrics proposed for the ABP in FY24 are orders (20% weighting), operating profit (30% weighting) and operating cash flow (20% weighting);
- The non-financial metrics carry a collective weighting of 30% and include priorities such as implementing new safety programmes, roadmap to net zero, transforming the culture and engagement levels within the business. This supports long-term sustainable growth.

Q How does the Long-term Performance Award (LPA) work?

- Vesting of the LPA award will be determined by performance against a scorecard of long-term performance measures (which will not duplicate those for the ABP) to track the step-change value enhancement and enable a rounded assessment of performance;
- For the initial FY24 award, this will include earnings, financial returns (e.g. ROCE with a mechanism to incentivise value creative acquisitive growth), as well as a total revenue measure to increase global collaboration and create value across our Company;
- The performance target range for the LPA will be highly stretching to reflect its intention to drive strong business growth at an appropriate return on capital, delivering good returns for our shareholders;
- No more than 20% of each element of the award may vest at threshold levels of performance.

In alignment with our growth ambition, the FY24 LPA targets will drive towards c.£3bn of revenue by FY27, at 11 - 12% margin, with ROCE in a 15 - 20% range.

Q Why aren't you proposing ESG and/or TSR as core performance metrics?

The Committee considered carefully both ESG measures and TSR as core metrics for the LPA:

ESG – measures such as route to Net-Zero, employee engagement and D&I interventions have a 17.5% weighting in the current annual incentive plan, which we anticipate will continue for the ABP in FY24 and thereafter. At this current point in the Company's journey towards Net-Zero and other core ESG milestones, the Committee considers it better to focus on annual incremental performance to deliver long-term goals.

TSR – The Committee's view is that comparative TSR is a measure which is based as much on market sentiment as Company performance; the Committee therefore prefers performance measures, such as those proposed for the FY24 award, which are in the direct control of senior leaders and strongly align with the delivery of QinetiQ's strategy and long-term sustainable value creation for shareholders. The Committee is also mindful of the challenge of identifying appropriate comparators for a Company such as QinetiQ that has few direct UK peers. However, the Committee will retain the flexibility to select the most appropriate measures aligned to business strategy each year, and will keep the use of TSR as a measure under review.

Q Why are you replacing the DSP with the LPA?

The LPA is designed to foster a greater focus on long-term sustained performance and to drive outstanding levels of organic and inorganic growth.

LPA performance targets are measured over three financial years, instead of an initial one-year target under the DSP, and will be calibrated to be more stretching. This will help to accelerate QinetiQ's growth and, if achieved, participants will earn higher payments than under the DSP.

Q How have you supported employees in the cost of living crisis?

We have made a number of interventions in FY23 including: in the UK, a minimum salary review of £1,500 in July 2022 and a further £1,500 in December 2022 to the benefit of our lower paid employees; in the US, greater support for employees with the spiralling cost of medical provision; in Australia, greater investment in scarce skills to negate the impact of market attrition; and globally, establishing a hardship fund to provide immediate financial support to those in the most need.

Q How do you focus on employee engagement?

Our employees share in the Company's success following the introduction of the AEIS in FY19 which pays up to £1,250 to all eligible employees on the basis of the Company's annual operating profit performance. The AEIS is important as a performance driver, to support collaboration and to share the success we create for shareholders.

Our Global Employee Voice (GEV), representing our global employees, is deeply engaged across the Company. We listen to the views and level of engagement of our employees through a quarterly survey using a market-leading dynamic tool (Peakon).

Q How do you avoid rewarding for failure?

In line with best practice, Executive Directors' contractual notice periods are 12 months with termination payments normally limited to salary, benefits and pension with a duty to mitigate loss if they are terminated by the Company.

Incentives have stretching performance targets to ensure that any payments are justified with the Remuneration Committee having discretion to adjust the formulaic outturn to ensure that rewards are appropriate. In addition, bonus deferral, holding periods and shareholding requirements ensure a focus on sustainable share price performance.

Q What other changes to Policy is the Committee proposing for 2023?

Apart from the introduction of the new annual and long-term incentives, there are no substantive changes proposed for the 2023 Policy.

Directors' remuneration report continued

Directors' remuneration policy

Introduction

Over the course of 2022 and 2023 the Remuneration Committee has reviewed the current Policy considering the views of internal and external stakeholders to ensure it is capable of supporting QinetiQ's ambitions for growth. The feedback received from our stakeholders identified several themes as summarised below.

- The former Policy supported business performance and strategy delivery across the last six years but, as the strategy evolves, so does the need for a flexible and globally competitive Policy.
- The former Policy supported incremental organic growth, but was not geared to motivate and reward for step-change value enhancement.
- The increased global nature of the business means we are competing for talent against a variety of companies, not just from UK-listed aerospace and defence peers. Private equity-backed companies increasingly present an attractive proposition for senior executives given their less restrictive pay policies and more leveraged incentive arrangements.
- Our Policy was more complicated than market norms and, while well understood internally, was difficult to explain to potential new recruits, particularly those outside of the UK.
- Consistency and fairness in approach are seen as being supportive of the QinetiQ culture.

Against this backdrop the Committee is proposing to make some changes to the future Policy. The desired outcome is, in response to shareholder feedback, to simplify the approach with incentive arrangements which:

- Are more aligned to market.
- Drive sustainable annual performance supporting longer-term value creation.
- Provide clearer separation between the annual and long-term incentives.
- Ensure alignment between the Executive Directors, QinetiQ Leadership Team and other senior leaders.

The review process

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

We then engaged with our largest shareholders representing some 49% of the register and revised the initial proposals to reflect the input received. In particular, the Committee reduced the overall quantum of the proposed Long-term Performance Award and revised the metrics. The Remuneration Committee strongly believes that the proposed Directors' Remuneration Policy will support the ambitious growth strategy.

We have also made every effort to engage with major shareholders to explain the Policy and the positive impact it will have on Company performance and culture. The Remuneration Committee therefore seeks approval for the Policy at the AGM on 20 July 2023.

Scope of Policy

The Policy applies to Executive Directors, the Group Chair and Non-executive Directors. Reference may also be made to the QinetiQ Leadership Team who, while not Directors, fall within the Remuneration Committee's remit, although the Policy is not binding for these individuals.

Changes to the Policy

As the annual incentive plan, the Committee is replacing the Bonus Banking Plan (BBP) with the Annual Bonus Plan (ABP), and the former Deferred Share Plan (DSP) will be replaced by the Long-term Performance Award (LPA). The terms of the new incentive plans and the rationale for their introduction is detailed in this report.

Apart from the introduction of the new annual and long-term incentives, there are no changes proposed for the future Policy.

Discretion

The Committee has discretions in several areas of Policy as set out in this report. The Committee commits to communicating to shareholders when discretion is used.

UK Corporate Governance Code

When considering the review of the Policy, the Committee was mindful of UK Corporate Governance Code provisions which state that the Committee should address issues of clarity, simplicity, risk, predictability, proportionality and alignment with culture.

- Clarity is achieved by the simplification of the incentives and the better separation between the annual and long-term plans.
- Simplicity is delivered by a much simpler approach to incentives, particularly the ABP.
- Risk continues to be managed through the operation of a broad suite of performance measures and targets, the use of deferral, holding periods and malus and clawback provisions, and the close interaction with the Audit and Risk & Security Committees.
- Predictability is achieved by setting clear performance targets and outcomes for threshold, target and stretch levels of performance, with a close link to Company strategy.
- Proportionality is delivered through performance conditions, both financial and non-financial, with the clear link to strategy. The Committee has the discretion to override formulaic outturns to ensure that they are appropriate and reflect overall performance.
- Alignment to culture is supported by performance measures which are consistent with the Company's purpose, values and strategy.

Executive Directors' Remuneration Policy

The Policy will be put forward for approval at the AGM on 20 July 2023. This Policy covers the three year period commencing 1 April 2023 and complies with the Large and Medium-sized Companies and Groups (Accounting and Reports) (Amendment) Regulations 2013.

Element	Purpose and link to strategy	Operation and performance measures	Maximum opportunity
Base salary	To attract and retain the talent needed to lead our business.	An Executive Director's base salary is set on appointment and reviewed annually or when there is a change in position or responsibility. When determining an appropriate level of salary, the Committee considers: <ul style="list-style-type: none"> • general salary rises to employees; • remuneration practices within the Group; • any change in scope, role and responsibilities; • the general performance of the Group; • the experience of the relevant Director; • the economic environment; and • pay levels for similar roles among appropriate comparators. Individuals who are recruited or promoted to the Board may, on occasion, have their salaries set below the targeted policy level until they become established in their role. In such cases subsequent increases in salary may be higher than the general rises for employees until the target positioning is achieved.	Typically, the base salaries of Executive Directors in post at the start of the policy period and who remain in the same role throughout the policy period will be increased by a similar percentage to the average annual percentage increase in salaries of all other employees in the Group. The exceptions to this rule may be where: <ul style="list-style-type: none"> • an individual is below market level and a decision is taken to increase base pay to reflect proven competence in the role; or • there is a material increase in scope or responsibility to the Executive Director's role. The Committee ensures that maximum salary levels are positioned in line with companies of a similar size to QinetiQ and validated against other companies in the industry, so that they are competitive against the market. The Committee intends to review the comparators periodically and may add or remove companies from the group as it considers appropriate.
Pension allowance	To ensure that Executive Directors' total remuneration remains attractive and competitive.	The Company provides a pension contribution allowance in line with practice relative to its comparators to enable the Company to recruit and retain Executive Directors with the experience and expertise to deliver the Group's strategy. The allowance is non-consolidated and does not impact any incentive calculations.	The maximum policy pension allowance is aligned with the Company pension contribution paid to the majority of UK pension scheme members (which is currently 10.5% of salary).
Benefits	To ensure that Executive Directors' total remuneration remains attractive and competitive.	Benefits include car allowance, health insurance, life assurance, income protection, expenses incurred which HMRC may deem taxable and membership of the Group's employee Share Incentive Plan which is open to all UK employees (the Executive Directors will also be eligible to participate in any other all-employee plan operated by the Company from time to time). The Committee recognises the need to maintain suitable flexibility in the benefits provided to ensure it is able to support the objective of attracting and retaining personnel in order to deliver the Group strategy. Additional benefits may therefore be offered such as relocation allowances on recruitment or where new benefits are introduced for the wider employee population.	The maximum is the cost of providing the relevant benefits.

Directors' remuneration report continued

Directors' remuneration policy continued

Annual Incentive	Purpose and link to strategy	Operation and performance measures	Maximum opportunity
Annual Bonus Plan (ABP)	<p>The ABP provides an incentive for the Executive Directors to achieve targets that are entirely aligned to the Company's strategy.</p> <p>The ABP rewards strong sustainable financial performance through a 70% (for FY24) weighting on core financial metrics, driven by the implementation of our strategy.</p> <p>The ABP also rewards non-financial performance through the delivery of key common goals related to our Net Zero roadmap, employee engagement & inclusion, safety and the achievement of personal goals.</p> <p>The partial deferral of any ABP payment into shares drives a long-term and sustainable focus aligned to the interests of shareholders.</p>	<ul style="list-style-type: none"> The ABP is an annual incentive plan with a one year performance measurement period, with any award paid partly in deferred shares; A maximum award of 200% of salary is available each year; At the end of the first year 70% of the award is paid as a cash bonus; The remaining 30% is deferred as an award of deferred shares that must be held for two years, and are subject to malus and clawback for up to three years from the payment date; Dividend equivalents will be paid on the deferred shares; The financial metrics will normally not be less than 60% of the overall weighting. <p>In exceptional circumstances the Committee retains the discretion to:</p> <ul style="list-style-type: none"> Change the performance measures and targets and the weighting attached to the performance measures and targets part way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate; for example adjustments for: acquisitions and disposals; restructuring costs; business structure changes; restated corporate allocations; foreign currency exchange rates; and Board-approved budget adjustments. Make downward or upward adjustments to the amount of incentive earned resulting from the application of the performance measures, if the Committee believes that the incentive outcomes are not a fair and accurate reflection of business performance. 	<p>Maximum = 200% of salary. Target = 100% of salary. Threshold = 0% of salary.</p>

Long-term Incentive	Purpose and link to strategy	Operation and performance measures	Maximum opportunity
Long-term Performance Award (LPA)	<p>The LPA provides an incentive for the Executive Directors to achieve long-term financial targets that are entirely aligned to the Company's strategy and the creation of shareholder value.</p> <p>With regard to the FY24 targets–</p> <ul style="list-style-type: none"> Cumulative earnings (35% weighting): To deliver consistent operational performance over the longer term. Understood, relevant and actionable for QinetiQ senior leaders Returns (35% weighting): To drive robust investment selection and delivery Total revenue growth (30% weighting): To drive value creation through collaboration and market leverage The delivery of any LPA in shares which must be held for a further two-years drives a long-term and sustainable focus aligned to the interests of shareholders 	<p>Vesting of the LPA award will be determined by performance against a scorecard of three-year performance measures, the majority of which will be financial (which will not duplicate those for the ABP). Any vested shares must be held for a further two years.</p> <p>Malus and clawback provisions apply to the LPA.</p> <p>The Committee will normally provide dividend equivalents on vested shares under the LPA.</p> <p>In exceptional circumstances the Committee retains the discretion to:</p> <ul style="list-style-type: none"> Change the performance measures and targets and the weighting attached to the performance measures and targets part way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate; for example adjustments for: acquisitions and disposals; restructuring costs; business structure changes; restated corporate allocations; foreign currency exchange rates; and Board-approved budget adjustments. Make downward or upward adjustments to the amount of incentive earned resulting from the application of the performance measures, if the Committee believes that the incentive outcomes are not a fair and accurate reflection of business performance. Scale back incentive awards at grant if there were to be a substantial Company share price fall. 	<p>Maximum = 250% of salary. Target = 125% of salary. Threshold = 50% of salary.</p> <p>No more than 20% of each element of the LPA may vest at threshold levels of performance.</p>

Directors' remuneration report continued

Directors' remuneration policy continued

Element	Purpose and link to strategy	Requirement	Operation
Minimum shareholding requirements – during and after employment	To align Executive Directors' interests with those of shareholders through the build-up and retention of a personal holding in QinetiQ shares.	<p>Executives have five years to accumulate the required shareholding.</p> <p>300% of base salary for the CEO.</p> <p>200% of base salary for other Executive Directors.</p> <p>Executive Directors will have a post-employment shareholding requirement of 100% of salary for the first year post cessation, then 50% of salary for the second year post cessation of employment.</p>	<p>The Committee has adopted formal shareholding requirements to encourage the Executive Directors to build up over a five-year period and then subsequently hold a shareholding equivalent to a percentage of base salary. Adherence to these guidelines is a condition of continued participation in the equity incentive arrangements. This policy ensures that the interests of Executive Directors and those of shareholders are closely aligned.</p> <p>Executive Directors are required to retain at least 50% of the post-tax amount of vested shares from the Company incentive plans until the minimum shareholding requirement is met and maintained.</p> <p>Vested awards under the LPA must be retained by the participant for two years post-vesting to further support the post-employment shareholding requirement where an Executive Director leaves the Company.</p> <p>The Committee retains the discretion to increase the shareholding requirements.</p>

Notes to the policy table

Performance measures and targets

The performance measures and targets, financial and non-financial, are determined annually based on the Company's strategy. Targets are set taking into account a variety of inputs including but not limited to the strategic plan, the annual plan and brokers' forecasts. The measures and, where possible, the targets will be disclosed after the end of the relevant financial year in that year's remuneration report.

Remuneration policy for all employees

All employees of QinetiQ are eligible to base salary, benefits and pension.

The link between performance and reward cascades down from the Executive incentive plans with the Leadership and Business Development Communities typically invited to participate in the Company's formal annual incentive arrangements. All other employees may receive a discretionary bonus based on Company and individual performance. Participation in long-term incentive plans is available to Executive Directors, QinetiQ Leadership Team members, Leadership Community and selected other employees. Share ownership is further encouraged via the QinetiQ Share Incentive Plan.

The Remuneration Committee is made aware of pay, incentives and benefits by grade across the Company and the relevant costs. This is actioned by an annual report to the Committee which also includes details of any changes in remuneration policy for all employees during the year.

Recruitment policy

The Company's principle is that the remuneration of any new recruit will be assessed in line with the current Executive Directors. The Committee is mindful that it wishes to avoid paying more than it considers necessary to secure a preferred candidate with the appropriate calibre and experience needed for the role. In setting the remuneration for new recruits, the Committee will have regard to guidelines and shareholder sentiment regarding one-off or enhanced short-term or long-term incentive payments as well as giving consideration for the appropriateness of any award. The Company's detailed policy when setting remuneration for the appointment of new Directors is summarised in the table below.

Remuneration element	Recruitment policy
Salary, benefits and pension	These will be set in line with the policy for existing Executive Directors.
Incentive Plans	<p>Maximum annual participation will be set in line with the Company's policy for existing Executive Directors and will not exceed 450% of salary in aggregate.</p> <p>Depending on the timing of the appointment, the performance measures and targets used for the first award may differ to those of the existing Executive Directors. If different, they will be explained in detail in the following relevant Directors' Remuneration Report.</p>
Maximum variable remuneration	The maximum variable remuneration which may be granted is 450% of salary (excluding any buy-outs).
Relocation policies	In instances where the new Executive Director is required to relocate or spend significant time away from their normal residence, the Company may provide one-off compensation to reflect the cost of relocation for the Executive Director. The level of the relocation package will be assessed on a case-by-case basis but will take into consideration any cost of living differences/housing allowance and schooling.
Buy-out awards	<p>Where the Committee determines that it is necessary to buy-out previous entitlements forfeited on cessation of an Executive Director's previous employment, the value of such a buy-out award will be calculated taking into account the following:</p> <ul style="list-style-type: none"> • The proportion of the vesting period completed on the date of cessation of employment; • The performance conditions attached to the vesting of the entitlements and the probability of them being satisfied; and • Any other terms and conditions having a material effect on their value. <p>The Committee may then agree to compensate for the value forfeited using, where possible, existing incentive plans. To the extent that it is not possible or practical to provide the buy-out within the terms of existing incentive plans, a bespoke arrangement would be used, using any flexibility provided under the Listing Rules.</p>

Where an existing employee is promoted to the Board, the policy set out above would apply from the date of promotion but there would be no retrospective application of the policy in relation to subsisting incentive awards or remuneration arrangements.

Service contracts

Current Executive Directors have open-ended service contracts terminable by the Company immediately without notice upon breach by the individual or by the Company giving to the individual 12 months' written notice or, at its discretion, payment in lieu of salary, pension and benefits only during that notice. The payment in lieu of notice may be made in staged payments and may either reduce or cease completely where the departing Executive Director gains new employment. The Executive Director may terminate their contract by giving the Company 12 months' written notice. Contracts for new Executive Directors will be limited to 12 months' notice by both parties (or payment in lieu of notice in respect of the Company).

Copies of the service contracts are available for inspection at the Company's registered address.

The Group Chair and the Non-executive Directors have letters of appointment and are appointed for initial fixed terms of three years, subject to re-election at each Annual General Meeting. The Group Chair and the Non-executive Directors are not entitled to any payment in lieu of notice or any compensation for loss of office.

The dates of the service contracts, letters of appointment and unexpired term periods are set out in the Annual Report on Remuneration (page 136).

Directors' remuneration report continued

Directors' remuneration policy continued

Loss of office and change of control policy

When determining any loss of office payment for a departing Executive Director the Committee will always seek to minimise the cost to the Company while complying with the contractual terms and seeking to reflect the circumstances in place at the time. The Committee reserves the right to make additional payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation); or by way of settlement or compromise of any claim arising in connection with the termination of an Executive Director's office or employment.

The Committee has a number of discretions, including in relation to the determination of a good leaver. Any exercise of the Committee's discretions will be disclosed in full to shareholders.

Remuneration element	Approach	Application of Committee discretion
Salary, benefits (on cessation of employment)	In the event of termination by the Company, there will be no compensation for loss of office due to misconduct or normal resignation. In other circumstances, Executive Directors may be entitled to receive compensation for loss of office which will be a maximum of 12 months' salary and benefits. Such payments will be equivalent to the monthly salary and benefits that the Executive Director would have received if still in employment with the Company. These will be paid over the notice period. Executive Directors will be expected to mitigate their loss.	The Company has discretion to make a payment in lieu of notice, either as a lump sum or as a series of phased payments.

Pension (on cessation of employment)	Pension contributions or payments in lieu of pension contribution will be made during the notice period.	The Company has discretion to make a lump sum payment in lieu or a series of phased payments.
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Remuneration element	Approach	Application of Committee discretion
Annual Bonus Plan (on cessation of employment)	For the year of cessation Good leavers: Performance conditions will be measured at the normal measurement date. The Company incentive payment will be pro-rated for the period worked during the financial year of cessation. Unvested deferred shares will vest in-line with the normal vesting cycle of the award. Other leavers: No Company incentive cash payment or deferred shares awarded for the year of cessation. Any unvested deferred shares awarded in prior years will lapse on cessation.	For the year of cessation Any payment will normally be made as a mix of cash and shares. However, the Committee has the discretion (e.g. in the event of death or ill-health retirement of a participant) to pay the entire amount in cash. Deferred shares The Committee may decide to accelerate the vesting (e.g. in the event of death or ill-health retirement of a participant) so that these vest at cessation of employment.
Annual Bonus Plan (on change of control)	For the year of the change of control performance conditions will be measured to the date of the change of control. The Company incentive payment will be pro-rated to the date of the change of control. Unvested deferred shares will vest immediately on the change of control.	The Committee has discretion to make a payment entirely in cash.

Remuneration element	Approach	Application of Committee discretion
Long-term Performance Award (on cessation of employment)	Good leavers: Performance conditions will be measured at the normal measurement date and vest on their original vesting dates and remain subject to the sale restrictions. The LPA will normally be pro-rated for the part of the three-year performance period worked. Vested LPA awards will remain subject to the holding restrictions. Other leavers: LPA awards lapse immediately on cessation and no award for the year of cessation or if serving notice at the time of the award.	The Committee may decide to accelerate the vesting of LPA awards and measure performance up to the date of cessation in circumstances where there is an appropriate business case. The Committee may also waive or shorten the holding restrictions applicable to an award on compassionate grounds (e.g. due to death or ill-health retirement).
Long-term Performance Award (on change of control)	Performance conditions will be measured at the date of the change of control and the award will normally be pro-rated to the date of the change of control.	The Committee may waive pro-rating in circumstances where it feels it is in the interests of shareholders to do so.
Other contractual obligations (on change of control)	There are no other contractual provisions other than those set out above that could impact quantum of the payment.	None.

Awards under the Deferred Share Plan, as detailed on [page 152](#) (which includes the FY23 award), will vest on their original terms and will be treated in-line with the Policy approved by shareholders at the 2020 AGM.

'Good leaver' is a person whose cessation of employment is for one of the following reasons:

- Death; ill-health; injury or disability; redundancy; retirement; employing Company ceasing to be a Group Company; transfer of employment to a Company which is not a Group Company; and where the person is designated a good leaver at the discretion of the Committee (as described above).

A person who ceases employment in circumstances other than those set out above is designated as an 'other leaver'.

Directors' remuneration report continued

Directors' remuneration policy continued

Malus and clawback

Malus provisions apply to both the ABP and the LPA. Malus is the adjustment of ABP or LPA outturns or awards which have not vested or been paid due to the occurrence of one or more circumstances. The adjustment may result in the value being reduced to nil.

Clawback is the recovery of payments made or vested shares as a result of the occurrence of one or more circumstances. Clawback may apply to all or part of a participant's payment or share award under the ABP or LPA and may be effected, among other means, by requiring the transfer of shares, payment of cash or reduction of awards or bonuses.

The circumstances in which malus and clawback could apply are as follows:

- Discovery of a material misstatement resulting in an adjustment in the audited accounts of the Group or any Group Company;
- The assessment that any performance condition or condition in respect of a payment or award under the ABP or LPA was based on error, or inaccurate or misleading information;
- The discovery that any information used to determine the ABP or LPA award was based on error, or inaccurate or misleading information;
- Action or conduct of a participant which amounts to fraud or gross misconduct; or
- Events or the behaviour of a participant have led to the censure of a Group Company by a regulatory authority or have had a significant detrimental impact on the reputation of any Group Company provided that the Board is satisfied that the relevant participant was responsible for the censure or reputational damage and that the censure or reputational damage is attributable to the participant.

The following table sets out the periods during which malus and clawback may be effected.

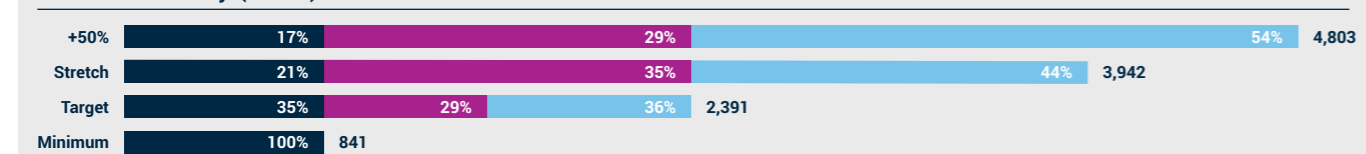
	Annual Bonus Plan	Long-term Performance Award
Malus	Up to the date of a payment/ award	Any time prior to vesting
Clawback	Three years post the date of any payment/ award	Three years from the date of vesting

Pay and performance scenario analysis

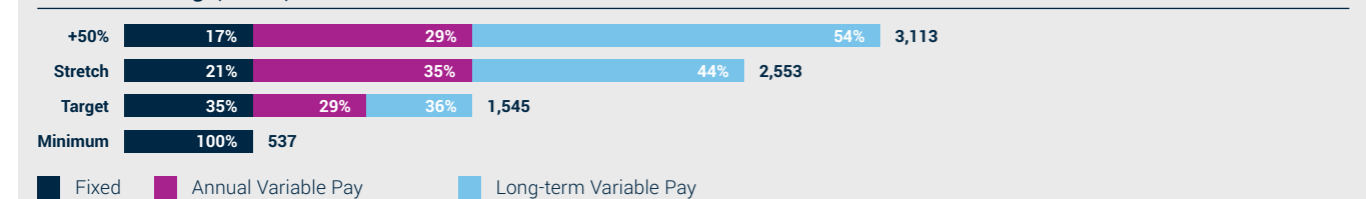
The proposed Directors' Remuneration Policy is illustrated in the following charts showing what each Director could expect to receive in FY24 under different performance scenarios, based on the following definitions:

Scenario	Linked to performance
50% share price appreciation	Stretch plus 50% share price growth (on 100% of LPA)
Stretch	100% of ABP opportunity (200% of salary) 100% of LPA opportunity (250% of salary)
Target	50% of ABP opportunity (100% of salary) 50% of LPA opportunity (125% of salary)
Minimum	No variable pay

CEO Steve Wadey (£'000)



CFO Carol Borg (£'000)



Policy for the Chairman and the Non-executive Directors

Fees for the appointment of a new Group Chair or Non-executive Directors will be aligned with the Policy for existing incumbents.

Chairman and Non-executive Directors

Element	Purpose and link to strategy	Operation and performance measures	Maximum opportunity
Fees	To attract and retain Non-executive Directors of the calibre required to assist the Company in setting and delivering its strategy.	The Executive Directors and the Group Chair are responsible for setting the remuneration of the Non-executive Directors. The Board, minus the Chair, is responsible for setting the Chair's fees. Non-executive Directors are paid an annual fee and additional fees for chairmanship of Committees and any other additional duties, and the Company retains the flexibility to pay fees for the membership of Committees. The Chair does not receive any additional fees for membership of Committees. Fees are reviewed annually based on equivalent roles in the comparator group used to review salaries paid to the Executive Directors. An additional fee is payable to those Non-executive Directors attending meetings outside of their country of residence. Non-executive Directors and the Group Chair do not participate in any variable remuneration or benefits arrangements. Fee levels may be increased on a temporary basis for a significant increase in time commitments (e.g. assuming an executive position for an interim period).	The fees for Non-executive Directors and the Group Chair are broadly set at a competitive level against the comparator group. In general the level of fee increase for the Non-executive Directors and the Group Chair will be set taking account of any change in responsibility and the general rise in salaries across employees. The Company will pay reasonable expenses incurred by the Non-executive Directors and Group Chair and may settle any tax incurred in relation to these.

Consideration of shareholder and employee views

The Chair of the Committee and the Group Chair consult with key shareholders on remuneration matters from time to time, and particularly in seeking views on the Directors' Remuneration Policy in preparation for the triennial vote at the AGM. Any concerns expressed by shareholders are reported to the Committee and these are taken into account as the Committee develops and implements its Policy. Any comments received from shareholders outside these consultation exercises are also reported to the Committee, and the Committee takes account of general views on remuneration expressed by shareholders and their representative bodies.

The Remuneration Committee is grateful for shareholders' comments and engagement during the Directors' Remuneration Policy consultation process. At the end of this process, the Remuneration Committee was pleased that the majority of the shareholders consulted expressed support for the new Policy.

The Committee has not formally consulted with employees in developing this Policy. However, our Global Employee Voice (GEV) is deeply engaged across the Company to provide an employee voice at the table on all relevant issues, including remuneration (regular interactions are held with the Group Chair, Remuneration Committee Chair, CEO and the Chief People Officer). The Company takes the views of employees very seriously and we monitor this through a quarterly survey using a market-leading dynamic tool (Peakon).

The Committee is cognisant of employment conditions when determining Executive Director pay. In particular, the annual salary increase available to the rest of the workforce is an important factor in determining any salary increase for the Executive Directors. The Committee reviews the CEO pay ratio and considers it in the broader context of pay trends within the business.

Directors' remuneration report continued

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 2023.

Audited information

Executive Directors' single total figure of remuneration:

Executive Director	Year	Salary £'000	Benefits £'000	Pension £'000	Total fixed pay £'000	Bonus Banking Plan £'000	Deferred Share Plan £'000	Other £'000	Total variable pay £'000	Total remuneration £'000
Steve Wadey (CEO)	2023	664	79	115	858	1,304	-	-	1,304	2,162
	2022	639	65	128	832	912	733	-	1,645	2,477
Carol Borg (CFO) (Appointed 11 October 2021)	2023	431	82	45	558	835	-	-	835	1,393
	2022	199	20	21	240	274	-	100	374	614

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 in FY22 is a payment in part compensation for performance-based annual bonus lost on resigning from her former employer as detailed in the FY22 DRR.

Salary	Salary as at 1 April 2022 £'000	Increase in the year	Salary as at 1 July 2022 £'000	FY23 salary actually paid £'000
CEO	647	3.6%	670	664
CFO	420	3.6%	435	431

Benefits	Taxable expenses £'000	Travel & car allowance £'000	Insurance benefit £'000	Total benefits £'000
CEO	39	19	21	79
CFO	14	62	6	82

Pensions	Cash in lieu of pension £'000	Total in lieu of pension £'000
CEO	115	115
CFO	45	45

Bonus Banking Plan	BBP Cycle 3 balance brought forward £'000	Dividend equivalent payment £'000	BBP award in year £'000	June 2023 payment in cash (50% value) £'000	BBP cycle 3 balance carried forward £'000
CEO	739	18	1,304	1,065	1,065
CFO	137	3	835	494	494

Deferred Share Plan	FY20 Shares Awarded	Vesting %	Shares Vesting	Estimated value £'000
CEO	0	-	0	0

Bonus Banking Plan

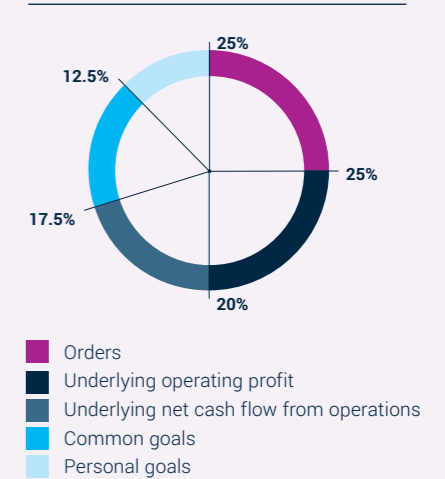
FY23 performance measures and operation

For the year ended 31 March 2023 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 2023, the CEO and CFO were measured against the targets as shown in the chart to the right. The target payment was 50% of maximum for financial and non-financial objectives.

When 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 profit risk. Financial performance measures exclude the contribution from businesses acquired in the year.

% of base salary



Audited information

FY23 performance outcomes

	Threshold	Target	Stretch	Actual	% of maximum reward achieved	CEO contribution	CFO contribution	
CEO/CFO financial performance measures:								
Orders ¹	25%	£1,130.6m	£1,230.6m	£1,330.6m	£1,701.0m	100.0%	£332,108	£215,630
Underlying operating profit ^{1,2}	25%	£148.0m	£158.0m	£168.0m	£169.5m	100.0%	£332,108	£215,630
Underlying net cash flow from operations ^{1,2}	20%	£153.0m	£173.0m	£193.0m	£270.2m	100.0%	£265,686	£172,504
CEO/CFO common goals (as detailed on page 148):								
• Performance against key stretching objectives	17.5%	40%	50%	100%	92.4%	92.4%	£159,412	£139,495
CEO personal goals								
• Performance against stretching objectives	12.5%	40%	50%	100%	96.0%	96.0%	£214,847	
CFO personal goals								
• Performance against stretching goals relating to growth and leadership	12.5%	40%	50%	100%	85.0%	85.0%		£91,643
CEO overall result					98.2%		£1,304,161	
CFO overall result					96.8%			£834,902

1 Performance measures have been adjusted for the disposal of Space NV in FY23 and an unbudgeted VAT payment. The impact of the Space NV disposal to the original baseline targets was orders -19.4m, profit -£2.0m and cash -£13.0m. The VAT payment was a cash -£14.0m adjustment.
2 Definition of underlying measures and performance can be found in the glossary on page 178.

Directors' remuneration report continued

Annual Report on remuneration continued

Common goals (17.5% weighting)

Measures	FY23 Performance	Outcome (% maximum)
Net Zero	Undertake environmental engagements with demonstrable progress on Net Zero roadmap	92.4%
Engagement	Achieve Group Peakon (third-party employee engagement survey) improvement target	
Inclusion	Undertake interventions to address organisational biases and drive D&I culture	
Safety	Drive safety performance-based on lagging and leading metrics	
Security	Evidence demonstrable progress	
Total		

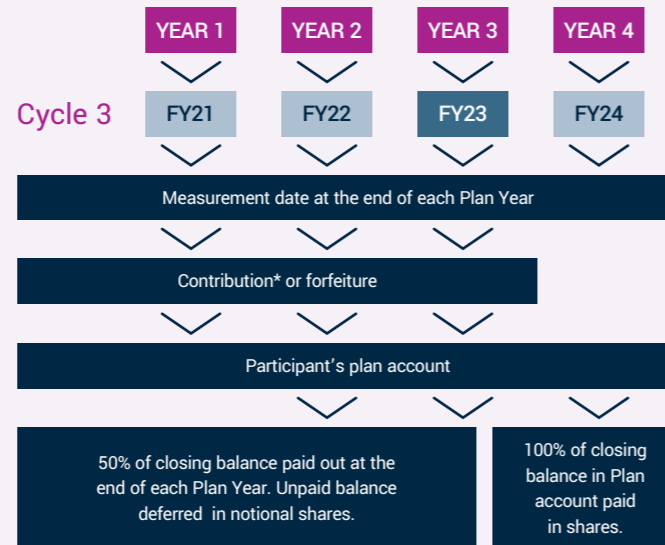
Personal goals (12.5% weighting)

Measures	FY23 Performance	Outcome (% maximum)
CEO	Embed safety, security and Three Lines assurance model Enable growth through customer focus and investment in new capabilities Develop organisational capability and culture consistent with five-year ambition Enable Company performance to demonstrate return to growth in FY23	96.0%
Total		
CFO	Complete Company restructuring and benefits realisation, inc. overhead recovery model Deliver year 1 of ESG plan Establish an effective Finance & Governance Function aligned to new operating model Refinance (debt/equity) in support of M&A ambition	85.0%
Total		

How the plan operates

- The Plan operates on a fixed three-year performance cycle with a four-year vesting cycle. FY23 represents year three 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 based on the achievement of a profit underpin target.
- 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 and a cash dividend equivalent is paid.

BBP payout mechanism



* Single figure BBP value for a Plan/financial year.

Audited information
Operation during FY23
Cycle 3

	Notional shares on account at start of Plan Year 3 (1 April 2022)	30-day average share price to 31 March 2023 (p)	Share value as at measurement date (£)	Bonus plan contribution for Plan Year 3 (£)	Dividend equivalent payment (£)	Bonus pool total value as at measurement date (£)	Gross payment in cash for Plan Year 3 (£)	Bonus pool total value after cash payment (£)	Notional shares on account at end of Plan Year 3 (31 March 2023)
CEO	244,692	330.2	807,973	1,304,161	18,107	2,130,241	1,065,120	1,065,121	322,568
CFO	45,450	330.2	150,076	834,902	3,363	988,342	494,170	494,171	149,658

Forfeiture

For BBP Cycle 3 the CEO and CFO retained notional shares in their Plan accounts of which 50% were subject to forfeiture. Forfeiture would have been enacted if Group underlying operating profit was less than the level determined by the Remuneration Committee at the start of the year of £130.0m for FY23. FY23 Group underlying operating profit was £169.5m (excluding contribution from acquisitions) therefore no notional shares were forfeited.

Discretion

For BBP Cycle 3, for the year ended 31 March 2023, targets were largely achieved providing a contribution of 98.2% of the maximum award for the CEO and 96.8% for the CFO. CEO £1,304,161 and CFO £834,902 has been reported in the single figure table which represents the contributions to the Plan related to FY23 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.

Termination of the BBP

Subject to shareholder approval of the new Directors' Remuneration Policy at the 2023 AGM, the BBP will be terminated and no investment will be made in FY24. For FY24 the BBP is in Cycle 3 Year 4 when no investment would normally be made. The notional shares on account as at the end of Plan Year 3 (as identified above) will be revalued using the share price over the 30-day period to 31 March 2024 and then delivered to the CEO and CFO as actual shares with a dividend equivalent payment.

Directors' remuneration report continued

Annual Report on remuneration continued

Deferred Share Plan (DSP)

Scheme interests awarded during the financial year ended 31 March 2023

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. FY22 DSP contingent shares granted in the year are detailed on [page 152](#). The FY22 award was 60.2% of the maximum available.

Termination of the DSP

Subject to shareholder approval of the new Directors' Remuneration Policy at the 2023 AGM, the DSP will be terminated and no award will be made in relation to FY24 performance. Subsisting DSP awards as identified on [page 152](#) will continue to be available to vest on the basis of the relevant performance underpin.

Audited information

FY23 performance outcome

The FY23 Deferred Share Plan award was measured against Group organic revenue with the following calibration which was adjusted for the disposal of Space NV.

Measure	Weighting	Threshold	Target	Stretch	Actual	% Max award achieved	% Salary awarded	Total £'000
Group Revenue¹								
CEO	100%	£1,248.6m	£1,348.6m	£1,448.6m	£1,489.6m	100.0%	125.0%	£830,269
CFO								£539,075

¹ The performance measure has been adjusted for the disposal of Space NV in FY23, with an impact to the original baseline targets of -£26.4m.

The FY23 DSP award was also subject to a pre-grant performance underpin that FY23 profit margins are higher than 10%, which was achieved. Group revenue achieved at £1,489.6m was above the Stretch level of performance resulting in a FY23 DSP contingent award of shares at 125% of the maximum available.

The FY23 DSP award will be subject to a further 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 of £169.5m for FY23 which must be achieved in FY26.

The FY23 DSP award which vests based on the achievement of the FY26 performance underpin must be held as shares for a further two years.

No FY20 DSP award of contingent shares was made as the pre-grant performance tests were not achieved and, therefore, there was no DSP award available to vest based on FY23 performance and no amount has been reported in the single figure table.

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 485% of base salary using a share price of 339.6p (three-month average to 31 March 2023).

The CFO was appointed during 2021 and does not currently meet the minimum shareholding requirement, with a current holding of actual shares equivalent to 151% 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 2023
Steve Wadey	955,909	391,944	564	1,348,417
Carol Borg	–	49,299	193,199	242,498
Michael Harper	45,000	–	–	45,000
Susan Searle	48,300	–	–	48,300
Neil Johnson	100,000	–	–	100,000
Shonaid Jemmett-Page	7,000	–	–	7,000
Lynn Brubaker (Resigned 31 December 2022)	25,000	–	–	25,000
Steve Mogford (Appointed 01 August 2022)	–	–	–	–
General Sir Gordon Messenger	–	–	–	–
Lawrence Prior III	–	–	–	–

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 2023 Steve Wadey purchased 57 shares, then on 9 May 2023 he purchased 55 shares, through his participation in the SIP. There have been no other changes to the shares shown above between 31 March 2023 and 25 May 2023.

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 152](#). The Compensation Share Plan award to Carol Borg (193,199 shares above awarded on 5 January 2022) 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 24 May 2023. 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.

Directors' remuneration report continued

Annual Report on remuneration continued

Audited information

Total scheme interests summary

Total scheme interests, including those awarded during the financial year ended 31 March 2023, are as follows.

Plan name	Date of grant	Number 1 April 2022	Granted in year (maximum potential of awards)	Vested in year	Lapsed in year	Number 31 March 2023	Share price on date of grant	Vest date
Steve Wadey								
DSP 2019	28 Jun 19	243,650	–	243,650	–	–	304.0	28 Jun 22
DSP 2021	25 Jun 21	232,746	–	–	–	232,746	321.9	25 Jun 24
DSP 2022 ¹	14 Jun 22	–	159,198	–	–	159,198	302.1	14 Jun 25
		476,396	159,198	243,650	–	391,944		
David Smith (former CFO)								
DSP 2019	28 Jun 19	169,118	–	169,118	–	–	304.0	28 Jun 22
DSP 2021	25 Jun 21	73,443	–	–	–	73,443	321.9	25 Jun 24
DSP 2022	14 Jun 22	–	19,761	–	–	19,761	302.1	14 Jun 25
		242,561	19,761	169,118	–	93,204		
Carol Borg								
Compensation								
Share Plan	5 Jan 22	193,199	–	–	–	193,199	258.8	5 Jan 25
DSP 2022 ¹	14 Jun 22	–	49,299	–	–	49,299	302.1	14 Jun 25
		193,199	49,299	–	–	242,498		

1. The FY22 DSP contingent share award granted on 14 June 2022 at a share price of 302.1p (30-day average to 31 March 2022) is calculated on awards of 60.2% of the maximum (75.3% of salary) with a face value of £480,939 and £148,933 for the CEO and CFO respectively, the award to the CFO being a pro-rata calculation to reflect the portion of FY22 served. If the FY22 Group underlying organic profit (£137.4m) is not achieved in FY25, a minimum of 50% of the award will lapse.

The contingent share award for the FY23 DSP will be granted in June 2023. The Committee estimates that 251,444 contingent shares will be awarded to Steve Wadey and 163,256 to Carol Borg. This is calculated based on awards of 125% of salary and a share price of 330.2p (30-day average to 31 March 2023).

As detailed in the FY22 Report, 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 three 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.

There have been no other changes to the interests shown above between 31 March 2023 and 25 May 2023.

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.

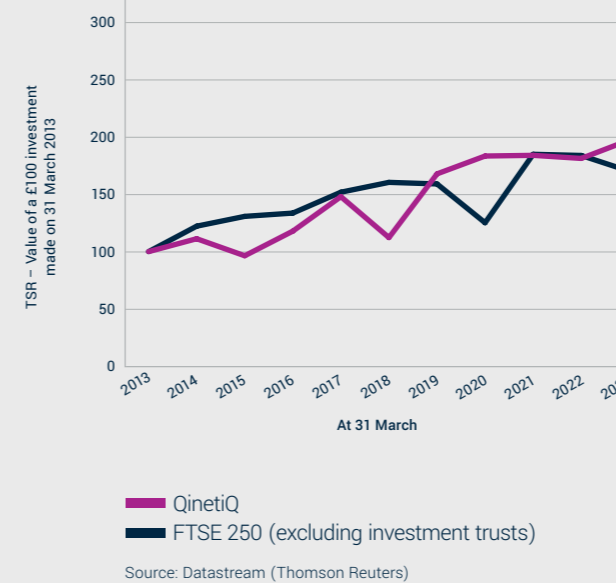
CFO succession

David Smith retired from the role of CFO effective 30 November 2021. The Remuneration Committee determined that Good Leaver status be provided to David as regards BBP and DSP participation as detailed in the FY22 Report. David is required to maintain a shareholding in line with the Directors' Remuneration Policy.

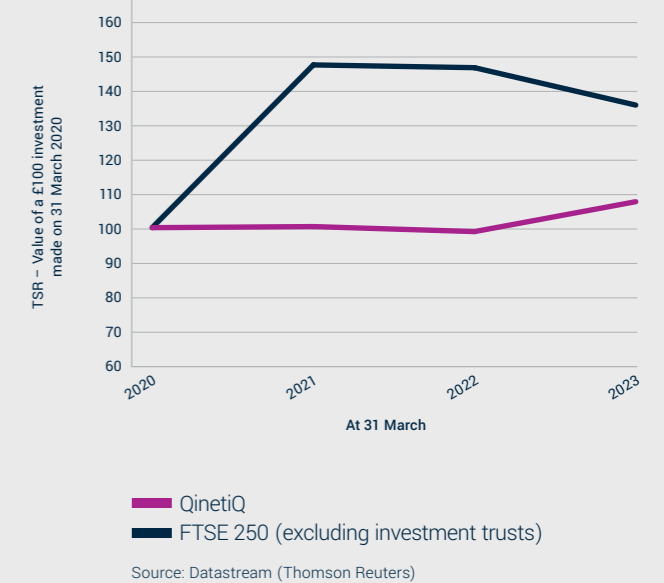
Performance review

The ten-year and three-year charts show the Company's Total Shareholder Return over the period from 31 March 2013 to 31 March 2023 and 31 March 2019 to 31 March 2023 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



Three-year comparator chart¹



¹ This period is from the beginning of COVID-19 which had a more distorting effect at its outset on the TSR of FTSE 250 companies than on QinetiQ.

CEO remuneration

The table below shows the CEO's remuneration over the same performance period as the Total Shareholder Return chart (31 March 2013 to 31 March 2023):

Year ended 31 March	CEO	Salary/fees	Single figure	Annual bonus (% of maximum)	Long-term incentives (% of maximum vesting)
2023	Steve Wadey	689,125	2,161,990	98.2%	–
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%

Directors' remuneration report continued

Annual Report on remuneration continued

CEO pay ratio

The calculation below is based on the FY23 single figure for the CEO of £2,161,990 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 2023.

Total remuneration
Ratio of the CEO's pay to UK employees

Year	25th percentile	Median	75th percentile
FY23	53 : 1	40 : 1	31 : 1
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 FY22 and FY23. The primary reason for this is the lower CEO single figure for FY23 due to no DSP award vesting in the year. The Company believes that the median pay ratio for FY23 is consistent with the pay, reward and progression policies for the UK employees as the approach for all QinetiQ employees is monitored and reported to the Remuneration Committee on an annual basis.

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	£40,608	£54,216	£70,569
Salary component ¹	£37,169	£35,660	£57,385

¹ The base salary data is impacted by the fact that the employee identified at the Median on a total pay basis had a significant overtime payment.

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 at the stretch level of £1,250 to all eligible employees for the level of profit performance delivered in FY23.

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 eligible employee has the opportunity to earn a cash bonus based on Company and personal performance. For FY23 the Company element of the AEIS was paid at a stretch level of £1,250 as the profit target was exceeded. The AEIS will be operated again in FY24 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 2023 and the preceding year.

Non-executive Director	Salary/fees £'000		Benefits £'000		Committee Chair fees £'000		US/UK attendance fee £'000		Single figure £'000	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Lynn Brubaker (Resigned 31 December 2022)	41	54	6	5	-	-	13	6	60	65
Michael Harper	55	54	1	1	10	10	3	-	69	65
Shonaid Jemmett-Page	55	54	1	1	12	12	3	-	71	67
Neil Johnson	259	250	4	3	-	-	3	-	266	253
Ian Mason (Resigned 26 April 2021)	-	4	-	-	-	-	-	-	-	4
General Sir Gordon Messenger	55	54	1	-	12	14	3	-	71	69
Steve Mogford (Appointed 01 August 2022)	37	-	1	-	-	-	3	-	41	-
Lawrence Prior III (Appointed 2 August 2021)	55	36	3	2	10	7	13	3	81	48
Susan Searle	55	54	1	1	12	12	3	-	71	67

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 (resigned 31 December 2022) 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 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 2022 and 31 March 2023. The analysis only includes Directors who served for the whole of FY23 and FY22 and is impacted by the temporary salary/fee sacrifice in FY21.

	% change between FY23 and FY22			% change between FY22 and FY21			% change between FY21 and FY20		
	Salary/fees	Benefits	Annual bonus	Salary/fees	Benefits	Annual bonus	Salary/fees	Benefits	Annual bonus
Steve Wadey	3.9%	21.5%	43.0%	24.9%	-4.3%	-22.7%	-16.2%	35.9%	10.3%
Carol Borg	-	-	-	-	-	-	-	-	-
Neil Johnson	3.6%	33.3%	-	14.3%	100%	-	17.1%	-100%	-
Michael Harper	1.6%	0%	-	18.4%	100%	-	-15.9%	-	-
Susan Searle	1.5%	0%	-	21.2%	100%	-	-6.8%	-100%	-
General Sir Gordon Messenger	-	-	-	-	-	-	-	-	-
Lawrence Prior III	-	-	-	-	-	-	-	-	-
Shonaid Jemmett-Page	1.5%	0%	-	-	-	-	-	-	-
Steve Mogford	-	-	-	-	-	-	-	-	-
Average UK employee	4.4%	5.7%	96.2%	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. 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.

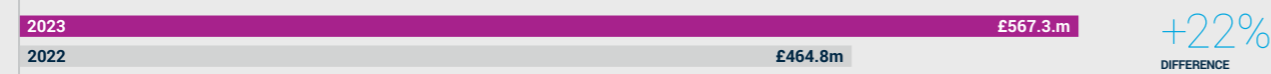
Directors' remuneration report continued

Annual Report on remuneration continued

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 CFO Review [page 42](#)).



Other significant profit distribution

There were no other significant profit distributions in 2022 or 2023.

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 112](#)).

Director	Date appointed	Arrangement	Notice period
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	02 August 2021	Initial term of three years from date of appointment, subject to annual reappointment at the AGM.	-
Steve Mogford	01 August 2022	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 2023

Fees

Non-executive Directors' fees were last reviewed effective 1 July 2021 and are as follows:

- Basic fee £55,000
- Committee Chair fee £12,000
- Senior Independent Director fee £10,000

The Non-executive Group Chair receives a fee of £262,500 per annum which was increased by 5.0% effective 1 July 2022, the first adjustment since appointment. Fees are reviewed in line with Policy.

Executive Directors are permitted to accept one external Non-executive Director position with the Board's approval. Any fees received in respect of these appointments may be retained by the Executive Director. The CEO and CFO do not hold any Non-executive Directorships in other companies.

	Fees effective 1 July 2022 £
Group Chairman	262,500
Basic fee for UK Non-executive Director	55,000
Additional fee for chairing a Committee	12,000
Additional fee to Deputy Chair/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 2024

At the 16 May 2023 meeting of the Remuneration Committee, base salary increases of 3.8% (to £695,500p.a.) and 3.9% (to £452,000p.a.) were approved for the CEO and CFO respectively, effective 1 July 2023. 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 2023 salary review plus 0.5% for in-year salary progression.

Incentives for Executives

The table below shows the measures and relative weighting for the Annual Bonus Plan (subject to July 2023 AGM approval) for the CEO and CFO:

	Performance measure (excluding FY23 acquisitions)	Relative weighting(%)
Annual Bonus Plan	Orders	20.0%
Target performance 100% of base salary	Underlying operating profit	30.0%
Stretch performance 200% of base salary	Underlying net cash flow from operations	20.0%
	Common, ESG and Personal Goals	30.0%

For FY24 the Remuneration Committee agreed to adjust the annual incentive weightings by reducing the orders metric to 20% (previously 25%) and increasing the profit metric to 30% (previously 25%) to support the drive for profitable growth. The increased focus on ESG goals as part of the non-financial metrics continues for FY24 with a 30% weighting.

For FY24, the Remuneration Committee set the target level of performance at 50% of stretch for the financial measures, common and personal goals. Details of specific performance targets for the Annual Bonus 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.

For FY24 the Committee has set performance measures and targets for the Long-term Performance Award with a clear link to Company strategy and incentivising growth:

- Earnings: organic underlying operating profit on a three year cumulative basis (35% weighting)
 - Designed to deliver consistent operational performance over the longer term
 - Understood, relevant and actionable for QinetiQ senior leaders
- Returns: ROCE (35% weighting)
 - Average EBITA for the three year period divided by average capital employed
 - Designed to drive robust investment selection and delivery
- Value creation through collaboration: total revenue growth (30% weighting)
 - Designed to drive value creation through collaboration and market leverage

For the FY24 LPA the Committee agreed the following targets aligned with our growth ambition (20% of each element vests at Threshold) - Cumulative earnings targets are deemed commercially sensitive at this time but are consistent with our growth ambition at 11-12% margin.

ROCE	Threshold 15.0%	Stretch 20.0%
FY26 Total revenue	Threshold £1.9bn	Stretch £2.7bn

Directors' remuneration report continued

Annual Report on remuneration continued

Remuneration Committee meetings, activities and decisions FY23

The following table provides a summary of all the key activities during the year. The attendance at each meeting is detailed on [page 103](#). The membership of the Remuneration Committee in FY23 was Susan Searle (Chair), Michael Harper, Neil Johnson, Lynn Brubaker (resigned 31 December 2022), General Sir Gordon Messenger, Shonaid Jemmett-Page, Lawrence Prior III and Steve Mogford (joined 01 August 2022).

Base salary	Incentives	Share awards	Governance	Salaries and resourcing
May 2022	Review of FY22 Company performance and final results for BBP and DSP	Approval of FY19 DSP Performance underpin and vesting FY22 DSP awards	2023 Directors' Remuneration Policy Approve FY22 Directors' Remuneration Report.	QLT base salary reviews
July 2022			AGM preparation 2023 Directors' Remuneration Policy	
November 2022	FY23 half-year forecast		Review of QLT shareholdings Review of Company reward practices 2023 Directors' Remuneration Policy Review of all-employee remuneration to ensure, inter alia, alignment of incentives and reward with culture	
March 2023	FY23 provisional results FY24 target setting		2023 Directors' Remuneration Policy	

Remuneration Committee effectiveness review

A performance evaluation of the Committee is conducted annually. This process is described further on [page 117](#).

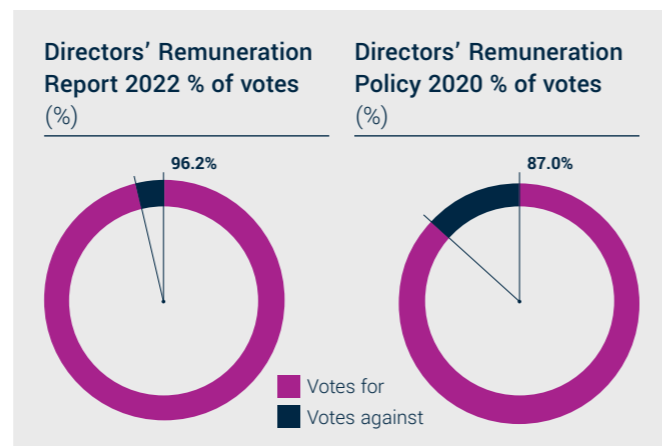
Remuneration consultants

In FY23 the Committee appointed Mercer to replace FIT Remuneration Consultants LLP as independent adviser to the Committee to provide advice on market practice, corporate governance and investors' views. Mercer were selected by the Committee after providing ad-hoc advice in support of the design of the new Directors' Remuneration Policy and based on members' prior experience of working with them.

Fees paid during the year for services provided were £57,826 and £48,375 to FIT and Mercer respectively calculated on a time-spent basis at pre-agreed rates. FIT did not provide additional services to the Company during the year. Mercer provides the Company with consulting advice on UK pensions and pay and conditions for employees in the US. The Committee will review the nature of the advice received from Mercer on an annual basis in order to satisfy itself that the advice it receives is independent and objective.

Statement of voting

Annual Report on Remuneration – 2022	
Votes for	471,556,509 (96.2%)
Votes against	18,752,069 (3.8%)
Total votes cast	490,308,578 (84.7% of share capital)
Abstained	47,844
Directors' Remuneration Policy – 2020	
Votes for	393,525,108 (87.0%)
Votes against	59,006,721 (13.0%)
Total votes cast	452,531,829 (79.7% of share capital)
Abstained	19,408,696



Details on the voting on all resolutions at the 2023 AGM will be announced via the RNS and posted on the QinetiQ website after the AGM.

Susan Searle
Remuneration Committee Chair
25 May 2023

Directors' report

Directors' report

The Directors present their report together with the audited consolidated financial statements for the year ended 31 March 2023.

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 deemed to be incorporated into this report by reference:

Information	Page
Corporate governance statement	92
Directors' details	96
Directors' conflicts of interest	111
Directors' interests in shares	151
Dividends	46
Employees	66 - 72
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	176
Greenhouse gas emissions	54 - 55
Likely future developments in the business of the Company or its subsidiaries	1 - 89
Results	42 - 47

Disclosure specifically required pursuant to the Companies (Miscellaneous Reporting) Regulations 2018 can be found on the following pages:

Stakeholder engagement statement	105
Statement in the Directors' Report summarising how Directors have engaged with employees and taken account of their interests	160
Statement in the Directors' Report about the corporate governance arrangements applied by the Company	92 - 94
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	154
Illustration of the effect of future share price increases on executive pay outcomes in the Directors' Remuneration report	133

Management report

The Strategic report on [pages 1 to 89](#) and the Directors' report, as detailed on [pages 159 to 162](#), 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 distinct business capabilities is the provision of funded research and development (R&D) to customers. The Group also invests in the commercialisation of promising technologies across all areas of business.

In the financial year, the Group recorded £328.0m (FY22: £302.1m) of total R&D-related expenditure, of which £313.8m (FY22: £287.5m) was customer-funded work and £14.6m (FY22: £14.6m) was internally funded. Additionally, £2.7m (FY22: £3.4m) of late-stage development costs were capitalised and £3.5m (FY22: £2.1m) of capitalised development costs were amortised in the year.

Political donations

QinetiQ does not make political donations to parties as that term would be commonly recognised. 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 2023, 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 2,341,325 shares held by employee share trusts.

Details of the shares in issue during the financial year are shown in note 29 on [page 208](#).

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.

Directors' report continued

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 provision 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 208](#).

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 2023, the Trust held 2,341,325 ordinary shares of 1p each (the Trust Shares). The Trustees of the Trust have agreed to waive their entitlement to dividends payable on the Trust Shares. The Trust holds further ordinary shares in respect of deferred shares held on behalf of participants in the Company's Deferred Annual Bonus Plan. Dividends received by the Trust in respect of the deferred shares are paid direct to the Plan participants on receipt and are not retained in the Trust.

Equiniti Share Plan Trustees Limited acts as Trustee in respect of all ordinary shares held by employees under the QinetiQ Group plc Share Incentive Plan (the Plan). Equiniti Share Plan Trustees Limited will vote on all resolutions proposed at general meetings in accordance with voting instructions received from participants in the Plan.

Corporate sponsored nominee

In circumstances where ordinary shares are held by the corporate sponsored nominee service, Equiniti Corporate Nominees Limited will vote on all resolutions proposed at general meetings in accordance with voting instructions received from shareholders using such corporate nominee service.

Major shareholdings

In accordance with DTR 5, the Company has been notified of the following from holders representing 3% or more of the issued ordinary share capital of the Company.

Name of shareholder	At 31 March 2023 % of issued share capital*	At 26 May 2023 % of issued share capital*
Klear Kite LLC	10.01%	10.01%
Schroders	9.98%	9.98%
BlackRock, Inc.	7.92%	7.92%

* 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 Maritime Strategic Capabilities Agreement Future Arrangement contract is a 10 year contract awarded by the MOD which came into effect on 1st April 2023. The contract terms include a provision requiring that any change of control of QinetiQ Limited requires prior approval from HM Government (with control being defined as the ability to control the Company's affairs by reason of the holding of shares or means of voting or other powers). If such approval is not obtained, the MOD reserves the right to terminate the agreement.
- The Group is party to funding agreements, provided by a consortium of banks: a £275m multi-currency revolving credit facility which will mature on 27 September 2025; a multi-currency floating rate term loan of £340m which has an initial term of 3 years maturing on 27 September 2025, with two one-year options to extend the final maturity to 27 September 2027; and interest rate derivative contracts over 3 and 5 years to fix the floating rate bank borrowings in line with Treasury policy. Under the terms of the agreements, in the event of a change of control of the Company, any lender may give notice to cancel its commitment 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 132](#).

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 must stand for re-election at intervals of no more than three years thereafter. In line with best practice reflected in the UK Corporate Governance Code, however, the Company requires each serving member of the Board to stand 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 2022, 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 2023 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 2023 AGM.

Annual General Meeting

The Company's AGM will be held on Thursday 20 July 2023 at 11:00am at the office of Ashurst LLP, London Fruit and Wool Exchange, Duval Square, London E1 6PW.

Independent auditors

PwC has expressed its willingness to continue in office as independent auditors and a resolution to re-appoint them will be proposed at the AGM.

Directors' report continued**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 96 to 98](#) 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 85](#) 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 2023.

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.

James Field
Company Secretary
25 May 2023

Independent auditors' report

to the members of QinetiQ Group plc

Report on the audit of the financial statements

Opinion

In our opinion:

- QinetiQ Group plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2023 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 as applied in accordance with the provisions of the Companies Act 2006;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including 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 & Accounts (the "Annual Report"), which comprise: the Consolidated and Company balance sheets as at 31 March 2023; the Consolidated income statement, the Consolidated comprehensive income statement, the Consolidated cash flow statement and the Consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

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

Independence

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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

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.
- As a result of the Avantus Federal acquisition during the year, we performed full scope financial statement line item audits over the acquired balance sheet and revenue and associated balances.
- We performed procedures over goodwill, intangible assets, share-based payments, pensions, IFRS 16 lease accounting, taxation, borrowings, derivative financial instruments and testing of the consolidation at a Group level.

Key audit matters

- Long-term contract accounting (group)
- Impairment of goodwill and acquired intangibles (group)
- Acquisition accounting (Avantus Federal) (group)
- Impairment of investments in subsidiary undertakings (parent)

Materiality

- Overall group materiality: £7,950,000 (2022: £6,650,000) based on approximately 4.2% of underlying profit before tax.
- Overall company materiality: £5,000,000 (2022: £5,000,000) based on 1% of total assets.
- Performance materiality: £6,000,000 (2022: £5,000,000) (group) and £3,750,000 (2022: £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.

Independent auditors' report continued to the members of QinetiQ Group plc

Acquisition accounting (Avantus Federal) is a new key audit matter this year. Accounting for tax research and development expenditure credits ("RDEC"), which was a key audit matter last year, is no longer included because of management having updated their accounting policy in respect of RDEC, from IAS 12 to IAS 20, and we concur with this treatment. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
<p>Long-term contract accounting (Group)</p> <p>Refer to page 120 (Audit Committee report) and page 215 (note 36, Significant accounting policies - Revenue from contracts with customers) and page 176 (note 2, Revenue from contracts with customers and other income).</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>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 recalculated 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.</p> <p>For the 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.</p> <p>Additional testing was performed, where not sufficiently covered by the above, over the contract asset and liability balance sheet positions to gain assurance over the accuracy of these balances. These have been sample tested and agreed to supporting documentation.</p> <p>No material exceptions were found.</p>

Key audit matter	How our audit addressed the key audit matter
<p>Impairment of goodwill and acquired intangibles (Group)</p> <p>Refer to page 120 (Audit Committee report), page 218 (note 36, Significant accounting policies - Impairment of goodwill and tangible, intangible and held for sale assets), page 186 (note 14, Goodwill) and page 188 (note 15, Intangible assets).</p> <p>The Group has a material amount of goodwill and acquired intangible assets (£409.0m and £282.0m respectively at 31 March 2023). 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.</p> <p>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 2023. No triggering events have been identified in the period to 31 March 2023 and therefore no additional impairment reviews have been performed. No impairment charge has been recognised during the year.</p> <p>Our audit focused on the risk that the carrying value of goodwill and acquired intangible assets could be overstated. A greater level of testing was performed over the US Technology Solutions and Germany cash-generating units (CGUs), being the CGUs with comparatively lower levels of headroom than the other CGUs.</p>	<p>We assessed the design and implementation of the goodwill impairment processes and related controls; however, we concluded that we would not rely on the controls over financial reporting and therefore we performed only substantive procedures in this area.</p> <p>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 assumptions to external data. We concluded that the Group's assumptions were materially appropriate.</p> <p>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.</p> <p>In respect of US Technology Solutions and Germany, 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 evidence.</p> <p>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.</p>
<p>Acquisition accounting (Avantus Federal) (group)</p> <p>Refer to page 120 (Audit Committee report) and page 183 (note 12, Business combinations).</p> <p>The Group has completed two acquisitions in the year, the most significant being Avantus Federal in the US. Accounting for acquisitions can be complex, with judgement required in both the identification of assets acquired (including any intangible assets), and the valuation of those assets and the liabilities assumed, in accordance with IFRS 3 'Business Combinations'.</p> <p>The calculation of fair value is subjective due to the inherent uncertainty involved in the valuation of assets and liabilities, and this requires the application of judgement by management and technical expertise. In particular the method of valuation, future forecasts (including cash-flow forecasts) and underlying assumptions that may all have a material impact on the valuation of assets and liabilities, notably the valuation of intangible assets (£209.2m), which represent the most significant assets acquired.</p> <p>The Avantus Federal acquisition has resulted in £264.6m of goodwill recognised, creating a risk that this may be impaired if it is unsupported by the forecast performance of the business acquired.</p>	<p>We have obtained and reviewed the purchase agreement to ensure that all terms have been considered and accounted for appropriately. We have performed audit procedures over both the identification of assets acquired (including any potential intangible assets) and the valuation of assets acquired and liabilities assumed. We have agreed the consideration paid to bank statements and reconciled to the sale and purchase agreements.</p> <p>We involved our specialists in our audit of the valuation of assets acquired and liabilities assumed. Our work included assessment of the appropriateness of the valuation models used, assessment of the discount rate used in the models, and evaluation of future cash flow forecasts. In particular we focused on the valuation of acquired customer relationships and the assumption relating to attrition. We found that the valuation models used, and the judgements and estimates made surrounding the valuation of assets and liabilities acquired to be reasonable.</p> <p>We assessed the completeness of disclosures made in respect of acquisitions against the requirements of the relevant accounting standards and found that there were no omissions of disclosures.</p>

Independent auditors' report continued to the members of QinetiQ Group plc

Key audit matter	How our audit addressed the key audit matter
<p>Impairment of investments in subsidiary undertakings (parent)</p> <p>Refer to page 228 (Accounting policies - Investments and note 2, Investments in subsidiary undertakings).</p> <p>The Company has investments of £521.2 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.</p> <p>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.</p> <p>No such indicators of impairment have been identified.</p>	<p>We have evaluated management's consideration of impairment triggers through performing our own independent assessment, which has included;</p> <ul style="list-style-type: none"> • Considering the market capitalisation of the group at year end and comparing this to the carrying value of the investment. • 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. • Comparing the carrying value of the investment to the carrying value of the underlying net assets. <p>We found that management's conclusion that there are no impairment triggers in the investments in subsidiaries carrying value was reasonable.</p>

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 over all 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. Additionally, as a result of the Avantus Federal acquisition during the year, we performed full scope financial statement line item audits over the acquired balance sheet and revenue and associated balances. 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 82% of consolidated Group revenue and 80% 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 and Avantus Federal, resulted in coverage of 93% of consolidated Group revenue and 85% 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, taxation, borrowings and derivative financial instruments gave us the evidence required for our opinion on the financial statements as a whole.

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. The Group engagement leader visited our local PwC component team and the local management team in the US as part of our planning procedures. 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 parent 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.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the group's and company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. In particular, when carrying out our work over long term contracts we challenged management over the impact of climate change (e.g. flooding at exposed areas) on the forecasted costs to complete as well as any potential risks arising from physical and environmental issues. Our procedures did not identify any material impact as a result of climate risk on the group's and company's financial statements.

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.	£7,950,000 (2022: £6,650,000).	£5,000,000 (2022: £5,000,000).
How we determined it.	approximately 4.2% of underlying profit before tax	1% of total assets.
Rationale for benchmark applied.	We initially set our materiality at the planning stage of the audit using 5% applied to an estimate of underlying profit before tax and before the RDEC credit was included within other income. At the time of planning our audit, underlying profit before tax was 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 determined it appropriate to maintain our overall materiality at £7,950,000 calculated in our audit plan, which equates to approximately 4.2% of underlying profit before tax.	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 Parent Company only, as the Parent 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 £5,000,000 and £7,500,000. 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% (2022: 75%) of overall materiality, amounting to £6,000,000 (2022: £5,000,000) for the group financial statements and £3,750,000 (2022: £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 £400,000 (group audit) (2022: £332,500) and £250,000 (company audit) (2022: £250,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Independent auditors' report continued to the members of QinetiQ Group plc

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 2028. We held discussions with management to understand the budgeting process and the key assumptions made in the forecasting processes, particularly in the first 12 months;
- Performing 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 85](#), the Audit Committee report on [page 120](#) 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 2023 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.

Our review of the directors' statement regarding the longer-term viability of the group and company 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 payroll expense as well as considering 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.

Independent auditors' report continued to the members of QinetiQ Group plc

Auditors' responsibilities for the audit of the financial statements continued

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 6 years, covering the years ended 31 March 2018 to 31 March 2023.

Other matter

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.

John Ellis (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Southampton

25 May 2023

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Consolidated income statement

For the year ended 31 March

All figures in £ million	Note	FY23			FY22 [^]		
		Underlying [*]	Specific adjusting Items [*]	Total	Underlying [*]	Specific adjusting Items [*]	Total
Revenue	2, 3	1,580.7	-	1,580.7	1,320.4	-	1,320.4
Operating costs excluding depreciation and amortisation		(1,353.4)	(29.5)	(1,382.9)	(1,140.7)	(8.7)	(1,149.4)
Other income	2	28.0	21.6	49.6	16.0	0.7	16.7
EBITDA (earnings before interest, tax, depreciation and amortisation)		255.3	(7.9)	247.4	195.7	(8.0)	187.7
Depreciation and impairment of property, plant and equipment	3, 16	(51.5)	-	(51.5)	(46.7)	(1.2)	(47.9)
Amortisation of intangible assets	3, 4, 15	(7.5)	(15.6)	(23.1)	(5.4)	(10.7)	(16.1)
Operating profit/(loss)	3	196.3	(23.5)	172.8	143.6	(19.9)	123.7
Gain/(loss) on business divestments	4, 13	-	15.9	15.9	-	(0.9)	(0.9)
Finance income	7	6.8	9.9	16.7	0.5	4.5	5.0
Finance expense	7	(13.4)	-	(13.4)	(1.9)	-	(1.9)
Profit/(loss) before tax	8	189.7	2.3	192.0	142.2	(16.3)	125.9
Taxation charge	9	(36.8)	(0.8)	(37.6)	(24.1)	(11.8)	(35.9)
Profit/(loss) for the year		152.9	1.5	154.4	118.1	(28.1)	90.0
Profit/(loss) is attributable to							
Owners of the parent company		152.9	1.5	154.4	118.1	(28.1)	90.0
Non-controlling interests		-	-	-	-	-	-
Profit/(loss) for the year		152.9	1.5	154.4	118.1	(28.1)	90.0

Earnings per share for profit attributable to the owners of the parent company

All figures in pence	Note	FY23		FY22	
		Underlying	Total	Underlying	Total
Basic	10	26.5	26.8	20.6	15.7
Diluted	10	26.3	26.5	20.4	15.5

[^] Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). 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 233. 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	Note	FY23	FY22
Profit for the year		154.4	90.0
<i>Items that will not be reclassified to profit or loss:</i>			
Actuarial (loss)/gain recognised in defined benefit pension schemes	28	(253.9)	144.0
Tax on items that will not be reclassified to profit and loss		63.5	(47.6)
Total items that will not be reclassified to profit or loss		(190.4)	96.4
<i>Items that may be reclassified to profit or loss:</i>			
Foreign currency translation (losses)/gains on foreign operations		(6.5)	5.6
Movement in deferred tax on foreign currency translation		(0.5)	(0.8)
Increase in the fair value of hedging derivatives		7.8	0.6
Movement in deferred tax on hedging derivatives		(1.6)	(0.1)
Total items that may be reclassified to profit or loss		(0.8)	5.3
Other comprehensive (expense)/income for the year, net of tax		(191.2)	101.7
Total comprehensive (expense)/income for the year		(36.8)	191.7
Total comprehensive (expense)/income is attributable to:			
Owners of the parent company		(36.8)	191.5
Non-controlling interests		-	0.2
Total comprehensive (expense)/income for the year		(36.8)	191.7

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
Note	29								
At 31 March 2022 – previously reported	5.8	40.8	147.6	0.1	1.9	847.0	1,043.2	0.2	1,043.4
Change in accounting policy [^] (note 38)	-	-	-	-	-	(2.0)	(2.0)	-	(2.0)
At 1 April 2022 - restated [^]	5.8	40.8	147.6	0.1	1.9	845.0	1,041.2	0.2	1,041.4
Profit for the year	-	-	-	-	-	154.4	154.4	-	154.4
Other comprehensive income/(expense) for the year, net of tax	-	-	-	6.2	(7.0)	(190.4)	(191.2)	-	(191.2)
Purchase of own shares	-	-	-	-	-	(0.8)	(0.8)	-	(0.8)
Share-based payment	-	-	-	-	-	5.7	5.7	-	5.7
Tax on share-based payments (note 9)	-	-	-	-	-	0.7	0.7	-	0.7
Movements on business divestment	-	-	-	-	0.9	-	0.9	(0.2)	0.7
Dividends	-	-	-	-	-	(42.6)	(42.6)	-	(42.6)
At 31 March 2023	5.8	40.8	147.6	6.3	(4.2)	772.0	968.3	-	968.3
At 31 March 2021 – previously reported	5.7	40.8	147.6	(0.4)	(2.9)	693.8	884.6	0.3	884.9
Change in accounting policy [^] (note 38)	-	-	-	-	-	(2.0)	(2.0)	-	(2.0)
At 1 April 2021 - restated [^]	5.7	40.8	147.6	(0.4)	(2.9)	691.8	882.6	0.3	882.9
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
Tax on share-based payments (note 9)	-	-	-	-	-	(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	845.0	1,041.2	0.2	1,041.4

[^] Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 38 for details.

Consolidated balance sheet

As at 31 March

All figures in £ million	Note	31 March 2023	31 March 2022 [^]	31 March 2021 [^]
Non-current assets				
Goodwill	14	409.0	149.4	145.5
Intangible assets	15	343.0	140.3	133.1
Property, plant and equipment	16	477.8	414.5	397.2
Other financial assets	24	6.2	0.5	0.8
Financial assets at fair value through profit and loss		-	-	0.9
Equity accounted investments	17	1.4	2.6	4.2
Net pension asset	28	119.8	362.2	214.3
Deferred tax asset	18	32.6	21.0	11.7
		1,389.8	1,090.5	907.7
Current assets				
Inventories	20	68.8	54.9	54.4
Other financial assets	24	5.7	0.6	0.9
Trade and other receivables	21	452.6	373.2	338.5
Current tax asset	19	4.0	1.4	0.7
Cash and cash equivalents	24	151.2	248.1	190.1
		682.3	678.2	584.6
Total assets		2,072.1	1,768.7	1,492.3
Current liabilities				
Trade and other payables	22	(575.2)	(474.7)	(424.3)
Current tax payable	19	(4.6)	(5.9)	(3.7)
Provisions	23	(19.7)	(21.1)	(4.2)
Other financial liabilities	24	(8.2)	(6.9)	(7.0)
		(607.7)	(508.6)	(439.2)
Non-current liabilities				
Deferred tax liability	18	(112.0)	(156.7)	(89.7)
Provisions	23	(7.1)	(6.0)	(7.8)
Borrowings and other financial liabilities	24	(361.8)	(17.2)	(20.7)
Other payables	22	(15.2)	(38.8)	(52.0)
		(496.1)	(218.7)	(170.2)
Total liabilities		(1,103.8)	(727.3)	(609.4)
Net assets		968.3	1,041.4	882.9
Equity				
Ordinary shares	29	5.8	5.8	5.7
Capital redemption reserve		40.8	40.8	40.8
Share premium account		147.6	147.6	147.6
Hedging reserve		6.3	0.1	(0.4)
Translation reserve		(4.2)	1.9	(2.9)
Retained earnings		772.0	845.0	691.8
Capital and reserves attributable to shareholders of the parent company		968.3	1,041.2	882.6
Non-controlling interest		-	0.2	0.3
Total equity		968.3	1,041.4	882.9

[^] Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 38 for details.

The financial statements on pages 172 to 229 were approved by the Board of Directors and authorised for issue on 25 May 2023 and were signed on its behalf by:

Steve Wadey
Group Chief Executive Officer

Carol Borg
Group Chief Financial Officer

Consolidated cash flow statement

For the year ended 31 March

All figures in £ million	Note	FY23	FY22 ^{**}
Underlying net cash inflow from operations	25	270.1	220.7
Less specific adjusting items	25	(29.5)	(5.6)
Net cash inflow from operations	25	240.6	215.1
Tax paid		(30.2)	(25.4)
Interest received		5.5	0.5
Interest paid		(9.9)	(1.5)
Net cash inflow from operating activities		206.0	188.7
Purchases of intangible assets	15	(13.8)	(21.4)
Purchases of property, plant and equipment	16	(95.2)	(62.9)
Proceeds from sale of property		2.4	1.5
Proceeds from disposal of business		28.1	-
Dividends from joint ventures and associates		-	2.0
Acquisition of businesses	12	(385.9)	(0.8)
Net cash outflow from investing activities		(464.4)	(81.6)
Purchase of own shares		(0.8)	(0.8)
Dividends paid to shareholders	11	(42.6)	(40.2)
Payment of bank facility arrangement fee		(2.7)	-
Capital element of lease payments		(7.4)	(6.2)
Drawdown of new borrowings		481.1	-
Repayment of borrowings		(140.0)	-
Repayment of acquired borrowings		(117.9)	-
Cash flow relating to intercompany loan hedges		(10.0)	(3.1)
Transaction with non-controlling interests		-	(0.1)
Net cash inflow/(outflow) from financing activities		159.7	(50.4)
(Decrease)/increase in cash and cash equivalents		(98.7)	56.7
Effect of foreign exchange changes on cash and cash equivalents		1.8	1.3
Cash and cash equivalents at beginning of the year		248.1	190.1
Cash and cash equivalents at end of the year	24	151.2	248.1

Reconciliation of movement in net (debt)/cash for the year ended 31 March

All figures in £ million	Note	FY23	FY22 ^{**}
(Decrease)/increase in cash and cash equivalents in the year		(98.7)	56.7
Add back net cash flows not impacting net (debt)/cash		(331.0)	6.2
Movement in net (debt)/cash resulting from cash flows		(429.7)	62.9
Lease liabilities derecognised on disposal		1.4	-
Lease liabilities recognised on acquisition		(15.1)	-
Net increase in lease obligations		(1.6)	(1.3)
Net movement in derivative financial instruments		9.8	(1.3)
Other movements including foreign exchange		3.2	0.7
Movement in net (debt)/cash as defined by the Group		(432.0)	61.0
Net cash as defined by Group at the beginning of the year		225.1	164.1
Net (debt)/cash as defined by the Group at the end of the year	24	(206.9)	225.1
Less: total net financial liabilities	24	358.1	23.0
Total cash and cash equivalents	24	151.2	248.1

[^] Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 38 for details.
* To be consistent with FY23, the prior year has been re-presented in respect of the cash flow impact of intercompany loan hedging. See note 38 for details.

Notes to the Consolidated Financial Statements

For the year ended 31 March

1. Significant changes in the current reporting period

The financial position and performance of the Group was particularly affected by the following events and transactions during the reporting period:

- The acquisitions of Avatus and Air Affairs (note 12) and the associated debt financing (note 27);
- The divestment of the Space NV business (note 13);
- A decrease in the value of the Group's defined benefit pension scheme (note 28)
- The change in accounting policy for Research and Development Expenditure Credits (RDEC) (note 38), together with the release of the liability for MoD appropriation of RDEC following the determination made by the SSRO during the year (note 4)

For a detailed discussion of the Group's performance and financial position refer to the Strategic Report on pages 1 to 89.

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	FY23	FY22
Services contracts with customers	1,481.4	1,234.4
Sale of goods contracts with customers	96.1	82.9
Royalties and licences	3.2	3.1
Total revenue	1,580.7	1,320.4
Less: adjust current year for acquired businesses [^]	(91.1)	-
Less: adjust prior year for disposed businesses [^]	-	(17.7)
Adjust to constant prior year exchange rates	(31.9)	-
Total revenue on an organic, constant currency basis[*]	1,457.7	1,302.7
Organic revenue growth at constant currency[*]	12%	5%

[^] 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

^{*} Alternative performance measures are used to supplement the statutory figures. See page 233.

Other income

All figures in £ million	FY23	FY22 [^]
Share of associates' and joint ventures' profit after tax	0.8	0.3
Research and development expenditure credits (RDEC)	17.4	6.2
Other income	9.8	9.5
Underlying other income	28.0	16.0
Specific adjusting item: gain on sale of property (note 4)	2.0	0.7
Specific adjusting item: release of RDEC MoD appropriation liability (note 4)	19.6	-
Total other income	49.6	16.7

[^] Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 38 for details.

Revenue and profit after tax of associates and joint ventures was £11.3m and £1.0m respectively (FY22: revenue of £12.2m and profit after tax of £0.4m). 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

All figures in £ million	FY23	FY22
United Kingdom (UK)	1,045.7	961.9
United States of America (US)	301.0	153.0
Australia	124.1	98.2
Home countries	1,470.8	1,213.1
Europe	69.4	76.9
Rest of world	40.5	30.4
Total revenue	1,580.7	1,320.4
Home countries revenue %	93%	92%
International (non-UK) revenue %	34%	27%

Revenue by major customer type

All figures in £ million	FY23	FY22
UK government	969.4	881.7
US government	230.8	104.7
Other	380.5	334.0
Total revenue	1,580.7	1,320.4

'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	FY24	FY25	FY26	FY27+	Total
Total forecast revenue allocated to unsatisfied performance obligations	1,124.6	601.3	467.9	876.5	3,070.3

Management expects that 37% (£1,124.6m) of revenue allocated to un-satisfied contracts as of 31 March 2023 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	FY23	FY24	FY25	FY26+	Total
Total forecast revenue allocated to unsatisfied performance obligations	897.8	564.7	426.0	940.3	2,828.8

Revenue of £157.2m 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: UK Defence, UK Intelligence and the Australia sector.

Global Products combines all other business units not aggregated within EMEA Services, including the QinetiQ US sector 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

All figures in £ million	FY23		FY22 [^]	
	Revenue from external customers	Underlying operating profit ^{1,2}	Revenue from external customers	Underlying operating profit ^{1,2}
EMEA Services	1,179.3	137.1	1,059.2	135.6
Global Products	401.4	41.8	261.2	1.8
Operating profit from segments^{1,2}	1,580.7	178.9	1,320.4	137.4
Research and development expenditure credits (RDEC)		17.4		6.2
Underlying operating profit²		196.3		143.6
Operating profit margin from segments²		11.3%		10.4%

¹ The measure of profit presented to the Chief Operating Decision Maker is Operating profit from segments, stated before specific adjusting items and research and development expenditure credits. The specific adjusting items are detailed in note 4.

² Definitions of the Group's 'Alternative performance measures' can be found on page 233.

[^] Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 38 for details.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

3. Segmental analysis (continued)

No measure of segmental assets and liabilities is reported as this information is not regularly provided to the Chief Operating Decision Maker. Transactions between segments are included within the operating profit and revenue of each segment as appropriate.

Reconciliation of segmental results to total profit

All figures in £ million	Note	FY23	FY22 ^a
Operating profit from segments^{1,2}		178.9	137.4
Research and development expenditure credits (RDEC)		17.4	6.2
Underlying operating profit²		196.3	143.6
Specific adjusting items operating loss	4	(23.5)	(19.9)
Operating profit		172.8	123.7
Gain/(loss) on business divestments	13	15.9	(0.9)
Net finance income	7	3.3	3.1
Profit before tax		192.0	125.9
Taxation expense	9	(37.6)	(35.9)
Profit for the year		154.4	90.0

1 The measure of profit presented to the Chief Operating Decision Maker is Operating profit from segments, stated before specific adjusting items and research and development expenditure credits. The specific adjusting items are detailed in note 4.

2 Definitions of the Group's 'Alternative performance measures' can be found on page 233.

^a Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 38 for details.

Non-current assets* by geographic location

All figures in £ million	UK	US	Australia	Germany	Rest of world	Total
Year ended 31 March 2023	519.3	598.8	45.4	52.8	13.5	1,229.8
Year ended 31 March 2022	491.7	129.8	10.4	47.8	24.5	704.2

* Excluding deferred tax, financial instruments and net pension asset.

Depreciation, impairment and amortisation by business segment – excluding specific adjusting items

For the year ended 31 March 2023

All figures in £ million	EMEA Services	Global Products	Total
Depreciation of property, plant and equipment	44.7	6.8	51.5
Amortisation of purchased or internally developed intangible assets	5.2	2.3	7.5
	49.9	9.1	59.0

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

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	FY23	FY22
Acquisition and disposal costs		(16.4)	(3.7)
Acquisition related remuneration costs*		(0.3)	(1.3)
Acquisition integration costs		(2.0)	-
Pension past service cost		-	(2.4)
Digital investment		(5.8)	(1.9)
Restructuring costs		(5.0)	-
Release of RDEC MOD appropriation liability		19.6	-
Fair value adjustment in respect of contingent consideration		-	0.6
Gain on sale of property		2.0	0.7
Specific adjusting items loss before interest, tax, depreciation and amortisation		(7.9)	(8.0)
Impairment of property		-	(1.2)
Amortisation of intangible assets arising from acquisitions		(15.6)	(10.7)
Specific adjusting items operating loss		(23.5)	(19.9)
Gain/(loss) on disposal of businesses	13	15.9	(0.9)
Defined benefit pension scheme net finance income	28	9.9	4.5
Specific adjusting items gain/(loss) before tax		2.3	(16.3)
Specific adjusting items – tax	9	3.8	4.1
Deferred tax impact of change in future UK corporation tax rate	9	(4.6)	(15.9)
Total specific adjusting items gain/(loss) after tax		1.5	(28.1)

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

All figures in £ million	FY23	FY22
Underlying profit after tax – total Group	152.9	118.1
Total specific adjusting items gain/(loss) after tax	1.5	(28.1)
Total profit for the year	154.4	90.0

* In FY22 bonuses awarded post acquisition to key employees within the Avatus business acquired in November 2022. In FY22, bonuses awarded on to key employees within the US MTEQ business (now the C5ISR business) acquired in December 2019.

In line with our previously approved policy, the total impact of specific adjusting items (which are excluded from underlying performance due to their distorting nature) on operating profit was a £23.5m cost (FY22: cost of £19.9m). M&A activity during the year has contributed to the overall level of specific adjusting items.

Acquisition and integration costs of £18.7m (FY22: £5.0m) comprise costs associated with the Avatus and Air Affairs acquisitions which completed in FY23. The acquisition costs in FY22 related to an unsuccessful acquisition.

Restructuring costs of £5.0m have been incurred as part of significant Group-wide organisation redesign completed in FY23 to better align the organisation structure with future growth ambitions of the Company. These restructuring costs have been completed in year to enable our next step-change in growth.

We continue to deliver on our digital investment programme to modernise the IT infrastructure to support our future growth ambitions. The non-recurring costs will be reported as specific adjusting items in the P&L, with ongoing recurring operating costs (such as licence costs and overheads) remaining within underlying operating costs. In FY23 the non-recurring cost of the digital investment programme is £5.8m (FY22: £1.9m).

In FY23 specific adjusting items includes a £19.6m credit in respect of UK MOD appropriation for RDEC. Following a determination by the Single Source Regulations Office (SSRO) on the interpretation of the Statutory Guidance for Allowable Costs regulations (SGAC), the accounting judgement is that RDEC on single source contracts from 1 April 2019 onwards will no longer be paid on to the UK MoD, which is a change from the accounting judgement at FY22 year end. Therefore the release of the liability is reported as a specific adjusting item through operating profit.

Also included within specific adjusting items are a gain of disposal of the Space NV business in Belgium of £15.9m, a gain on the sale of property of £2.0m (FY22: £0.7m), financing income from pensions of £9.9m (FY22: £4.5m) and amortisation of acquisition intangibles of £15.6m (FY22: £10.7m), the last of which has increased due to the amortisation of new intangible assets recognised on the FY23 acquisitions (primarily the Customer Relationships asset associated with Avatus).

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

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	
	2023 Number	2022 Number	FY23 Number	FY22 Number
EMEA Services	6,437	6,036	6,158	5,992
Global Products	1,831	879	1,275	919
Total employees	8,268	6,915	7,433	6,911

The aggregate payroll costs of these persons were as follows:

All figures in £ million	Note	FY23	FY22
Wages and salaries		456.9	369.7
Social security costs		47.3	37.9
Other pension costs		55.2	49.4
Share-based payments costs	30	7.9	7.8
Total employee costs		567.3	464.8

6. Directors and other senior management personnel

The Directors and other senior management personnel of the Group during the year to 31 March 2023 comprise the Board of Directors and the QinetiQ Leadership Team and their remuneration and benefits are summarised below:

All figures in £ million	FY23	FY22
Short-term employee remuneration including benefits	9.5	9.2
Post-employment benefits	0.1	0.1
Share-based payments costs	1.9	1.7
Total	11.5	11.0

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

The highest paid director is the Group Chief Executive Officer, details of whose remuneration is provided on page 133 of the Directors' Remuneration Report.

7. Finance income and expense

All figures in £ million	FY23	FY22
Receivable on bank deposits	6.8	0.5
Finance income before specific adjusting items	6.8	0.5
Amortisation of deferred financing costs	(0.8)	(0.4)
Bank interest and commitment fees	(10.6)	(0.5)
Lease expense	(1.1)	(1.0)
Unwinding of discount on financial liabilities	(0.1)	-
Other interest	(0.8)	-
Finance expense	(13.4)	(1.9)
Underlying net finance expense	(6.6)	(1.4)
Plus: specific adjusting items – defined benefit pension scheme net finance income	9.9	4.5
Net finance income	3.3	3.1

8. Profit before tax

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

All figures in £ million	FY23	FY22
Fees payable to the auditors and its associates:		
Audit of the Group's annual accounts	1.1	0.5
Audit of the accounts of subsidiaries of the Company	0.7	0.6
Total audit fees	1.8	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	0.1
Total non-audit fees	0.2	0.7
Total auditors' remuneration	2.0	1.8

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

All figures in £ million	FY23	FY22
Cost of inventories expensed	55.2	47.1
Owned assets: depreciation	45.3	40.3
Leased assets: depreciation	6.2	5.9
Foreign exchange gain	(0.6)	(0.7)
Research and development expenditure – customer funded contracts	313.8	287.5
Research and development expenditure – Group funded	14.6	14.6

9. Taxation charge

All figures in £ million	FY23			FY22*		
	Underlying	Specific adjusting items	Total	Underlying	Specific adjusting items	Total
Analysis of charge						
Current UK tax expense/(income)	23.8	(0.4)	23.4	26.8	(0.2)	26.6
Current UK tax in respect of prior years	0.4	-	0.4	(4.0)	-	(4.0)
Overseas corporation tax						
Current year	2.6	-	2.6	4.0	(0.2)	3.8
In respect of prior years	0.1	-	0.1	-	-	-
Current tax expense/(income)	26.9	(0.4)	26.5	26.8	(0.4)	26.4
Deferred tax expense/(income)	12.3	(3.4)	8.9	(4.0)	(3.7)	(7.7)
Deferred tax impact of change in rates	-	4.6	4.6	0.3	15.9	16.2
Deferred tax in respect of prior years	(2.4)	-	(2.4)	1.0	-	1.0
Deferred tax expense/(income)	9.9	1.2	11.1	(2.7)	12.2	9.5
Taxation expense	36.8	0.8	37.6	24.1	11.8	35.9
Factors affecting tax expense 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	189.7	2.3	192.0	142.2	(16.3)	125.9
Tax on profit/(loss) before tax at 19% (FY22: 19%)	36.0	0.5	36.5	27.0	(3.1)	23.9
Effect of:						
Expenses not deductible for tax purposes and non-taxable items	1.1	(1.8)	(0.7)	(1.3)	-	(1.3)
Tax in respect of prior years	(1.9)	-	(1.9)	(3.0)	-	(3.0)
Recognition of deferred tax asset	-	-	-	3.3	-	3.3
Deferred tax impact of change in rates	-	4.6	4.6	0.3	15.9	16.2
Different tax rates in overseas jurisdictions	1.6	(2.5)	(0.9)	(2.2)	(1.0)	(3.2)
Taxation expense	36.8	0.8	37.6	24.1	11.8	35.9
Effective tax rate	19.4%		19.6%	16.9%		28.5%

* Prior year comparatives (profit before tax, current UK tax expense, current tax expense, total taxation and the effective tax rate) have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 38 for details. RDEC is no longer a reconciling item in the tax proof and has been removed accordingly.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

9. Taxation charge (continued)

The total tax charge was £37.6m (FY22: £35.9m restated). The underlying tax charge was £36.8m (FY22 restated: £24.1m), on a higher underlying profit before tax, with an underlying effective tax rate of 19.4% for the year ended 31 March 2023 (FY22 restated: 16.9%). The underlying effective tax rate is above the UK statutory rate, primarily as a result of higher tax rates in overseas jurisdictions.

Tax on specific adjusting items

The total specific adjusting items tax charge was £0.8m (FY22 charge: £11.8m). The tax charge includes the UK statutory rate change to 25% from 1 April 2023 (£4.6m) and a taxable Research and Development Allowances clawback (£1.2m), offset by non-taxable profit on sale of QinetiQ Space NV (£3.0m) and overseas rate differences (£2.5m).

Amounts recognised directly in equity

Current and deferred tax not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity were:

All figures in £ million	FY23	FY22
Current tax: share-based payments	(0.3)	(0.4)
Deferred tax: share-based payments	(0.4)	0.7
Total: share-based payments	(0.7)	0.3

Factors affecting future tax charges

The effective tax rate is expected to remain above the UK statutory rate, subject to the impact of any tax legislation changes and the geographic mix of profits. 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 will engage with advisers to assess any potential future impact on the tax charge.

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 was made in FY22 and a further adjustment has been made in FY23, of £4.6m, to reflect that the revised UK deferred tax balances are expected to unwind at the new rate of 25%.

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

		FY23	FY22
Weighted average number of shares	Million	575.9	573.2
Effect of dilutive securities	Million	6.4	6.4
Diluted number of shares	Million	582.3	579.6

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

Underlying EPS

		FY23	FY22
Profit attributable to the owners of the Company	£ million	154.4	90.0
Remove (profit)/loss after tax in respect of specific adjusting items	£ million	(1.5)	28.1
Underlying profit after taxation	£ million	152.9	118.1
Weighted average number of shares	Million	575.9	573.2
Underlying basic EPS	Pence	26.5	20.6
Diluted number of shares	Million	582.3	579.6
Underlying diluted EPS	Pence	26.3	20.4

Basic and diluted EPS

		FY23	FY22
Profit attributable to the owners of the Company	£ million	154.4	90.0
Weighted average number of shares	Million	575.9	573.2
Basic EPS – total Group	Pence	26.8	15.7
Diluted number of shares	Million	582.3	579.6
Diluted EPS – total Group	Pence	26.5	15.5

11. Dividends

An analysis of the dividends paid and proposed in respect of the years ended 31 March 2023 and 31 March 2022 is provided below:

	Pence per share	£m	Date paid/payable
Interim 2023	2.4	13.8	Feb 2023*
Final 2023 (proposed)	5.3	30.6	Aug 2023
Total for the year ended 31 March 2023	7.7	44.4	
Interim 2022	2.3	13.2	Feb 2022
Final 2022	5.0	28.8	Aug 2022*
Total for the year ended 31 March 2022	7.3	42.0	

* Total cash paid in the year to 31 March 2023 was £42.6m (FY22: £40.2m).

The proposed final dividend in respect of the year ending 31 March 2023 will be paid on 24 August 2023. The ex-dividend date is 27 July 2023 and the record date is 28 July 2023.

12. Business combinations**Acquisitions cash flow in the year to 31 March 2023**

All figures in £ million	Date acquired	Total consideration	Goodwill	Fair value of net assets acquired	Contribution post-acquisition	
					Revenue	Operating profit
Avantus Federal LLC	23 November 2022	392.2	264.6	127.6	82.9	8.9
Air Affairs Australia	1 December 2022	12.6	3.1	9.5	8.2	0.5
Total		404.8	267.7	137.1	91.1	9.4
Less: deferred consideration		(4.0)				
Less: cash acquired		(14.9)				
Net cash outflow for the year		385.9				

Total acquisition costs of £16.4m relating to the two acquisitions, as well as an aborted disposal, are included within operating profit as a specific adjusting item (see note 4). A further £2.3m of integration costs and acquisition related remuneration costs, both relating to Avantus, are also included within operating profit as a specific adjusting item (see note 4).

Avantus Federal LLC

On 23 November 2022, the Group acquired 100% of the issued share capital of Avantus for an enterprise value of \$590m, on a cash-free, debt-free valuation basis. Avantus is a leading provider of mission-focused cyber, data analytics and software development solutions to the US Department of Defense, Intelligence Community, Department of Homeland Security and other Federal civilian agencies. The Avantus acquisition will significantly enhance our US offering and provide a strong platform from which to further grow our US operations. Avantus has a track record of high growth at attractive margins and is well-positioned across priority areas for key defence and intelligence customers in the US.

Avantus forms part of QinetiQ's US Sector and is reported within the Global Products segment. If the acquisition had occurred on the first day of the financial year, Group revenue for the period would have been £1,740.6m and the Group profit before tax £209.7m. There would also have been an additional amortisation of the acquisition intangibles of £8.5m if the acquisition had occurred on the first day of the financial year.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

12. Business combinations (continued)**Identifiable assets acquired and liabilities assumed**

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition, at fair value and in accordance with Group accounting policies. The fair values remain provisional, but will be finalised within 12 months of acquisition.

All figures in £ million	Note	Fair value at acquisition
Intangible assets	15	209.2
Property, plant and equipment	16	8.3
Trade and other receivables		39.0
Cash and cash equivalents		14.5
Trade and other payables		(34.3)
Lease liabilities		(7.2)
Borrowings		(104.9)
Deferred tax	18	6.0
Other assets and liabilities		(3.0)
Net assets acquired		127.6
Goodwill	14	264.6
Total consideration		392.2

The consideration of £392.2m was satisfied entirely in cash in the financial year, with no deferred consideration. The borrowings of £104.9m were repaid as part of the acquisition, which is presented separately in the cash flow statement. The fair value adjustments include £171.9m in relation to the step-up in value and recognition of acquired intangible assets. £163.1m relates to the step up in value of customer relationship assets, £2.2m relates to the recognition of existing technology assets and £6.6m relates to recognition of the Avantus trading name asset. These fair value adjustments will unwind as the assets themselves are amortised, over 16 years for the customer relationships and five years for the existing technology and trade name.

There has been no adjustment to the fair value of acquired receivables given the low credit risk of the customers. The gross contractual and net amounts of receivables acquired were the same and there was no allowance for credit loss recognised at acquisition. Customer relationships have been valued based on an income approach using an excess earnings method. The key assumptions are the revenue and profit projections, customer contract retention/attrition assumptions, discount rate and contributory asset charges. Existing technology has been valued using a replacement cost approach and the trade name has been valued using a relief from royalty method.

The goodwill is attributable mainly to the skills, technical talent and security clearances of Avantus' work force and the synergies expected to be achieved from integrating the company into the existing US business. The goodwill recognised on acquisition is tax deductible over a 15 year period as the purchase is as an asset deal rather than a share purchase for tax purposes.

Air Affairs Australia Pty

On 1 December 2022, the Group acquired 100% of the issued share capital of the Air Affairs Australia group of companies for an enterprise value of A\$53.0m, on a cash-free, debt-free valuation basis. Air Affairs is an Australian defence services company - a leader in air threat representation, Test and Evaluation, unmanned targets and mission rehearsal. Air Affairs provides targets and training services, and electronic warfare capabilities to the Australian Defence Force, as well as aerial surveillance and reconnaissance in support of government firefighting efforts. It owns and operates a fleet of special mission aircraft and maintains an advanced manufacturing and engineering facility providing design, manufacture and certification operations. Air Affairs employs c.180 people, headquartered in Nowra, New South Wales.

The acquisition of Air Affairs further establishes QinetiQ as a long-term, strategic partner to the Australian Defence Force and underpins QinetiQ's strategic position as market leader in test & evaluation and air threat representation, now with a significant presence across the UK, Canada and Australia, and training and special operations in Germany.

Air Affairs forms part of QinetiQ's Australia business unit and is reported within the EMEA Services segment. If the acquisition had occurred on the first day of the financial year, Group revenue for the period would have been £1,599.3m and the Group profit before tax would have been £192.8m.

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition, at fair value and in accordance with Group accounting policies. The fair values remain provisional, but will be finalised within 12 months of acquisition.

All figures in £ million	Note	Fair value at acquisition
Intangible assets	15	2.4
Property, plant and equipment	16	29.8
Inventory		3.2
Trade and other receivables		5.1
Cash and cash equivalents		0.4
Trade and other payables		(8.8)
Lease liabilities		(7.9)
Borrowings		(13.0)
Current tax		(0.1)
Deferred tax	18	(1.6)
Net assets acquired		9.5
Goodwill	14	3.1
Total consideration		12.6

The consideration of £12.6m includes £8.6m which was satisfied by cash in the financial year, and £4.0m of deferred consideration which is expected to be settled within one year. The borrowings of £13.0m were repaid as part of the acquisition, which is presented separately in the cash flow statement. There has been no adjustment to the fair value of acquired receivables given the low credit risk of the customers. The gross contractual and net amounts of receivables acquired were the same and there was no allowance for credit loss recognised at acquisition.

The most significant asset on the opening balance sheet is the PPE (Property, Plant and Equipment). A fair value uplift of £5.5m has been applied to the aircraft, increasing the book value of £13.2m to £18.7m. The aircraft were valued based on a desktop exercise performed by professional specialists. The key assumption relates to the market value of the aircraft. The fair value adjustments to PPE also include a step-down to the value of leasehold improvements.

The fair value adjustments also include £2.4m in relation to the step-up in value and recognition of acquired intangible assets. £2.3m relates to the recognition of existing technology assets and £0.1m relates to recognition of the Air Affairs trading name asset. These fair value adjustments will unwind as the assets themselves are amortised, over ten years for the existing technology and three years for the trade name. Deferred tax of £0.7m was recognised on the intangibles.

Existing technology has been valued using a replacement cost approach and the trade name has been valued using a relief from royalty method. The goodwill is attributable mainly to the skills and technical talent of Air Affairs' work force and the synergies expected to be achieved from integrating the company into the Australia sector and wider existing business. The goodwill recognised on acquisition is not tax deductible.

Acquisitions in the year to 31 March 2022

There were no acquisitions in the year to 31 March 2022. Deferred consideration of £0.8m was paid in the year to 31 March 2022 in respect of the acquisition of QinetiQ Training & Simulation Limited (formerly known as Newman & Spurr Consultancy Limited) in the year to 31 March 2021.

13. Gain/(loss) on business divestments

All figures in £ million	FY23	FY22
Space NV business (comprising QinetiQ Space NV, Redu Operational Services SA and associate Redu Space Services SA)	15.9	-
Commerce Decisions business (comprising Commerce Decisions Limited and Commerce Decisions Pty Ltd)	-	(0.9)
Gain/(loss) on business divestments	15.9	(0.9)

The gain on business divestments relates to the sale of the Space NV for disposal proceeds of £32.3m (€37.0m). The enterprise value was €32.0m. Proceeds received in the period, net of transaction costs of £1.2m and £3.0m of cash divested with the businesses, were £28.1m. All consideration is settled entirely in cash.

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 prior year, classified as a specific adjusting item.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

14. Goodwill

All figures in £ million	31 March 2023	31 March 2022
Cost		
At 1 April	296.1	287.6
Acquisitions	267.7	-
Disposals	(5.6)	-
Foreign exchange	4.5	8.5
At 31 March	562.7	296.1
Accumulated impairment		
At 1 April	(146.7)	(142.1)
Foreign exchange	(7.0)	(4.6)
At 31 March	(153.7)	(146.7)
Net book value at 31 March	409.0	149.4

Goodwill analysed by cash-generating unit (CGU)

Goodwill is allocated across six cash-generating units 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	31 March 2023	31 March 2022
US Technology Solutions	Global Products	44.1	41.5
US C5ISR	Global Products	36.8	34.6
Target Systems	Global Products	24.5	24.7
Space Products	Global Products	-	5.6
Avantus Federal LLC	Global Products	257.8	-
QinetiQ Germany	EMEA Services	2.7	2.6
Inzpire	EMEA Services	11.7	11.7
QinetiQ Training & Simulation	EMEA Services	7.8	7.8
Naimuri	EMEA Services	14.8	14.8
Australia	EMEA Services	5.8	6.1
Air Affairs Australia	EMEA Services	3.0	-
Net book value at 31 March		409.0	149.4

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 and a critical sensitivity is discussed further below. For 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 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 discount rates used are calculated based on the weighted average cost of capital of a portfolio of comparable companies, adjusted for risks specific to the market characteristics of each CGU, on a pre-tax basis. This is considered an appropriate estimate of a market participant discount rate.

All figures %	US Technology Solutions	Target Systems	US Avantus	US C5ISR	Inzpire	Australia	Air Affairs Australia	QinetiQ Germany	QinetiQ Training & Simulation	Naimuri
31 March 2023: (2022)										
Terminal growth rate	2.3 (2.3)	2.2 (2.1)	2.3 (n/a)	2.3 (2.3)	2.2 (2.1)	2.3 (2.3)	2.3 (n/a)	2.2 (1.6)	2.2 (2.1)	2.2 (2.1)
Pre-tax discount rate	11.1 (10.8)	10.9 (11.6)	11.2 (n/a)	11.2 (10.8)	12.0 (12.2)	12.9 (9.4)	12.9 (n/a)	8.9 (9.1)	10.9 (11.5)	11.8 (12.2)

Sensitivity analysis shows that the value of the terminal year cash flow, the discount rate and the terminal growth rates have a significant impact on the value of the discounted cash flows. Sensitivities are provided below for each of the CGUs.

Significant CGUs

US Technology Solutions

The carrying value of the goodwill for the US Technology Solutions CGU was £44.1m as at 31 March 2023 (2022: £41.5m). The recoverable amount of this CGU as at 31 March 2023, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £111.7m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. These cash flows include certain assumptions around growth of new product lines in development, with clear market opportunity, and winning identified future government contracts. US organic revenue grew by 25% compared to prior year, following a year of decline in FY22 which was impacted by the US defence budget being constrained by the extended Continuing Resolution.

Confidence remains in continued growth into FY24 having secured significant growth in order intake in H2 FY22 and FY23 which, coupled with the 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, all of which are reasonably possible changes, would not cause the net operating assets to exceed their recoverable amount.

US C5ISR

The carrying value of the goodwill for the US C5ISR CGU as at 31 March 2023 was £36.8m (2022: £34.6m). The recoverable amount of this CGU as at 31 March 2023, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £88.9m). 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, all of which are reasonably possible changes, 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 2023 was £24.5m (2022: £24.7m). The recoverable amount of this CGU as at 31 March 2023, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £88.6m). 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, all of which are reasonably possible changes, 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 2023 was £2.7m (2022: £2.6m). The current forecasts result in the recoverable amount based on the value in use calculations being £6.4m higher than the carrying value of assets. Confidence remains in the business prospects over the next five years, with a new leadership team on board and a healthy pipeline of opportunities.

The key sensitivity impacting on the value in use calculations is the terminal year cash flows. These cash flows include certain assumptions around utilisation of aircraft, renewal of existing contracts and successful winning of new business opportunities. A reduction in the terminal value year cash flows of €3m, which would be a reasonably possible change, would lead to an impairment of the £2.7m carrying value of goodwill together with an impairment charge against the carrying value of intangible assets of approximately £12.8m. An increase in the discount rate of 1% or a decrease in the terminal growth rate of 1%, both of which are also reasonably possible changes, would result in an impairment of £4.1m and £2.1m respectively.

Inzpire

The carrying value of the goodwill for the Inzpire CGU as at 31 March 2023 was £11.7m (2022: £11.7m). The recoverable amount of this CGU as at 31 March 2023, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £23.3m). 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 £1.0m, all of which are reasonably possible changes, 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 2023 was £14.8m (2022: £14.8m). The recoverable amount of this CGU as at 31 March 2023, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £25.3m). 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 £1.0m, all of which are reasonably possible changes, would not cause the net operating assets to exceed their recoverable amount.

Notes to the Consolidated Financial Statements continued

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14. Goodwill (continued)

Australia

The carrying value of the goodwill for the Australia CGU, as at 31 March 2023 was £5.8m (2022: £6.1m). The recoverable amount of this CGU as at 31 March 2023, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £10.8m). 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 A\$2.0m, all of which are reasonably possible changes, would not cause the net operating assets to exceed their recoverable amount.

Avantus

The carrying value of the goodwill for the Avantus CGU, which was acquired during the year, as at 31 March 2023 was £257.8m. The recoverable amount of this CGU as at 31 March 2023, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £431.1m). 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, all of which are reasonably possible changes, would not cause the net operating assets to exceed their recoverable amount.

Air Affairs Australia

The carrying value of the goodwill for the Air Affairs Australia CGU, which was acquired during the year, as at 31 March 2023 was £3.0m. The recoverable amount of this CGU as at 31 March 2023, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £35.9m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate of 1% or a decrease in the terminal growth rate of 1% or a decrease in the terminal year cash flows of A\$1.0m, all of which are reasonably possible changes, would not cause the net operating assets to exceed their recoverable amount.

QinetiQ Training & Simulation

The carrying value of the goodwill for the QinetiQ Training and Simulation CGU as at 31 March 2023 was £7.8m (2022: £7.8m). The recoverable amount of this CGU as at 31 March 2023, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £14.1m). 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 £1.0m, all of which are reasonably possible changes, would not cause the net operating assets to exceed their recoverable amount.

15. Intangible assets

For the year ended 31 March 2023

All figures in £ million	Acquired intangibles				Total
	Customer relationships	Other acquired	Development costs	Other internally generated ^a	
Cost					
At 1 April 2022	114.5	81.5	31.6	72.0	299.6
Reclassifications from PPE	-	-	5.0	0.5	5.5
Reclassifications between categories	-	-	0.2	(0.2)	-
Additions – internally developed	-	-	1.6	8.7	10.3
Additions – purchased	-	-	1.1	2.4	3.5
Disposals	-	-	(0.2)	(1.9)	(2.1)
Amounts recognised on business acquisitions	197.5	11.1	0.9	2.1	211.6
Amounts derecognised on business disposal	(2.5)	-	(2.8)	(2.0)	(7.3)
Foreign exchange	(1.0)	3.4	(0.1)	0.9	3.2
At 31 March 2023	308.5	96.0	37.3	82.5	524.3
Accumulated amortisation and impairment					
At 1 April 2022	(49.1)	(55.4)	(18.9)	(35.9)	(159.3)
Amortisation charge for year	(11.0)	(4.6)	(3.5)	(4.0)	(23.1)
Disposals	-	-	0.2	1.8	2.0
Amounts derecognised on business disposal	2.5	-	-	1.9	4.4
Foreign exchange	(1.8)	(3.1)	(0.1)	(0.3)	(5.3)
At 31 March 2023	(59.4)	(63.1)	(22.3)	(36.5)	(181.3)
Net book value at 31 March 2023	249.1	32.9	15.0	46.0	343.0

^a Includes Assets In Course Of Construction of closing net book value of £20.9m as at 31 March 2023 (2022: £14.0m).

'Other' consists primarily of intellectual property and existing technology arising on acquisition of businesses. The acquisition of Avantus resulted in the recognition of £197.5m of customer relationship intangible assets and £8.8m of other intangible assets (£2.2m of existing technology and £6.6m relating to the trade name).

The acquisition of Air Affairs resulted in the recognition of a £2.3m intangible asset relating to existing technology. Other significant individual assets from past acquisitions include: customer relationships associated with US C5ISR, Germany and QinetiQ Training & Simulation Limited (NBV: £14.3m; £21.5m; £2.9m respectively) with remaining amortisation periods of approximately 7 years, 9 years and 9 years respectively, and acquired technology associated with US C5ISR, Germany, and QinetiQ Training & Simulation Limited (£12.3m; £3.7m; £1.8m respectively) all with remaining amortisation periods of approximately 7 years.

For the year ended 31 March 2022

All figures in £ million	Acquired intangibles				Total
	Customer relationships	Other acquired	Development costs	Other internally generated	
Cost					
At 1 April 2021	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

* 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.

16. Property, plant and equipment

For the year ended 31 March 2023

All figures in £ million	Owned assets				Right of use assets			Total
	Land and buildings	Plant, machinery and vehicles	Computers and office equipment	Assets under construction	Land and buildings	Plant, machinery and vehicles	Computers and office equipment	
Cost								
At 1 April 2022	350.6	274.5	102.8	94.5	56.5	16.6	0.4	895.9
Reclassifications to intangibles	-	-	-	(5.5)	-	-	-	(5.5)
Reclassifications/transfers	13.8	7.4	16.2	(37.4)	-	-	-	-
Additions – purchased*	4.6	12.4	5.4	63.1	1.5	-	-	87.0
Additions – recognised on acquisitions	0.5	20.8	2.1	0.7	14.0	-	-	38.1
Disposals	(0.7)	(4.5)	(2.2)	(0.2)	(3.9)	(7.7)	-	(19.2)
Business divestments	(3.5)	(2.3)	-	-	(1.8)	(2.5)	-	(10.1)
Foreign exchange	0.4	1.0	-	0.3	2.4	0.1	-	4.2
At 31 March 2023	365.7	309.3	124.3	115.5	68.7	6.5	0.4	990.4
Accumulated depreciation and impairment								
At 1 April 2022	(204.5)	(164.8)	(56.7)	(0.4)	(39.1)	(15.5)	(0.4)	(481.4)
Charge	(12.0)	(17.9)	(15.4)	-	(5.9)	(0.3)	-	(51.5)
Disposals	0.4	4.3	1.9	0.4	3.9	7.6	-	18.5
Business divestments	1.0	1.9	-	-	0.9	2.0	-	5.8
Foreign exchange	(0.5)	(1.2)	(0.6)	-	(1.7)	-	-	(4.0)
At 31 March 2023	(215.6)	(177.7)	(70.8)	-	(41.9)	(6.2)	(0.4)	(512.6)
Opening net book value	146.1	109.7	46.1	94.1	17.4	1.1	-	414.5
Closing Net Book value	150.1	131.6	53.5	115.5	26.8	0.3	-	477.8

* 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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

16. Property, plant and equipment (continued)

During the year a £2.0m gain was recognised on the sale of property which had a carrying value of nil. This gain is included within other income as a specific adjusting item (see note 4). Whilst the Group will likely be impacted by climate change in the future to an extent, the impact on the carrying value of property, plant and equipment is not considered to be material.

For the year ended 31 March 2022

All figures in £ million	Owned assets				Right of use assets			Total
	Land and buildings	Plant, machinery and vehicles	Computers and office equipment	Assets under construction	Land and buildings	Plant, machinery and vehicles	Computers and office equipment	
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)
Net book value at 31 March 2022	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.

17. Equity accounted investments

As at 31 March

All figures in £ million	31 March 2023		31 March 2022	
	JV's and associates financial results	Group net share of JV's and associates	JV's and associates financial results	Group net share of JV's and associates
Non-current assets	1.4	0.7	0.6	0.3
Current assets	5.8	3.6	9.1	5.1
	7.2	4.3	9.7	5.4
Current liabilities	(4.7)	(2.3)	(4.3)	(2.1)
Non-current liabilities	(1.2)	(0.6)	(1.4)	(0.7)
	(5.9)	(2.9)	(5.7)	(2.8)
Net assets of joint ventures and associates	1.3	1.4	4.0	2.6
Net assets of joint ventures		1.4		0.9
Net assets of associate		-		1.7
Net assets of joint ventures and associates		1.4		2.6

The profit from the Group's share of joint ventures and associate for the year ended 31 March 2023 was £0.8m (FY22: £0.3m).

18. Deferred tax

For the year ended 31 March 2023

Deferred tax asset

All figures in £ million	Short-term timing differences	Carried forward interest expense	Lease liabilities	Tax losses	Total
At 1 April 2022	14.7	-	4.0	21.7	40.4
(Charged)/Credited to income statement	(1.2)	-	3.1	8.2	10.1
Charged to other comprehensive income	(2.1)	-	-	-	(2.1)
Credited to equity	0.4	-	-	-	0.4
Acquired in business combination	5.1	-	-	-	5.1
Foreign exchange	0.6	-	0.3	0.7	1.6
Gross deferred tax asset at 31 March 2023	17.5	-	7.4	30.6	55.5
Less: liability available for offset					(22.9)
Net deferred tax asset at 31 March 2023					32.6

Deferred tax liability

All figures in £ million	Pension surplus	Owned property, plant & equipment	Right of use assets	Acquisition intangibles	Total
At 1 April 2022	(96.4)	(54.3)	(3.4)	(22.0)	(176.1)
Charged to income statement	(2.5)	(11.5)	(6.3)	(0.9)	(21.2)
Credited to other comprehensive income	63.5	-	-	-	63.5
Acquired in business combination	-	-	-	(0.7)	(0.7)
Foreign exchange	-	0.1	-	(0.5)	(0.4)
Gross deferred tax liability at 31 March 2023	(35.4)	(65.7)	(9.7)	(24.1)	(134.9)
Less: asset available for offset					22.9
Net deferred tax liability at 31 March 2023					(112.0)

Deferred tax has been calculated at the rate at which the timing difference is expected to reverse using 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 2023 the Group had unused tax losses and US carried forward interest expense of £175.6m (31 March 2022: £128.1m) which are available for offset against future taxable profits. Deferred tax assets are recognised on the balance sheet of £22.7m in respect of £88.0m of US net operating losses, £5.4m in respect of £21.5m of Canadian net operating losses and £2.5m in respect of £8.3m of German trade losses. No deferred tax asset is recognised in respect of the £57.8m 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 £15.6m.

The Group has £32.4m of time-limited US net operating losses of which £22.9m will expire in 2035 and £9.5m in 2036. The Group made overseas losses in the period ended 31 March 2023 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 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 4-7 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 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

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

18. Deferred tax (continued)

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)

19. Current tax

As at 31 March

All figures in £ million	31 March 2023	31 March 2022 [^]
Current tax receivable	4.0	1.4
Current tax payable	(4.6)	(5.9)
Net current tax payable	(0.6)	(4.5)

[^] Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 38 for details.**20. Inventories**

As at 31 March

All figures in £ million	31 March 2023	31 March 2022
Raw materials	36.2	32.5
Work in progress	9.1	6.2
Finished goods	23.5	16.2
Total inventory	68.8	54.9

21. Trade and other receivables

As at 31 March

All figures in £ million	31 March 2023	31 March 2022 [^]
Trade receivables	215.0	154.4
Contract assets	158.0	145.8
Other receivables	43.3	38.8
Prepayments	36.3	34.2
Total trade and other receivables	452.6	373.2

[^] Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 38 for details.

Trade and other receivables includes assets that are realised as part of the business's normal operating cycle, including amounts of £4.0m (2022: £2.3m) that are not expected to be realised within 12 months of the year end. 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 2023 the Group carried a loss allowance in respect of expected credit risk of £1.6m (2022: £2.7m).

Contract assets increased in year due to acquisition of Avantus. 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 2023

	Current	Up to 30 days past due	30-120 days past due	>120 days past due	Total
Gross carrying amount - trade receivables (£m)	174.5	28.1	8.5	5.5	216.6
Gross carrying amount - contract assets (£m)	158.0	-	-	-	158.0
Expected loss rate (%)	0.1%	-	1.2%	23.6%	0.4%
Loss allowance (£m)	0.2	-	0.1	1.3	1.6

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

Movements in the provision for expected credit loss

All figures in £ million	FY23		FY22	
	Trade receivables	Contract assets	Trade receivables	Contract assets
At 1 April	2.7	-	1.8	1.8
Increase in loss allowance recognised in income statement	0.5	-	1.8	-
Unutilised amount reversed through income statement	(0.7)	-	(0.9)	(1.8)
Utilised (receivables written off)	(0.9)	-	-	-
At 31 March	1.6	-	2.7	-

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	31 March 2023	31 March 2022 [^]
Trade payables	135.9	76.1
Other tax and social security	55.7	64.6
Contract liabilities	216.9	182.5
Accrued expenses and other payables	166.7	151.5
Total current trade and other payables	575.2	474.7
Contract liabilities	14.0	15.2
Other payables	1.2	23.6
Total non-current trade and other payables	15.2	38.8
Total trade and other payables	590.4	513.5

[^] Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 38 for details.

Current other payables includes nil (2022 restated: £19.6m) of Research and Development Expenditure Credits (RDEC) payable to MOD. This was subject to a determination from the SSRO which established that RDEC is retained by the Company, as such the liability has been reversed to the income statement through specific adjusting items. Contract liabilities increased during the year due to the timing of revenue recognition and invoicing on contracts, as well as a small balance acquired with Avantus.

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For the year ended 31 March

23. Provisions

For the year ended 31 March 2023

All figures in £ million	Property	Other	Total
At 1 April 2022	7.3	19.8	27.1
Acquisitions	-	2.4	2.4
Created in year	0.5	0.6	1.1
Released in year	(0.1)	-	(0.1)
Unwinding of discount	0.1	-	0.1
Utilised in year	(1.2)	(2.6)	(3.8)
At 31 March 2023	6.6	20.2	26.8
Current liability	3.2	16.5	19.7
Non-current liability	3.4	3.7	7.1
At 31 March 2023	6.6	20.2	26.8

Property provisions relate to dilapidations and under-utilised properties. The under-utilised property 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 5 years. Other provisions includes £14.2m (2022: £16.0m) in respect of a civil liability for the Pendine incident. This is offset in Other Receivables for an insurance recoverable. There is uncertainty around the timing of the utilisation of this balance although this will not impact cash or the P&L. The remaining balance relates to environmental and other liabilities, the magnitude and timing of utilisation of which are determined by a variety of factors.

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

24. Net (debt)/cash

As at 31 March

All figures in £ million	31 March 2023			31 March 2022		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Current financial assets/(liabilities)						
Deferred financing costs	1.3	-	1.3	0.4	-	0.4
Lease liabilities	-	(7.6)	(7.6)	-	(5.5)	(5.5)
Derivative financial instruments	4.4	(0.6)	3.8	0.2	(1.4)	(1.2)
Total current financial assets/(liabilities)	5.7	(8.2)	(2.5)	0.6	(6.9)	(6.3)
Non-current assets/(liabilities)						
Deferred financing costs	1.5	-	1.5	0.5	-	0.5
Borrowings – Term loan	-	(337.6)	(337.6)	-	-	-
Lease liabilities	-	(23.7)	(23.7)	-	(16.6)	(16.6)
Derivative financial instruments	4.7	(0.5)	4.2	-	(0.6)	(0.6)
Total non-current financial assets/(liabilities)	6.2	(361.8)	(355.6)	0.5	(17.2)	(16.7)
Total financial assets/(liabilities)	11.9	(370.0)	(358.1)	1.1	(24.1)	(23.0)
Cash	89.1	-	89.1	65.7	-	65.7
Cash equivalents	62.1	-	62.1	182.4	-	182.4
Total cash and cash equivalents	151.2	-	151.2	248.1	-	248.1
Total net (debt)/cash as defined by the Group			(206.9)			225.1

At 31 March 2023 the Group held £0.4m (2022: £0.2m) of cash which is restricted in its use. The term loan was issued at floating rates as Tranche A GBP 273.3m and Tranche B USD 79.6m. A proportion of Tranche A has been converted to fixed rate using interest rate swaps. Further analysis of the terms and maturity dates for financial liabilities are set out in note 27.

25. Cash flows from operations

All figures in £ million	FY23	FY22 [^]
Profit after tax for the year	154.4	90.0
Adjustments for:		
Taxation expense	37.6	35.9
Net finance income	(3.3)	(3.1)
(Gain)/loss on disposal of businesses	(15.9)	0.9
Gain on sale of property	(2.0)	(0.7)
Loss on disposal of plant and equipment	0.2	-
Impairment of plant and equipment	-	0.5
Impairment of property	-	1.2
Amortisation of purchased or internally developed intangible assets	7.5	5.4
Amortisation of intangible assets arising from acquisitions	15.6	10.7
Depreciation of property, plant and equipment	51.5	46.2
Share of post-tax profit of equity accounted entities	(0.8)	(0.3)
Share-based payments charge	6.1	7.4
Retirement benefit contributions in excess of income statement expense	(1.6)	(1.8)
Pension past service cost	-	2.4
Fair value adjustment in respect of contingent consideration	-	(0.6)
Net movement in provisions	(1.0)	(1.0)
	248.3	193.1
(Increase)/Decrease in inventories	(9.6)	1.4
Increase in receivables	(56.7)	(13.0)
Increase in payables	58.6	33.6
Changes in working capital	(7.7)	22.0
Net cash flow from operations	240.6	215.1

[^] Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 38 for details.

The working capital movements in the cash flow statement do not agree directly to the balance sheet due to impact of business acquisitions and disposals, foreign exchange movements, deferred consideration, accrued interest and the timing of capex payments.

Reconciliation of net cash flow from operations to underlying net cash flow from operations to free cash flow

All figures in £ million	FY23	FY22 [^]
Net cash flow from operations	240.6	215.1
Add back specific adjusting item: digital investment	5.8	1.9
Add back specific adjusting item: restructuring costs	5.0	-
Add back specific adjusting item: acquisition integration and remuneration costs	2.3	-
Add back specific adjusting item: acquisition transaction costs	16.4	3.7
Underlying net cash flow from operations	270.1	220.7
Less: tax and net interest payments	(34.6)	(26.4)
Less: purchases of intangible assets and property, plant and equipment	(109.0)	(84.3)
Free cash flow	126.5	110.0

Underlying cash conversion ratio

	FY23	FY22 [^]
Underlying EBITDA – £ million	255.3	195.7
Underlying net cash flow from operations – £ million	270.1	220.7
Underlying cash conversion ratio – %	106%	113%

[^] Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 38 for details.

Notes to the Consolidated Financial Statements continued

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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	31 March 2023	31 March 2022
Within one year	5.7	5.7
In the second to fifth years inclusive	7.7	9.3
Greater than five years	1.8	0.5
Total future minimum lease payments	15.2	15.5

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	31 March 2023	31 March 2022
Land and buildings	26.8	17.4
Plant, machinery and vehicles	0.3	1.1
Computers and office equipment	-	-
Total right of use assets net book value	27.1	18.5

Lease liabilities (included within Net cash – see note 24)

All figures in £ million	31 March 2023	31 March 2022
Current	7.6	5.5
Non-current	23.7	16.6
Total lease liabilities	31.3	22.1

Additions to the right-of-use assets during FY23 were £15.5m, including £14.0m due to acquisitions. The total cash outflow for leases in FY23 was £8.5m. 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	FY23	FY22
Depreciation charge		
Land and buildings	5.9	4.7
Plant, machinery and vehicles	0.3	1.2
Total depreciation charge	6.2	5.9
Interest expense (included in finance cost - see note 7)	1.1	1.0
Expense relating to short-term leases (included in operating costs)	1.6	1.3
Expense relating to low value leases (included in operating costs)	0.1	0.2
Total lease and sub-lease expense charged to profit before tax	9.0	8.4

Minimum lease payment commitments

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

All figures in £ million	31 March 2023	31 March 2022
Within one year	7.6	5.5
In the second to fifth years inclusive	19.6	13.4
Greater than five years	4.1	3.2
Total future minimum lease payment commitments	31.3	22.1

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.

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 and interest rate swap 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 231.

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 and floating rate term loan 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. The Group complied with both covenants during the year. As at 31 March 2023, the ratio of Net Debt to EBITDA was 0.8:1 and the ratio of EBITDA to net finance charges was 46.2:1. The revolving credit facility is undrawn at the year end and matures in 2025. The floating rate term loan is repayable in 2025 but has 2 one year extension options.

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; and interest rate swaps which have been fair valued using interest 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 2023:

All figures in £ million	Note	Level 1	Level 2	Level 3	Total
Assets					
Current derivative financial instruments	24	-	4.4	-	4.4
Non-current derivative financial instruments	24	-	4.7	-	4.7
Liabilities					
Current derivative financial instruments	24	-	(0.6)	-	(0.6)
Non-current derivative financial instruments	24	-	(0.5)	-	(0.5)
Total		-	8.0	-	8.0

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	-	-	-	-
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)

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 2023 and 31 March 2022. Detailed analysis is provided in the following tables:

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

27. Financial risk management (continued)

As at 31 March 2023

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							
Derivative financial instruments	24	-	-	-	4.7	-	4.7
Deferred financing costs	24	-	1.5	-	-	-	1.5
Current							
Trade receivables and similar items		-	229.2	-	-	-	229.2
Derivative financial instruments	24	-	-	-	4.4	-	4.4
Deferred financing costs	24	-	1.3	-	-	-	1.3
Cash and cash equivalents	24	151.2	-	-	-	-	151.2
Total financial assets		151.2	232.0	-	9.1	-	392.3
Financial liabilities							
Non-current							
Bank borrowings	24	-	-	(337.6)	-	-	(337.6)
Derivative financial instruments	24	-	-	-	(0.5)	-	(0.5)
Lease liabilities		-	-	-	-	(23.7)	(23.7)
Current							
Trade payables and similar items		-	-	(281.8)	-	-	(281.8)
Derivative financial instruments	24	-	-	-	(0.6)	-	(0.6)
Lease liabilities		-	-	-	-	(7.6)	(7.6)
Total financial liabilities		-	-	(619.4)	(1.1)	(31.3)	(651.8)
Total		151.2	232.0	(619.4)	8.0	(31.3)	(259.5)

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							
Bank borrowings	24	-	-	-	-	-	-
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

B) Interest rate risk

The Group's objective is to manage its exposure to interest rate fluctuations on borrowings through varying the proportion of fixed rate debt relative to floating rate debt with debt-related derivative financial instruments, including interest rate and cross-currency swaps.

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 or debt-related derivative financial instruments. Where there are significant changes in the level and/or structure of debt, the policy permits borrowings to be 100% fixed, with regular Board reviews of the appropriateness of this fixed percentage.

At 31 March 2023, the Group had 80% (2022: N/A) of fixed rate debt and 20% (2022: N/A) of floating rate debt based on gross debt of £337.6m (2022: nil) after including the impact of debt-related derivative financial assets (interest rate swaps).

Financial assets/(liabilities)

As at 31 March 2023

All figures in £ million	Financial assets			Financial liabilities		
	Fixed or capped	Floating	Non-interest bearing	Fixed or capped	Floating	Non-interest bearing
Sterling	8.1	116.7	1.0	(4.8)	(273.3)	(0.9)
US dollar	-	24.0	-	(17.5)	(64.3)	-
Euro	-	0.1	-	-	-	-
Australian dollar	-	6.7	-	(9.0)	-	-
Other	-	3.7	-	(0.2)	-	-
Total	8.1	151.2	1.0	(31.5)	(337.6)	(0.9)

As at 31 March 2022

All figures in £ million	Financial assets			Financial liabilities		
	Fixed or capped	Floating	Non-interest bearing	Fixed or capped	Floating	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)

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.

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

	31 March 2023			31 March 2022		
	Fixed or capped £m	Weighted average interest rate %	Weighted average years to maturity	Fixed or capped £m	Weighted average interest rate %	Weighted average years to maturity
Financial assets:						
Sterling	8.1	3.1	3.2	-	-	-
Financial liabilities:						
Sterling	(4.8)	4.3	4.5	(5.7)	4.3	5.1
US dollar	(17.5)	4.5	5.5	(13.1)	4.5	4.9
Euro	-	-	-	(1.6)	2.2	4.8
Australian dollar	(9.0)	4.5	5.0	(1.6)	3.9	2.8
Other	(0.2)	3.7	4.4	(0.1)	3.1	1.2
Total financial liabilities	(31.5)	4.4	5.2	(22.1)	4.2	4.7

Sterling assets consist of debt-related derivative financial instruments. Sterling liabilities consist primarily of finance leases with the weighted average interest rate reflecting the internal rate of return of those leases.

Interest rate risk management

The revolving credit facility (note 27E) is floating-rate and undrawn as at 31 March 2023.

As at 31 March 2023, the majority of the Group's floating rate bank borrowings were fixed through interest rate swaps which swap the Sterling floating rate interest payable into fixed rate Sterling. The notional principal amount of the outstanding interest rate swap contracts as at 31 March 2023 is £270m (31 March 2022: £nil). The swaps have the economic effect of converting floating rate borrowings into fixed rate borrowings and are accounted for as cash flow hedges.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

27. Financial risk management (continued)**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 (based on functional currency of the operating company), 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.

All figures in £ millions	Net foreign currency monetary assets/(liabilities)				
	US\$	Euro	A\$	Other	Total
31 March 2023 – Sterling	17.7	3.3	0.9	4.1	26.0
31 March 2022– Sterling	3.2	2.4	0.6	3.8	10.0

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 2023 against Sterling are net US dollars sold of £65.4m (USD 79.6m), net Euros sold £35.5m (EUR 41.3m), net Canadian dollars sold £14.7m (CAD 25.6m), net United Arab Emirate dirhams sold £1.3m (AED 5.7m), net Swiss Francs bought of £0.4m (CHF 0.5m), net Swedish Krona sold of £3.4m (SEK 43.1m), and net Australian dollars sold £21.5m (AUD 39.6m).

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 £160.3m (31 March 2022 restated*: £248.3m). This balance includes cash and cash equivalents and derivative financial assets. The cash and cash equivalents of £151.2m at 31 March 2023 (2022: £248.1m) 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 £62.1m (31 March 2022: £182.4m) invested in AAA-rated money market funds.

* This balance has been restated to exclude lease liabilities which had been included as at 31 March 2022.

E) Liquidity risk**Borrowing facilities**

As at 31 March 2023 the Group had a revolving credit facility (RCF) of £275.0m (2022: £275.0m) and floating rate term loans of £337.6m (2022: nil). The RCF, which is unutilised, has an initial term of five years and will mature on 27 September 2025. The term loan has an initial term of 3 years and will mature on 27 September 2025. Total available funds, comprising the RCF, term loan 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 2023				
Committed facilities - RCF	0.53%	275.0	-	275.0
Committed facilities – term loan	1.10%	337.6	337.6	-
Freely available cash and cash equivalents				149.6
Available funds 31 March 2023				424.6
As at 31 March 2022				
Committed facilities - RCF	0.53%	275.0	-	275.0
Committed facilities – term loan		-	-	-
Freely available cash and cash equivalents				246.7
Available funds 31 March 2022				521.7

* Reference rate refers to SONIA for GBP and SOFR for USD.

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.

The £337.6m term loan is repayable on 27 September 2025, with two one-year extension options available, with interest periods set to three months. The loan bears interest at a variable margin over the relevant reference rate of between 1.00% and 2.50% dependent on the ratio of Net Debt to EBITDA.

As at 31 March 2023

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						
Term loan	(337.6)	(375.8)	(16.0)	(16.4)	(343.4)	-
Revolving credit facility	-	-	-	-	-	-
Trade payables and similar items	(281.8)	(281.8)	(281.8)	-	-	-
Leases	(31.3)	(32.0)	(7.6)	(6.5)	(13.1)	(4.8)
Derivative financial liabilities						
Forward foreign currency contracts – cash flow hedges	(0.9)	(0.9)	(0.6)	(0.3)	-	-
Interest rate swaps	(0.2)	(0.2)	-	-	(0.2)	-
Total	(651.8)	(690.7)	(306.0)	(23.2)	(356.7)	(4.8)

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						
Revolving credit facility	-	-	-	-	-	-
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)

F) Derivative financial instruments

The Group has the following derivative financial instruments on the balance sheet, reported within the 'Other financial assets' line items.

All figures in £ million	31 March 2023			31 March 2022		
	Asset gains	Liability losses	Net	Asset gains	Liability losses	Net
Forward foreign currency contracts – cash flow hedges	1.0	(0.9)	0.1	0.2	(2.0)	(1.8)
Interest rate swaps	8.1	(0.2)	7.9	-	-	-
Derivative assets/(liabilities) at the end of the year	9.1	(1.1)	8.0	0.2	(2.0)	(1.8)

The maturity of these derivative financial instruments is as follows:

All figures in £ million	31 March 2023			31 March 2022		
	Asset gains	Liability losses	Net	Asset gains	Liability losses	Net
Expected to be recognised:						
In one year or less	4.4	(0.6)	3.8	0.2	(1.4)	(1.2)
Between one and two years	2.5	(0.3)	2.2	-	(0.6)	(0.6)
More than two years	2.2	(0.2)	2.0	-	-	-
Derivative assets/(liabilities) at the end of the year	9.1	(1.1)	8.0	0.2	(2.0)	(1.8)

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27. Financial risk management (continued)

The effects of these derivatives on the Group's financial position and performance are as follows:

All figures in £ million	31 March 2023			31 March 2022		
	Cash flow hedges	Interest rate swaps	Total	Cash flow hedges	Interest rate swaps	Total
Notional amount (gross)	327.7	270.0	597.7	228.6	-	228.6
Carrying value (current and non-current assets and (liabilities))	0.1	7.9	8.0	(1.8)	-	(1.8)
Maturity date	2023-2027	2025-2027	2023-2027	2022-2024	-	2022-2024
Hedge ratio	1:1	1:1	1:1	1:1	-	1:1
Change in fair value of outstanding hedging instruments in the year	1.9	7.9	9.8	(1.3)	-	(1.3)
Change in value of hedged item used to determine hedge effectiveness	1.9	7.9	9.8	(1.3)	-	(1.3)
Weighted average hedged rate for the year*	1.23	3.1%		1.32	-	

* The weighted average hedged rate for the year for cash flow hedges is based on GBP:USD, being the most significant currency pair. The Group also has cash flow hedges relating to a number of other currency pairs aligned to its global operations.

G) Maturity of financial liabilities

The contractual maturity of the Group's financial liabilities is shown below:

As at 31 March 2023

All figures in £ million	Trade payables and similar items payables	Bank borrowings and loan notes	Derivative financial instruments	Lease liabilities	Total
Due in one year or less	281.8	-	0.6	7.6	290.0
Due in more than one year but not more than two years	-	-	0.3	6.5	6.8
Due in more than two years but not more than five years	-	337.6	0.2	13.1	350.9
Due in five years or more	-	-	-	4.1	4.1
Total	281.8	337.6	1.1	31.3	651.8

As at 31 March 2022

All figures in £ million	Trade payables and similar items payables	Bank borrowings and loan notes	Derivative financial instruments	Lease liabilities	Total*
Due in one year or less	205.3	-	1.4	5.5	212.2
Due in more than one year but not more than two years	-	-	0.6	4.7	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	-	2.0	22.1	229.4

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 2023 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 2023

All figures in £ million	1% decrease in interest rates		10% weakening in Sterling	
	Equity*	Profit before tax	Equity	Profit before tax
Sterling	(0.1)	1.6	-	-
US dollar	-	0.4	0.1	0.1
Other	-	(0.1)	0.5	-

All figures in £ million	1% increase in interest rates		10% strengthening in Sterling	
	Equity*	Profit before tax	Equity	Profit before tax
Sterling	0.1	(1.6)	-	-
US dollar	-	(0.4)	(0.3)	(0.1)
Other	-	0.1	(0.4)	-

* 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 2022

All figures in £ million	1% decrease in interest rates		10% weakening in Sterling	
	Equity*	Profit before tax	Equity	Profit before tax
Sterling	-	(2.1)	-	-
US dollar	-	(0.1)	2.6	-
Other	-	(0.2)	2.4	-

All figures in £ million	1% increase in interest rates		10% strengthening in Sterling	
	Equity*	Profit before tax	Equity	Profit before tax
Sterling	-	2.1	-	-
US dollar	-	0.1	(2.2)	-
Other	-	0.2	(1.9)	-

* 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 2023, 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 2023, 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**

The Group operates a number of defined contribution pension arrangements, the largest of which is in the UK and 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 £55.2m (FY22: £49.4m). 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 with consultation with the Company as needed. The Board of Trustees must be composed of representatives of the Company and plan participants in accordance with the Scheme's rules.

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28. Post-retirement benefits (continued)

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 2024 is £3.4m.

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, see below.

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	31 March 2023	31 March 2022
Total market value of assets – see table below for analysis by category of asset	1,355.2	2,065.7
Present value of Scheme liabilities	(1,235.4)	(1,703.5)
Net pension asset before deferred tax	119.8	362.2
Deferred tax liability	(35.4)	(96.4)
Net pension asset after deferred tax	84.4	265.8

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 page 207.

The key driver for the decrease in the net pension asset since the March 2022 year end was the turmoil in financial markets following the Government's 'mini-budget' in September 2022, particularly a sharp increase in gilt yields (and reduced gilt prices). Prior to the 'mini-budget' the Scheme was 100% hedged on both interest rate and inflation risk, and significant levels of collateral were required to maintain such hedging levels. The spike in gilt yields in October 2022 eroded the collateral required to be held in the LDI portfolio to such an extent that the hedges needed to be reduced to a lower level, covering approximately 65% of the interest rate risk and 80% of the inflation rate risk. Subsequent falls in gilt yields meant that, as interest rate risk was then 35% unhedged, the Scheme suffered a loss in value.

This reduced level of hedging was maintained through to 31 March 2023, as measured on the Trustees' gilt-funded basis. Over the course of the year, the fall in value of assets across the whole investment portfolio (primarily LDI-related collateral) was in excess of the reduction in Scheme liabilities (which also fell substantially, primarily due to an increase in the discount rate).

Total expense recognised in the income statement

All figures in £ million	FY23	FY22
Net finance income	9.9	4.5
Past service cost	-	(2.4)
Administrative expenses	(1.4)	(1.1)
Total net income recognised in the income statement (gross of deferred tax)	8.5	1.0

Movement in the net pension asset

The movement in the net pension asset (before deferred tax) is set out below:

All figures in £ million	FY23	FY22
Opening net pension asset	362.2	214.3
Net finance income	9.9	4.5
Net actuarial (loss)/gain	(253.9)	144.0
Administrative expenses	(1.4)	(1.1)
Past service cost	-	(2.4)
Contributions by the employer	3.0	2.9
Closing net pension asset	119.8	362.2

Fair value of Scheme assets by type of asset

The fair value of the Scheme's assets, which are not intended to be realised in the short term and may be subject to significant changes before they are realised, were:

All figures in £ million	31 March 2023			31 March 2022		
	Quoted	Not quoted in an active market	Total	Quoted	Not quoted in an active market	Total
Equities	177.4	32.9	210.3	176.1	44.7	220.8
Liability Driven Investment	227.2	-	227.2	291.8	-	291.8
Asset backed security investments ¹	4.3	-	4.3	501.7	-	501.7
Alternative bonds ²	-	256.4	256.4	-	208.6	208.6
Corporate bonds ³	-	117.6	117.6	-	97.4	97.4
Property funds	-	-	-	-	29.5	29.5
Cash and cash equivalents	-	17.2	17.2	-	78.5	78.5
Derivatives	-	6.7	6.7	-	(8.5)	(8.5)
Insurance buy-in policies	-	515.5	515.5	-	645.9	645.9
Total market value of assets	408.9	946.3	1,355.2	969.6	1,096.1	2,065.7

¹ Asset backed securities are used as collateral for the LDI. As gilt yields spiked during the year, the LDI drew down on significant levels of security, causing the year on year drop shown above.

² Primarily private market debt investments.

³ Unlisted corporate bonds with commercial property held as security.

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.

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For the year ended 31 March

28. Post-retirement benefits (continued)

Changes to the fair value of Scheme assets

All figures in £ million	FY23	FY22
Opening fair value of Scheme assets	2,065.7	2,071.8
Interest income on Scheme assets	55.8	43.0
Re-measurement loss on Scheme assets	(716.3)	(5.9)
Contributions by the employer	3.0	2.9
Net benefits paid out and transfers	(51.6)	(45.0)
Administrative expenses	(1.4)	(1.1)
Closing fair value of Scheme assets	1,355.2	2,065.7

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	FY23	FY22
Opening present value of Scheme liabilities	(1,703.5)	(1,857.5)
Interest cost	(45.9)	(38.5)
<i>Actuarial gain/(loss) on Scheme liabilities based on:</i>		
Change in demographic assumptions	45.8	5.9
Change in financial assumptions	588.0	107.5
Experience (losses)/gains	(171.4)	36.5
Past service cost	-	(2.4)
Net benefits paid out and transfers	51.6	45.0
Closing present value of Scheme liabilities	(1,235.4)	(1,703.5)

The net actuarial gains are primarily due to a decrease in value of the financial assumption for the discount rate (see Assumptions section below).

Assumptions

The major assumptions used in the IAS 19 valuation of the Scheme's liabilities were:

All figures in £ million	31 March 2023		31 March 2022	
	Insured members	Uninsured members	Insured members	Uninsured members
Discount rate applied to Scheme liabilities	4.80%	4.65%	2.80%	2.70%
CPI inflation assumption	2.55%	2.70%	3.00%	2.90%
Net rate (discount rate less inflation)	2.25%	1.95%	(0.20%)	(0.20%)
Assumed life expectancies in years:				
At 60 for males currently aged 40	n/a	27.9	n/a	28.4
At 60 for females currently aged 40	n/a	30.3	n/a	30.7
At 60 for males currently aged 60	n/a	26.2	n/a	26.7
At 60 for females currently aged 60	n/a	28.2	n/a	28.6
At 65 for males currently aged 65	21.6	n/a	22.0	n/a
At 65 for females currently aged 65	23.3	n/a	23.7	n/a

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 for both the current and prior year were based on the S3 Normal Lives base tables, with various scaling factors based on sex and status. For the 31 March 2023 assumptions each of the various scaling factors were 8ppts higher than as at 31 March 2022, reflecting the negative impact of COVID-19 on future life expectancy. Allowance, in both years, was made for improvements in mortality in line with CML2021 Core Projections and a long-term rate of improvement of 1.25% per annum.

The funding of the Scheme is based on long-term trends and assumptions relating to market growth, as advised by qualified actuaries and investment advisors. The weighted average duration of the defined benefit obligation is approximately 20 years.

The sensitivity of the Scheme liabilities to each of the key assumptions is shown in the following table.

Sensitivity analysis of the principal assumptions

Assumption	Indicative impact on Scheme assets	Indicative impact on Scheme liabilities	Indicative impact on net pension asset
Increase discount rate by 0.1%	Decrease by £7.0m	Decrease by £21.7m	Decrease by £14.7m
Increase rate of inflation by 0.1%	Increase by £5.5m	Increase by £20.6m	Increase by £15.1m
Increase life expectancy by one year	Increase by £14.3m	Increase by £34.0m	Decrease by £19.7m

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 hedged against approximately 95% of the interest rate risk and also 95% of the inflation rate risk, as measured on the Trustees' gilt-funded basis. During the current financial year, due to the increased volatility in gilt yields and reflecting increased liquidity requirements for Schemes running LDI portfolios, the hedges have been amended to cover approximately 65% of the interest rate risk and 80% of the inflation rate risk as at 31 March 2023, 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 £256.4m; the unquoted corporate bonds of £117.6m and the unquoted equities of £32.9m are the assets with most uncertainty as to valuation as at 31 March 2023.

The accounting assumptions noted 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.

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.

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For the year ended 31 March

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 2022	5,787,571	578,757,121	1	1	5,787,572	578,757,122
Issue of new shares	-	-	-	-	-	-
At 31 March 2023	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 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

Except as noted below all shares in issue at 31 March 2023 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 hedging 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 2023 are 4,208,899 shares (2022: 6,816,291 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 £7.9m, all relating to equity-settled schemes (FY22: £7.8m, all relating to equity-settled schemes). The share-based payment charged to equity is £5.7m consisting of the £7.9m charge to the income statement offset by a £0.4m charge to equity in respect of dividends accruing on unvested awards and £1.8m of cash payments relating to the Bonus Banking Plan.

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.

	FY23 Number of matching shares	FY22 Number of matching shares
Outstanding at start of the year	761,828	734,402
Awarded during the year	267,877	313,509
Exercised during the year	(220,369)	(247,433)
Forfeited during the year	(63,350)	(38,650)
Outstanding at end of the year	745,986	761,828

SIP matching shares are equity-settled awards; those outstanding at 31 March 2023 had an average remaining life of 1.5 years (2022: 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 (2022: nil).

Bonus Banking Plan (BBP)

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

	FY23 Number of awards	FY22 Number of awards
Outstanding at start of the year	1,122,439	1,942,855
Granted during the year	602,408	529,683
Exercised during the year	(687,079)	(1,227,020)
Forfeited/lapsed during the year	(145,352)	(123,079)
Outstanding at end of the year	892,416	1,122,439

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 2023 the awards had an average remaining life of 1.7 years (2022: 1.6 years). There is no exercise price for these awards. The fair value of the awards at 31 March 2023 was £3.34 (2022: £3.02) 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.

	FY23 Number of awards	FY22 Number of awards
Outstanding at start of the year	6,876,423	6,761,362
Difference between actual awards in year and amount provisionally awarded in prior year	26,046	126,565
Lapsed during the year	(599,763)	(334,922)
Exercised during the year	(2,368,264)	(1,460,253)
Provisionally awarded during the year	3,034,279	1,783,671
Outstanding at end of the year	6,968,721	6,876,423
Provisional awards outstanding	3,034,279	1,783,671
Awards outstanding	3,934,442	5,092,752
Outstanding at end of the year	6,968,721	6,876,423

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30. Share-based payments (continued)

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 2023 the awards had an average remaining life of 2.4 years (2022: 1.8 years). There is no exercise price for these awards. The fair value of the DSP's provisionally awarded at 31 March 2023 was £3.34 being the Group's 30 day average. The weighted average share price at date of exercise was £3.64 (2022: £3.50). 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.

	FY23 Number of awards	FY22 Number of awards
Outstanding at start of the year	560,002	148,857
Granted during the year	608,158	495,685
Exercised during the year	(221,998)	(68,217)
Lapsed during the year	(4,814)	(16,323)
Outstanding at end of the year	941,348	560,002

At 31 March 2023 the awards had an average remaining life of 1.4 years (2022: 1.9 years). There is no exercise price for these awards. The weighted average fair value of grants made during the year was £3.41 (2022: £2.75). The weighted average share price at date of exercise was £3.17 (2022: £3.06). Of the options outstanding at the end of the year nil were exercisable (2022: nil).

Value Creation Plan (VCP)

The Group has granted awards under a Value Creation Plan to certain senior executives in the US.

	FY23 Number of awards	FY22 Number of awards
Outstanding at start of the year	206,675	335,848
Forfeited during the year	(31,576)	(129,173)
Outstanding at end of the year	175,099	206,675

At 31 March 2023 the awards had an average remaining life of 0.2 years (2022: 1.2 years). There is no exercise price for these awards. The weighted average fair value of grants made during the year was £nil (2022: nil). Of the options outstanding at the end of the year nil were exercisable.

High Performance Share Award (HPSA)

In a 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 2023 the awards had an average remaining life of 0.3 years (2022: 1.3 years). Of the awards outstanding at the end of the year nil were exercisable.

	FY23 Number of awards	FY22 Number of awards
Outstanding at start of the year	1,336,372	1,336,372
Lapsed during the year	(13,041)	-
Outstanding at end of the year	1,323,331	1,336,372

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 page 129.

Strategic assets

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

- dispose of or destroy all or any part of a strategic asset; or
- voluntarily undertake any closure of, or cease to provide a strategic capability by means of, all or any part of a strategic asset.

The net book value of assets identified as being strategic assets as at 31 March 2023 was £3.0m (2022: £3.9m).

Long Term Partnering Agreement

On 27 February 2003 QinetiQ Limited entered into a Long Term Partnering Agreement (LTPA) to provide test and evaluation (T&E) facilities and training support services to the MOD. This is a 25-year contract with a total revenue value of up to £5.6bn, dependent on the level of usage by the MOD, under which QinetiQ Limited is committed to providing T&E services with increasing efficiencies through cost saving and innovative service delivery. Following an amendment to the LTPA contract on 5 April 2019 this contract is no longer subject to re-pricing every five years and is now contracted at a fixed price to 31 March 2028.

Other contracts with MOD

The LTPA is the most significant contract QinetiQ has with the MOD. In total approximately 57% (FY22: 62%) 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 £33.6m at 31 March 2023 (2022: £37.2m) 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	31 March 2023	31 March 2022
Total contracted	43.4	34.7

Capital commitments at 31 March 2023 include £21.2m (2022: £24.5m) 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 2023 there were sales to associates and joint ventures of £0.4m (FY22: £5.2m). At the year-end there were outstanding receivables from associates and joint ventures of £0.5m (FY22: £1.0m).

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

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 2023 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^{1,6}		
Aerospace Training Services Pty Ltd.	Australia	Level 33, 101 Collins Street, Melbourne, VIC 3000, Australia
Air Affairs (Australia) Pty Ltd	Australia	Level 33, 101 Collins Street, Melbourne, VIC 3000, Australia
Air Affairs Aviation Pty Ltd.	Australia	Level 33, 101 Collins Street, Melbourne, VIC 3000, Australia
Air Target Services Pty Ltd.	Australia	Level 33, 101 Collins Street, Melbourne, VIC 3000, Australia
Astra Aerospace Pty Ltd.	Australia	Level 33, 101 Collins Street, Melbourne, VIC 3000, Australia
Avantus Federal LLC	USA	8281 Greensboro Drive, Ste 400, McLean, VA 22102, USA
Avantus Federal Services LLC	USA	8281 Greensboro Drive, Ste 400, McLean, VA 22102, USA
Avantus National Security Solutions LLC	USA	8281 Greensboro Drive, Ste 400, McLean, VA 22102, USA
BJ Trustee Limited	England & Wales	Farnborough ³
cueSim Limited	England & Wales	Farnborough ³
Data Works LLC	USA	8281 Greensboro Drive, Ste 400, McLean, VA 22102, USA
E3 Federal Solutions PR Inc.	USA	8281 Greensboro Drive, Ste 400, McLean, VA 22102, USA
Erial LLC	USA	8281 Greensboro Drive, Ste 400, McLean, VA 22102, USA
Far Ridgeline Engagements LLC	USA	8281 Greensboro Drive, Ste 400, McLean, VA 22102, USA
Foster-Miller Canada Limited	Canada	318 Roxton Drive, Waterloo, Ontario, N2T 1R6, Canada
Foster-Miller Inc ²	USA	350 2 nd Avenue, Waltham, Massachusetts, MA 02451, USA
Graphics Research Corporation Limited	England & Wales	Farnborough ³
Gyldan 11 Limited	England & Wales	Farnborough ³
Inzpire Group Limited	England & Wales	Farnborough ³
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
Hirose Holdings Pty Ltd.	Australia	Level 33, 101 Collins Street, Melbourne, VIC 3000, Australia
Leading Technology Limited	England & Wales	Farnborough ³
Lucid Perspectives LLC	USA	8281 Greensboro Drive, Ste 400, McLean, VA 22102, USA
MTEQ Precision Machining LLC	USA	10440 Furnace Road, Suite 204, Lorton, VA 22079, USA
Metrix UK Limited	England & Wales	Farnborough ³
Naimuri Limited	England & Wales	Farnborough ³
Occam's Razor Technologies LLC	USA	8281 Greensboro Drive, Ste 400, McLean, VA 22102, USA
Operational Intelligence LLC	USA	8281 Greensboro Drive, Ste 400, McLean, VA 22102, USA
Precis (2187) Limited	England & Wales	Farnborough ³
Precis (2188) Limited	England & Wales	Farnborough ³
Qinetic Limited	England & Wales	Farnborough ³
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, Australia.
QinetiQ Estates Limited	England & Wales	Farnborough ³
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 ³
QinetiQ Holdings Limited	England & Wales	Farnborough ³
QinetiQ Inc ²	USA	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 ³
QinetiQ Novare Pty Ltd	Australia	Petrie House, level 6, 80 Petrie Terrace, Brisbane QLD 400, Australia
QinetiQ Overseas Holdings Limited	England & Wales	Farnborough ³
QinetiQ Overseas Trading Limited	England & Wales	Farnborough ³
QinetiQ Pension Scheme Trustee Limited	England & Wales	Farnborough ³
QinetiQ PFP Limited Partnership ⁴	Scotland	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, Scotland
QinetiQ Philippines Company, Inc	Philippines	22 nd 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

Name of company	Country of incorporation	Registered office
QinetiQ Solutions Sdn. Bhd.	Malaysia	Suite 6.01, 6 th Floor, Plaza See Hoy Chan, Jalan Raja Chulan 50200, Kuala Lumpur, W.P. Kuala Lumpur, Malaysia
QinetiQ Special Projects Inc	USA	5885 Trinity Parkway, Suite 130, Centreville, Virginia 20120-1969, USA
QinetiQ Sweden AB	Sweden	Box 1541, 581 15, Linköping, Stockholm, Sweden
QinetiQ Target Services Limited	England & Wales	Farnborough ³
QinetiQ Target Systems Limited	England & Wales	Farnborough ³
QinetiQ Training and Simulation Limited	England & Wales	Farnborough ³
QinetiQ US Holdings, Inc.	USA	5885 Trinity Parkway, Suite 130, Centreville, Virginia 20120-1969, USA
RubiKon Group Pty Limited	Australia	Level 33, 101 Collins Street, Melbourne, Victoria 3000, Australia
Sensoptics Limited	England & Wales	Farnborough ³
Sentinel OpCo LLC	USA	8281 Greensboro Drive, Ste 400, McLean, VA 22102, USA
TSG International LLC	USA	350 2 nd Avenue, Waltham, Massachusetts 02451, USA
Joint ventures⁶		
Houbara Defence & Security LLC ^{5,6}	United Arab Emirates	Unit 3, Zone 4, Tawazun Industrial Park, Abu Dhabi, United Arab Emirates, PO Box 128220
QinetiQ Dar Massader QDM Limited ^{5,6}	Saudi Arabia	Al Nakhla Tower, 3026-Prince Saud Bin Mohamed Bin Muqin Road, PO Box 2985, Riyadh 13321, Kingdom of Saudi Arabia
Avantus CTA, LLC	USA	8281 Greensboro Drive, Ste 400, McLean, VA 22102, USA
Federal Mission Solutions, LLC	USA	8281 Greensboro Drive, Ste 400, McLean, VA 22102, USA
Hive Fed Solutions LLC	USA	8281 Greensboro Drive, Ste 400, McLean, VA 22102, USA

1 As at 31 March 2023 the Group owned 100% of the ordinary shares of all subsidiary undertakings.

2 The class of shares is 'common share'.

3 Cody Technology Park, Ively Road, Farnborough, Hampshire, GU14 0LX.

4 Limited partnership. The partners are all wholly-owned Group companies.

5 As at 31 March 2023 the Group owned 49% of Houbara Defence & Security LLC and 49% of QinetiQ Dar Massader QDM Limited.

6 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).

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 and disposals	✓		✓
Impairment of property and goodwill	✓		
Digital investment	✓	✓	✓
Costs of group-wide restructuring programmes	✓	✓	
The tax impact of the above	✓	✓	✓
Other significant non-recurring tax and RDEC 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 and gains/losses on disposal of plant and equipment.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

36. Basis of preparation and significant accounting policies (continued)

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 85 in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. The Company has elected to prepare its parent company financial statements in accordance with UK GAAP (FRS 101); these are presented on page 226. 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 2023. 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 (on page 103). 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 Board have considered the impact to the organisation and its activities of climate change, particularly those risks highlighted on page 80 in line with the recommendations by the Task Force for Climate-related Disclosures (TCFD). The Board recognises its responsibilities for oversight of climate-related risks and opportunities. The QinetiQ Leadership Team support the Board through the implementation of a strategic led approach to monitor, assess and address climate transition risks and opportunities.

Specific aspects of the financial statements that could potentially be impacted by climate change are the carrying value and useful economic lives of tangible assets and goodwill, future capability development and the financial performance of customer contracts. Whilst the Group will likely be impacted by climate change in the future, the impacts on the financial statements as at 31 March 2023 are not considered to be material.

Recent accounting developments

Developments adopted by the Group for the year ended 31 March 2023 with no material impact on the Group's financial statements

The following standards, interpretations and amendments to existing standards became effective on 1 January 2022 and have not had a material impact on the Group:

- Amendments to IFRS 3 Business Combinations, effective from 1 January 2022;
- Amendments to IAS 16 Property, Plant and Equipment – Proceeds before Intended Use effective from 1 January 2022;
- Amendments to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract effective from 1 January 2022; and
- Annual Improvements to IFRS Accounting Standards 2018–2020 Cycle effective from 1 January 2022.

Developments expected in future periods of which are not expected to have a material impact on the Group's financial statements

The following other standards, interpretations and amendments to existing standards have been issued but were not mandatory for accounting periods beginning on 1 April 2022. These either have been, or are expected to be endorsed by the UK Endorsement Board and are not expected to have a material impact on the Group:

- IFRS 17 Insurance Contracts, effective from 1 January 2023;
- Amendments to IAS 1: Presentation of Financial Statements, effective from 1 January 2023;
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies, effective from 1 January 2023;
- Amendments to IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors, effective from 1 January 2023;
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture; and
- Amendments to IAS 12: Income Taxes, effective from 1 January 2023

Significant accounting policies

Revenue from contracts with customers

The Group recognises revenue primarily from the following major sources:

- Through combining world-leading expertise with unique facilities to provide technical assurance, test and evaluation and training services underpinned by long-term contracts;
- Through delivering innovative solutions and products to meet customer requirements by undertaking contract-funded research and development, developing intellectual property and by internal funding with potential for new revenue streams.

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer. The Group's revenue contracts are accounted for under IFRS 15 'Revenue from Contracts with Customers' taking into account the requirement to distinguish between the various performance obligations within a contract and treating these separately. The Group's methodology applies IFRS 15 on a contract-by-contract basis which includes considerations for contract modifications, variable consideration, the determination of distinct performance obligations, determination of agency and principal relationships and licences.

Service contracts

The Group's long-term service contracts are generally 'test and evaluation' or advice-based contracts where control of the service is transferred over a period of time as the Group performs. At contract inception the Group undertakes an assessment to determine how many distinct performance obligations exists within a contract. As part of the assessment the Group obtains an understanding of the overall deliverable to the customer through discussions with business units and project leads. Each individual deliverable in the contract is then assessed to determine if it is an input into the overall deliverable, and therefore part of a single performance obligation, or if it is a stand-alone separable deliverable with its own transaction price and therefore a distinct performance obligation in its own right. Each distinct performance obligation identified within a contract is accounted for separately.

Certain service contracts have a similar pattern of transfer of control to the customer where each year is effectively the same from a performance obligation perspective. The Group has applied the series guidance as permitted within the Standard to these contracts and accounts for these as a series of distinct service performance obligations satisfied annually over the contract term.

The transaction price for a contract is determined at contract inception based on a fixed-margin applied to the total forecast costs to complete the deliverable. Some long-term contracts include an excess profit clause which is a variable consideration factor that could impact the transaction price. Excess profits are estimated at contract inception and at the end of each reporting period to ensure that the transaction price is not under or over stated. Any required adjustment will be made against the transaction price in the period in which it occurred. The Group does not offer any right of return or refunds which could impact transaction price at inception.

Certain contracts attract bonuses and/or penalties which are variable and will have an impact on transaction price at contract inception. The Group assesses variable consideration in relation to bonuses and penalties at contract inception using the most-likely method and this forms part of the transaction price and recognised over time as costs are incurred. The Group only includes bonuses and penalties into the transaction price to the extent that it is highly probable that a significant reversal of revenue will not occur in future periods. Historical evidence and experience shows that even where a reduction has been required, that reduction has been immaterial to the Group.

The transaction price is allocated between each distinct performance obligation identified in a contract based on the stand-alone selling price of each performance obligation. Each performance obligation will be costed and the transaction price will be cost plus margin. This amount would be the stand-alone selling price of each performance obligation if contracted with a customer separately.

Long-term service contracts allow for modifications to the original order. If a contract modification is determined to be distinct and the price of the contract increases by an amount of consideration that reflects the entity's stand-alone selling prices for the additional promised goods or services, the Group accounts for this as a separate contract. If a contract modification is not distinct, the Group accounts for this as if it were part of the existing contract. A cumulative catch-up adjustment to revenue is then recognised to disclose the effect that the contract modification has on the transaction price and the Group's measure of progress towards complete satisfaction of the performance obligation.

Long-term service contracts also sometimes allow for extensions to the original order. A contract extension is determined to include either additional goods or services or no additional goods or service. If a contract extension with additional goods or services is determined to be distinct and the price of the contract increases by an amount of consideration that reflects the entity's stand-alone selling prices for the additional promised goods or services, the Group accounts for this as a separate performance obligation.

If a contract extension with additional goods or services is not distinct, the Group accounts for this as if it were part of the existing contract. A cumulative catch-up adjustment to revenue is then recognised to disclose the effect that the contract extension has on the transaction price and the Group's measure of progress towards complete satisfaction of the performance obligation.

When the outcome of a distinct performance obligation in delivering services can be reliably estimated, revenue associated with the performance obligation is recognised over time using the input method. The input method recognises revenue over time on the basis of costs incurred to date to the satisfaction of a performance obligation relative to the total forecast costs to complete the performance obligation. The Group has determined the input method to be appropriate as it best depicts the Group's performance in transferring control of the service to the customer as it incurs costs on a particular contract.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

36. Basis of preparation and significant accounting policies (continued)

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 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

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 Research and Development Expenditure Credits (RDEC) and 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

Research and development (R&D) costs incurred in respect of specific contracts placed by customers are recognised within operating costs and revenue is recognised in respect of the R&D services performed. Internally funded development expenditure is capitalised in the balance sheet where there is a clearly defined project, the expenditures are separately identifiable, the project is technically and commercially feasible, all costs are recoverable by future revenue and the resources are committed to complete the project. Such capitalised costs are amortised over the forecast period of sales resulting from the development. All other R&D costs are expensed to the 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.

Borrowings and financing

The Group has a term loan and access to a revolving credit facility with its relationship banks. Borrowings are initially recognised at fair value. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as non-current liabilities where the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. The Group pays in advance finance costs in relation to the multi-currency facility which are recognised as a deferred finance cost asset and amortised over the period of the facility, where it is probable that some or all of the facility will be drawn down. Costs of letters of credit are also charged to finance expense.

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.

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.

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.

Research and Development Expenditure Credits (RDEC) are now recognised within other operating income following a change in accounting policy, see note 38.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

36. Basis of preparation and significant accounting policies (continued)

Non-current assets held for sale

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

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

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	1–5 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
Motor vehicles	3–5 years
Aircraft	10–20 years
Computers	3–5 years
Office equipment	5–10 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.

Leases – as a lessee

The Group leases various offices, aircraft, 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 leased 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.

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, for example to 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 the 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).

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

36. Basis of preparation and significant accounting policies (continued)

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 2023 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 (FY22: 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.

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 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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

36. Basis of preparation and significant accounting policies (continued)

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 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 judgments 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 £256.4m; the unquoted corporate bonds of £117.6m and the unquoted equities of £32.9m are the assets with most uncertainty as to valuation as at 31 March 2023.

Estimated value of tax assets

The Group has significant levels of unused US tax losses and US carried forward interest expenses as set out in note 18 giving rise to potential deferred tax assets. 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. Scenarios are modelled to consider sensitivity to these factors (including annual profit levels and growth expectations). Based on these scenarios, it is possible that revisions of these forecasts over the next 12 months could result in £4.1m to £8.6m of the recognised US deferred tax assets not being recoverable.

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.

For fixed price contracts the impact of inflation would reduce the contract profitability. As an example, an increase in cost inflation of 1% in one of the Group's most significant contracts, would increase costs and reduce profit by approximately £1m per annum. However in many cases the contracts include inflation uplift clauses, such that inflation of costs would create additional contract value and revenue, thus resulting in increased profit.

Estimated values of acquired intangibles on acquisitions

During the year the Group completed two strategic acquisitions. Intangible assets relating to customer relationships, existing technology and trade names were recognised as fair value adjustments to the opening balance sheets. The most material of these is the customer relationships intangible within Avantus which was recognised at £197.5m, per note 15.

Customer relationships have been valued based on an income approach using an excess earnings method. The key assumptions are the revenue and profit projections, customer contract retention/attrition assumptions, discount rates and contributory asset charges. Applying different assumptions could result in a materially different customer relationship intangible and a corresponding increase or decrease in the value of Goodwill recognised.

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 (~£300m 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'.

38. Changes in accounting policies

This 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 2023:

Accounting for Research and Development Expenditure Credits ('RDEC')

Following a routine Financial Reporting Council ("FRC") review of the consolidated financial statements for the year ended 31 March 2022, the Group has changed its accounting policy relating to RDEC. The Group's accounting policy has historically been to account for RDEC under IAS12 Income Tax, as a credit within the tax charge. Following engagement with the FRC, and a review of common market practice, the Group has now decided to account for RDEC as other operating income under IAS20 Government Grants.

The impact of this change is to move £6.2m of RDEC income for the year ending 31 March 2022 from the tax charge into other income. The impact on the balance sheet and related notes is to reclassify a £12.0m receivable from current tax payable to other receivables as at 31 March 2022 (£11.8m as at 31 March 2021) as well as £12.0m (£12.6m as at 31 March 2021) from current tax to accrued expenses and other payables. There is an impact on net assets of £2.0m as at both 31 March 2022 and 31 March 2021 due to the deferred income impact of the updated income recognition under IAS20. There is nil impact on profit after tax for FY22. The following tables show the adjustments recognised for each individual line item as at 31 March 2023, 31 March 2022 and 1 April 2021.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

38. Changes in accounting policies (continued)**Impact on the balance sheet (extract) as at 31 March 2023 and 31 March 2022**

All figures in £ million	31 March 2023			31 March 2022		
	Previous policy	Change in policy	As presented	As originally presented	Impact of restatement	Restated
Assets/(liabilities)						
Other receivables (within Trade and other receivables)	27.9	15.4	43.3	26.8	12.0	38.8
Accrued expenses and other payables (within Trade and other payables)	(153.8)	(12.9)	(166.7)	(139.5)	(12.0)	(151.5)
Current tax payable	3.7	(8.3)	(4.6)	(3.9)	(2.0)	(5.9)
Deferred tax liability	(112.6)	0.6	(112.0)	(156.7)	-	(156.7)
Other net assets	1,208.3	-	1,208.3	1,316.7	-	1,316.7
Net assets	973.5	(5.2)	968.3	1,043.4	(2.0)	1,041.4

Impact on the balance sheet (extract) as at 1 April 2021

All figures in £ million	1 April 2021		1 April 2021	
	As originally presented	Impact of restatement	As originally presented	Restated
Assets/(liabilities)				
Other receivables (within Trade and other receivables)	7.8	11.8	7.8	19.6
Accrued expenses and other payables (within Trade and other payables)	(133.4)	(12.6)	(133.4)	(146.0)
Current tax payable	(2.5)	(1.2)	(2.5)	(3.7)
Deferred tax liability	(89.7)	-	(89.7)	(89.7)
Other net assets	1,102.7	-	1,102.7	1,102.7
Net assets	884.9	(2.0)	884.9	882.9

Impact on the income statement (extract)

The impact on the Group's consolidated income statement of applying the restatement is set out below:

All figures in £ million	FY23			FY22		
	Previous policy	Change in policy	As presented	As originally presented	Impact of restatement	Restated
Revenue	1,580.7	-	1,580.7	1,320.4	-	1,320.4
Operating costs excluding depreciation and amortisation	(1,382.9)	-	(1,382.9)	(1,149.4)	-	(1,149.4)
Other income	12.6	37.0	49.6	10.5	6.2	16.7
EBITDA (earnings before interest, tax, depreciation and amortisation)	210.4	37.0	247.4	181.5	6.2	187.7
Depreciation and amortisation	(74.6)	-	(74.6)	(64.0)	-	(64.0)
Operating profit	135.8	37.0	172.8	117.5	6.2	123.7
Gain/(loss) on business divestments	15.9	-	15.9	(0.9)	-	(0.9)
Finance income	16.7	-	16.7	5.0	-	5.0
Finance costs	(13.4)	-	(13.4)	(1.9)	-	(1.9)
Profit/(loss) before tax	155.0	37.0	192.0	119.7	6.2	125.9
Taxation expense	2.6	(40.2)	(37.6)	(29.7)	(6.2)	(35.9)
Profit/(loss) for the year attributable to equity shareholders	157.6	(3.2)	154.4	90.0	-	90.0
Impact on underlying measures of performance						
Operating profit from segments	178.9	-	178.9	137.4	-	137.4
Underlying operating profit	178.9	17.4	196.3	137.4	6.2	143.6
Underlying tax charge	(18.4)	(18.4)	(36.8)	(17.9)	(6.2)	(24.1)
Impact on specific adjusting items						
MoD appropriation release – operating profit	-	19.6	19.6	-	-	-
MoD appropriation release – tax	18.1	(21.8)	(3.7)	-	-	-

Statement of cash flows (extract)

The impact on the Group's statement of cash flows of applying the restatement is set out below:

All figures in £ million	FY23			FY22			
	Previous policy	Change in policy	As presented	As originally presented	Impact of restatement	Hedging*	Restated
Profit after tax	157.6	(3.2)	154.4	90.0	-	-	90.0
Taxation expense	(2.6)	40.2	37.6	29.7	6.2	-	35.9
Others	56.3	-	56.3	67.2	-	-	67.2
	211.3	37.0	248.3	186.9	6.2	-	193.1
(Increase)/decrease in inventories	(9.6)	-	(9.6)	1.4	-	-	1.4
Increase in receivables	(56.4)	(0.3)	(56.7)	(12.8)	(0.2)	-	(13.0)
Increase in payables	80.0	(21.4)	58.6	34.2	(0.6)	-	33.6
Changes in working capital	14.0	(21.7)	(7.7)	22.8	(0.8)	-	22.0
Net cash inflow from operations	225.3	15.3	240.6	209.7	5.4	-	215.1
Specific adjusting items	29.5	-	29.5	5.6	-	-	5.6
Underlying net cash inflow from operations	254.8	15.3	270.1	215.3	5.4	-	220.7
Net cash inflow from operations	225.3	15.3	240.6	209.7	5.4	-	215.1
Tax paid	(14.9)	(15.3)	(30.2)	(20.0)	(5.4)	-	(25.4)
Interest received	5.5	-	5.5	0.5	-	-	0.5
Interest paid	(9.9)	-	(9.9)	(1.5)	-	-	(1.5)
Net cash inflow from operating activities	206.0	-	206.0	188.7	-	-	188.7
Net cash outflow from investing activities	(464.4)	-	(464.4)	(81.6)	-	-	(81.6)
Net cash inflow/(outflow) from financing activities	159.7	-	159.7	(47.3)	-	(3.1)	(50.4)
Increase/(decrease) in cash and cash equivalents	(98.7)	-	(98.7)	59.8	-	(3.1)	56.7
Effect of foreign exchange changes	1.8	-	1.8	(1.8)	-	3.1	1.3
Free cash flow (as defined by the Group – see glossary)	126.5	-	126.5	110.0	-	-	110.0

* To be consistent with FY23, the prior year has been re-presented in respect of the cash flow impact of intercompany loan hedging.

Company balance sheet

For the year ended 31 March

All figures in £ million	Note	31 March 2023	31 March 2022
Non-current assets			
Investments in subsidiary undertakings	2	521.2	515.2
		521.2	515.2
Current liabilities			
Creditors: amounts falling due within one year	3	(78.0)	(75.4)
Net current liabilities		(78.0)	(75.4)
Total assets less current liabilities		443.2	439.8
Net assets		443.2	439.8
Equity			
Share capital	4	5.8	5.8
Capital redemption reserve		40.8	40.8
Share premium		147.6	147.6
Retained earnings		249.0	245.6
Total equity		443.2	439.8

The profit for the year ended 31 March 2023 was £41.3m (FY22: profit of £38.8m).

The financial statements of QinetiQ Group plc (company number 4586941) on pages 226 to 229 were approved by the Board of Directors and authorised for issue on 25 May 2023 and signed on its behalf by:

Steve Wadey
Group Chief Executive Officer

Carol Borg
Group 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 2022	5.8	40.8	147.6	245.6	439.8
Profit for the year	-	-	-	41.3	41.3
Purchase of own shares	-	-	-	(0.8)	(0.8)
Business divestment	-	-	-	(0.2)	(0.2)
Dividend paid	-	-	-	(42.6)	(42.6)
Share-based payments	-	-	-	5.7	5.7
At 31 March 2023	5.8	40.8	147.6	249.0	443.2
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

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

Notes to the Company Financial Statements

1. Accounting policies

The 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 Act 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

All figures in £ million	31 March 2023	31 March 2022
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	83.3	77.2
Capital contributions arising from share-settled liabilities	13.6	13.7
Total investment in subsidiary undertakings	521.2	515.2

The increase in investments in subsidiary undertakings in FY23 mainly relates to £6.1m 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

All figures in £ million	31 March 2023	31 March 2022
Amounts owed to Group undertakings	78.0	75.4

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 as at 31 March 2023 (2022: £21.0m) in the ordinary course of business. The company has also provided a guarantee of £337.6m as at 31 March 2023 (2022: £nil) in respect of the term loan.

7. Other information

Directors' emoluments, excluding Company pension contributions for the year to 31 March 2023 were £4.9m (FY22: £5.8m). 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 137 in the Directors' Remuneration Report.

The remuneration of the Company's auditors for the year to 31 March 2023 was £0.4m (FY22: £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 2023 was nil (FY22: nil).

Five year record

For the years ended 31 March (unaudited)		FY23	FY22 ²	FY21 ³	FY20	FY19 ⁴
EMEA Services	£m	1,179.3	1,059.2	939.9	797.4	687.7
Global Products	£m	401.4	261.2	338.3	275.5	223.4
Revenue	£m	1,580.7	1,320.4	1,278.2	1,072.9	911.1
EMEA Services	£m	137.1	135.6	118.6	100.6	96.8
Global Products	£m	41.8	1.8	33.2	32.6	28.1
Operating profit from segments¹	£m	178.9	137.4	151.8	133.2	124.9
<i>Operating profit margin from segments¹</i>	%	<i>11.3</i>	<i>10.4</i>	<i>11.9</i>	<i>12.4</i>	<i>13.7</i>
Statutory operating profit	£m	172.8	123.7	108.7	117.6	114.8
Underlying operating profit ¹	£m	196.3	143.6	151.8	133.2	124.9
Underlying profit before tax ¹	£m	189.7	142.2	149.9	132.2	124.0
Profit before tax	£m	192.0	125.9	142.6	123.1	123.2
Profit attributable to owners of the Company	£m	154.4	90.0	121.9	106.3	113.9
Underlying basic EPS ¹	Pence	26.5	20.6	22.1	20.0	19.7
Basic EPS	Pence	26.8	15.7	21.4	18.7	20.1
Diluted EPS	Pence	26.5	15.5	21.1	18.6	20.0
Dividend per share	Pence	7.7	7.3	6.9	6.6	6.6
Underlying net cash flow from operations ¹	£m	270.1	220.7	199.0	177.8	135.3
Net (debt)/cash as defined by the Group	£m	(206.9)	225.1	164.1	84.7	160.5
Average number of employees		7,443	6,911	6,874	6,267	5,994
Orders excluding LTPA amendments	£m	1,724.1	1,226.6	1,149.4	961.7	774.6

¹ Underlying measures are stated before specific adjusting items. Definitions of underlying measures of performance are provided on page 233. 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 FY22 has been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 38 for details.

³ FY21 was restated in FY22 due to a change in accounting policy in respect of software implementation costs.

⁴ FY19 was restated in FY21 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 2023	12 months to 31 March 2022
£/US\$ – opening	1.31	1.38
£/US\$ – average	1.21	1.36
£/US\$ – closing	1.24	1.31
£/A\$ – opening	1.75	1.81
£/A\$ – average	1.76	1.85
£/A\$ – closing	1.85	1.75

Treasury policy

The Treasury policy is 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 allows the use of financial instruments to manage and hedge business operational risks that arise on movements in financial, credit or money markets. 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 entity. Where cash flows are denominated in currencies other than the functional currency of the relevant trading entity, the policy is 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, currency swaps will be used to realign the hedge maturity. The maximum permitted hedge period is five years. Translation exposures arising from the consolidation of overseas subsidiaries in foreign currencies are not hedged.
- Interest rate risk – The Group's funding is largely in floating rate debt and subject to the adverse effects of changes in interest rates. The Group has a policy to fix no less than 30% and no more than 80% of the debt and spread the risk of fluctuations in interest rates. Options and similar open-ended instruments are not permitted to manage interest rate exposures.
- Financial credit and liquidity risk – Liquidity risk is managed to ensure funds are available to meet business needs and maximise return subject to counterparty and credit risks. Investments are permitted with institutions on an Approved Counterparty list and must not 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 and term loan of £338m both of which mature on 27 September 2025. The term loan has two one-year extension options.

The policies manage and control treasury risk in alignment with the Group strategy.

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, while 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 its home countries. Changes in tax legislation in these countries would impact 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 where the majority of the Group's business is undertaken and employees are based. Total corporation tax payments in the year to 31 March 2023 were £30.2m (2022: £25.4m restated).

The differential between the taxation expense and the tax paid in the year relates primarily to the impact of deferred tax movements, whereby the income statement bears tax charges and credits (e.g. on fixed assets or losses) but for which there is no corporation tax paid or recovered in the year. Together, these result in the cash paid being £7.4m less than the total expense charged to the income statement.

Glossary

AGM	Annual General Meeting
BBP	Bonus Banking Plan
CAGR	Compound Annual Growth Rate
C5ISR	Command, Control, Computers, Communications, Cyber, Intelligence, Surveillance and Reconnaissance
CGU	Cash Generating Unit
CMI	Continuous Mortality Investigation
CPI	Consumer Price Index
CR	Corporate Responsibility
DE&S	MOD's Defence, Equipment and Support organisation
DSP	Deferred Share Plan
DoD	US Department of Defense
EBITDA	Earnings before interest, tax, depreciation and amortisation
ECL	Expected credit loss
ED&I	Equality, diversity and inclusion
EDP	Engineering Delivery Partner
EMEA	Europe, Middle East and Australasia
EPS	Earnings per share
ESG	Environmental, Social, Governance
EST	Engineering, Science and Technical
FAR	Federal Acquisition Regulations
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FY	Financial year (ending 31 March)
GEV	Global Employee Voice
GHG	Greenhouse gas
HPSA	High Performance Share Award
IAS	International Accounting Standards
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IRAD	Internal research and development
KPI	Key Performance Indicator

LTI	Lost time incident
LTPA	Long Term Partnering Agreement – 25-year contract established in 2003 to manage the MOD's Test and Evaluation ranges
M&A	Mergers and acquisitions
MOD	UK Ministry of Defence
MSCA	Maritime Strategic Capability Agreement
PBT	Profit before tax
PPE	Property, plant and equipment
PPS	Prudential Platinum Scheme
QLT	QinetiQ Leadership Team
QTS	QinetiQ Target Systems
R&D	Research and development
RPI	Retail price Index
RSP	Restricted Share Plan
RDEC	Research and development expenditure credit
SIP	Share Incentive Plan
SONIA	Single Source Regulations Office
SOFR	Secured Overnight Financing Rate
SSA	Special Security Arrangement
SSRO	Single Source Regulations Office
SSSI	Site of Special Scientific Interest
STEM	Science, Technology, Engineering and Maths
T&E	Test and Evaluation
TSR	Total shareholder return
VCP	Value Creation Plan
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 operating profit from operating segments	Total operating profit from operating segments which excludes 'specific adjusting items' and research and development expenditure credits ('RDEC')	Note 3
Underlying operating margin from operating segments	Underlying operating profit from segments 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.	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, introduced in FY22, 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/(debt)	Net (debt)/cash as defined by the Group combines cash and cash equivalents with borrowings and other financial assets and liabilities, primarily available for sale investments, derivative financial instruments and finance lease 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; one-off period of Digital investment; tax impact of the preceding items and significant non-recurring tax and RDEC 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

Analysis of share register at 31 March 2023

By type of holder	Total number of holdings	Percentage of holders	Total number of shares	Percentage issued capital
Individual	5,235	89.89%	4,807,580	0.83%
Institutions and others	589	10.11%	573,949,541	99.17%
Total	5,824	100%	578,757,121	100%

By size of holding	Total number of holdings	Percentage of holders	Total number of shares	Percentage issued capital
1–500	3,871	66.47%	730,941	0.13%
501–1,000	467	8.02%	374,219	0.06%
1,001–2,500	542	9.31%	943,715	0.16%
2,501–5,000	302	5.19%	1,082,916	0.19%
5,001–10,000	157	2.70%	1,135,548	0.20%
10,001–100,000	214	3.67%	7,928,874	1.37%
Over 100,000	271	4.64%	566,560,908	97.89%
Total	5,824	100%	578,757,121	100%

Online:

Equiniti's website at help.shareview.co.uk (Shareview) includes answers to frequently asked questions and provides key forms for download. Shareview also offers online access to your shareholding where you can manage your account, register for electronic communications, see details of balance movements and complete certain amendments online, such as changes to dividend mandate instructions. You can register at www.shareview.co.uk, click on 'Register' and follow the steps.

Electronic communications

The Company will now only make documentation and communication available electronically via the Company's website, unless direct requests have been made otherwise. 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 2023 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

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

20 July 2023	Trading update
20 July 2023	Annual General Meeting
30 September 2023	Half-year financial period end
November 2023	Half-year results announcement
January 2024	Trading update
31 March 2024	Financial year end
May 2024	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 advisers

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Tel: +44 (0) 1252 392000
Company Registration
Number: 4586941

Independent auditors

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Registrar

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West Sussex, BN99 6DA

Corporate brokers

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London, EC2V 7BF

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