

QINETIQ

Delivering  
enduring  
operational  
advantage

**QinetiQ Group plc**

Annual Report & Accounts 2024

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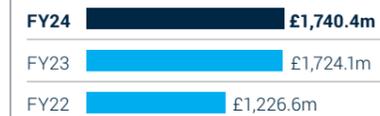
# Our performance

## Financial Highlights

### Orders

£1,740.4m ↑1%

FY23: £1,724.1m

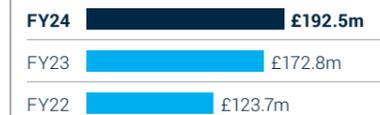


Book-to-bill ratio of 1.1x with 19% growth in orders excluding the 10 year, £260m Maritime Strategic Capability Agreement contract in FY23.

### Statutory operating profit

£192.5m ↑11%

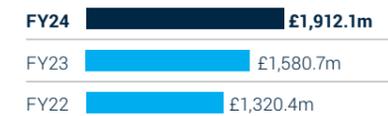
FY23: £172.8m



### Revenue

£1,912.1m ↑21%

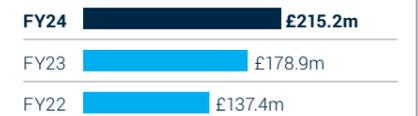
FY23: £1,580.7m



### Underlying\* operating profit

£215.2m ↑20%

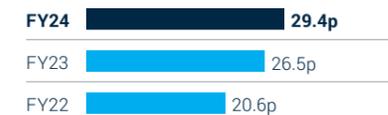
FY23: £178.9m



### Underlying earnings per share

29.4p ↑11%

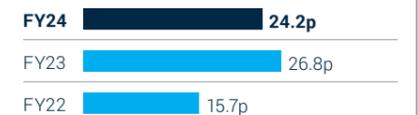
FY23: 26.5p



### Statutory earnings per share

24.2p ↓10%

FY23: 26.8p



\* 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

### Experimentation and technology

**DragonFire**  
 Achieved the UK's first high-power firing of a laser weapon against aerial targets using our advanced coherent beam-combining technology.

### Robotics and autonomous systems

**Robotic Combat Vehicle**  
 More than \$30m orders won in Robotic Combat Vehicle (RCV) Portfolio Programs and selection by US Army for Phase I, Platform Prototypes as part of Oshkosh Defense Consortium.

### Engineering services and support

**Engineering Delivery Partner**  
 Continuing to deliver customer benefits, we secured a further £472m of orders through this UK Defence Framework contract, taking orders over the first five years to £1.5bn.

### Test and evaluation

**Formidable Shield '23**  
 Successfully facilitated the Formidable Shield exercise designed to test ballistic missile defence capabilities of NATO and partner nations.

### Cyber and information advantage

**TARS**  
 Awarded \$170m contract by U.S. Department of Homeland Security (DHS) to deliver the Tethered Aerostat Radar System (TARS) program.

### Training and mission rehearsal

**JATTS**  
 Our Air Affairs team has seen a 24% increase in demand in flying hours through the Joint Adversarial Training and Testing Services (JATTS) contract for the Australian Defence Force.

**Neil Johnson**  
Non-executive  
Group Chair

# Delivering value for our customers, people and shareholders



//QinetiQ continues to provide critical expertise, protecting lives by serving the national interest of our customers – I'm proud of the important role we play in national defence and security, helping to make the world a safer place.//

We continue to see unrest and conflict across many regions of the world, demonstrating the important role of the defence sector. QinetiQ is critical to national defence and security, delivering world-class engineering and technology through our committed and inspirational people.

Alongside our customers, we continue to witness the remarkable pace of change of modern warfare. Such structural change, coupled with escalating tensions, has resulted in unprecedented levels of funding. In April, the UK Government announced an incremental £75bn of defence spending, the 'biggest strengthening of our national defence in a generation', with defence spending set to rise to 2.5% of GDP by the end of the decade. Such commitment, and transatlantic recognition of the requirement for greater investment, transcends party politics. It is increasingly apparent that we are at a turning point in terms of global security, with the consequences of inaction potentially catastrophic. Within this context, I am extremely proud of the critical and unique role we have in developing, testing and assuring cutting-edge systems that give our customers advantage on the battlefield. This, combined with the work we do to train our customers to use those enhanced sovereign defence capabilities in the land, sea, air, cyber and space domains, ensures they are able to protect and enhance their defence and security.

We have a clear and relevant strategy to drive meaningful outcomes for our customers, growth and opportunity for our people, and significant returns for our shareholders.

We continue to see increased demand for our six distinctive offerings with particularly strong progress in EMEA Services. Budget delays and market uncertainty has impacted the speed of growth in the US over the past year, whilst this was an area of risk identified at the point of the Avantus acquisition it has been challenging to offset these delays, impacting the overall Global Solutions segment this year. Despite these setbacks, at a Group-level we once again achieved good revenue growth and stable margins and remain confident in the future prospects of the business, which is well aligned to the planned structural growth areas of defence spending.

As a Board we continue to actively engage in the refinement and iteration of Company strategy – at our October 2023 Board meeting we engaged external experts from our main customers, partners and academia to review and consider the 10+ year view of the Company and its strategic direction. As part of this we remain focused on delivering for our customers, people and shareholders; both organically, and once current acquisitions are proven, with further acquisitions.

### Delivering for our customers, people and shareholders

We understand that excellent customer relationships are critical to our success. Ensuring we retain an engaged and committed workforce helps us to meet and exceed customer expectations. We actively engage as a Board with our people, and this year have enjoyed extensive interactions with our colleagues in Australia, the UK and the US, including a number of site visits.

I'm delighted to have engaged directly with a large number of shareholders in the last year, either via one-to-one meetings or through the completion of our Shareholder Perception Audit – all of these engagements have helped me and the Board to understand the views of our UK, US and European shareholders to shape our thinking and decision-making. We are pleased to demonstrate our balanced capital allocation policy with the commencement of the share buyback and, reflecting our confidence in the

future, an increase in our progressive dividend growth rate from 5% to 7%. The buyback represents an attractive use of our capital to drive shareholder value whilst maintaining the financial flexibility to invest in the ongoing execution of our strategy to deliver sustainable growth and attractive returns.

Sustainability remains an important area for consideration and debate, both within the business and at Board-level. In the past year we have retained our rating as a top-rated ESG company by Sustainalytics and our AA rating from MSCI. We have identified the most material issues for our business and monitor these as non-financial KPIs, where we are pleased to have seen improvements across safety (lost time incidents), employee engagement and Scope 1 and 2 greenhouse gas emissions.

### Board changes

On 16 April we announced that Carol Borg, Group Chief Financial Officer (CFO) would be stepping down immediately from her role. In her place we have appointed Martin Cooper and he is expected to join the QinetiQ Board no later than October. Martin is a qualified chartered accountant and has more than 25 years' experience leading multi-disciplinary teams in senior finance roles. He joins QinetiQ from BAE Systems where he held a number of positions including UK & Rest of World Financial Controller, Divisional Finance Director and most recently Investor Relations Director.

To enable a smooth transition in the interim period prior to Martin joining QinetiQ, Heather Cashin, currently the Group Financial Controller, has been appointed Interim Group CFO. David Smith, former Group CFO of QinetiQ, has agreed to provide advice and support services to Heather and the Board during the interim period.

In addition to the above, a few months ago I was delighted to announce two new Board appointments which further strengthens the breadth and depth of skills on the Board: Ross McEwan CBE and Dina Knight both joined the Board on 1 March 2024.

Ross has been Chief Executive Officer and Managing Director of National Australia Bank Limited (NAB) since December 2019 and will retire from NAB on 1 July 2024. Ross brings extensive global business experience at the highest level and his successful track record is recognised in both the UK and in Australia. Dina is Chief People Officer of global technology services and solutions provider Datatec Group and Logicalis International, accountable for its people operations and strategy. Dina is a seasoned HR professional and will bring a broad spectrum of corporate strategic experience to the role.

Susan Searle will remain as Chair of the Remuneration Committee for the time being to provide an extended handover to Dina, after which Susan Searle will step down as a Non-executive Board member. I would like to thank Susan for her invaluable contribution to both the Board and the QinetiQ Group.

Larry Prior took the decision to step down from the Board to be able to devote his time and focus to another corporate role. Larry's thoughtful advice and guidance to the Board and the business will be missed. During the coming year we will be looking at options for bringing a US perspective back onto the Board. 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.

Whilst not Executive-level appointments, I am also pleased to see the QinetiQ Leadership Team develop further, with the appointment of Iain Stevenson to the newly created role of Chief Operating Officer, and Will Blamey, as Chief Executive of our UK Defence sector. The new role of Chief Operating Officer will provide increased focus on the delivery of consistent operational performance across the Group as we continue to scale and grow.

Finally, I would also like to take this opportunity to thank Steve Wadey, our Group CEO, and all of the QinetiQ leaders and employees for pulling together to deliver for our customers and shareholders.

### Looking ahead

We are well placed to deliver our long-term growth and returns ambitions, with good customer relationships, strong employee engagement and positive support from shareholders for our strategy. I remain hugely impressed by the commitment, determination and focus of our people, living our values of Integrity, Collaboration and Performance on a day-to-day basis, making a real difference to defence and security around the world.

**Neil Johnson**  
Non-executive Group Chair  
23 May 2024

### Historical dividend payments



**Steve Wadey**  
Group Chief Executive Officer

# Strong Group performance



//We enter this year with strong momentum and increasing spending in our major markets, which gives us confidence to increase our guidance for FY25 and underpins our FY27 outlook of c.£2.4bn organic revenue at c.12% margin.//

We have delivered strong overall Group financial results, against the background of difficult market conditions in the US.

These results have been achieved through the outstanding skills and capabilities of our people working in partnership with our customers and supply chain. The world is experiencing the highest and most rapidly evolving threat environment for a generation and our teams have continued to deliver our highly relevant services and products, critical to enduring national defence and security priorities.

Since launching our strategy in 2016 to build a disruptive and uniquely integrated global defence and security company, we have grown our revenue by more than 2.5x, doubled earnings and now have more than 8,500 highly-skilled people across 60 sites globally. Our depth and breadth of expertise across the defence and security lifecycle helps our customers to rapidly create, test and use capability to stay ahead of the threat. Our cutting edge technology and innovation, allied with world leading expertise in science, technology and engineering, is critical to enabling our customers' mission.

Our strategy is structurally aligned and focused on enabling the shared security mission of our Australian, United Kingdom and United States (AUKUS) customers and their allies. Our six distinctive offerings<sup>1</sup> are highly relevant to the rapidly changing character of warfare and aligned to our customers' high-priority areas that are attracting increasing defence and security spending, most notably in Research & Development (R&D), Test & Evaluation (T&E), Training & Mission Rehearsal and Cyber & Intelligence.

For our people, we've made significant progress creating an environment where they can all thrive, with our highest ever level of employee engagement achieved this year. Having a highly skilled and engaged team, with an inclusive culture, enables us to deliver for our customers' mission with even greater agility and pace.

For our shareholders, we are focused on continuing disciplined execution of our strategy and are on-track to deliver our FY27 outlook of c.£2.4bn organic revenue at c.12% margin. With a strong balance sheet and enhanced focus on disciplined capital allocation, we are well positioned and have a clear strategy with optionality for investment in sustainable growth and further shareholder returns.

### Performance in the year

We delivered another year of strong overall Group operational and financial performance. Revenue growth was 21%, or 14% on an organic constant currency basis and underlying operating profit grew by 20%, or 16% on an organic constant currency basis, with stable margin at 11.3%. We continued our track record of high cash generation with underlying cash conversion at 104%, contributing to the reduction of our leverage (net debt to EBITDA) from 0.8x to 0.5x. Order intake achieved a record high of £1.74bn, with a book-to-bill of 1.1x and an order backlog of £2.9bn. As part of our enhanced capital allocation policy, we launched a value accretive £100m share buyback programme and have increased the growth rate of our progressive dividend from 5% to 7%.

### EMEA Services

EMEA Services delivered excellent growth, achieving 19% organic revenue growth with stable margin at 11.5%. This performance was driven by the strong execution of prior year orders and consistent operational delivery on our long-term contracts.

In the UK, service delivery partnerships remain the bedrock of our offering. Our large long-term Engineering Delivery Partner (EDP) contract has now delivered more than £1.5bn of orders since inception, enabling capability and sustainment of the majority of UK military systems; and we signed a Principles Agreement with UK MOD to extend the Long Term Partnering Agreement (LTPA) to 2033, where we test, trial, train and evaluate (T3E) national defence and security capabilities critical to mitigating global threats. Both of these contracts make a meaningful contribution to the sustainable performance and returns generated by EMEA Services. In addition, to accelerate the production of mission data for



the Royal Air Force, the SOCIETAS transformation programme has achieved full operating capability three months early. Also, in the UK we commenced support of the new AUKUS submarine programme through initial tasking as a capability partner. In Australia, as a leading provider within Team Nova, we secured a three year extension to our Managed Service Provider (MSP) contract to provide technical advisory services in support of the Australian Capability Acquisition and Sustainment Group; and we continue to successfully develop the high energy defensive laser system prototype in collaboration with the Defence Science and Technology Group. In Germany, we signed a significant, multi-year contract to provide aerial training and mission rehearsal services for their Armed Forces.

Strategic achievements include:

- **Formidable Shield for NATO** – Over three weeks in May 2023 at UK MOD Hebrides, we hosted Formidable Shield 23, one of the world's largest and most complex tests of naval and missile defences. The exercise saw over 20 ships, 35 aircraft, and nearly 4,000 allied military personnel from 13 NATO nations come together to test military platforms, missiles, and sensor systems against representative threat scenarios in realistic live-fire mission rehearsal exercises.
- **DragonFire for the UK** – In collaboration with the UK's Defence Science and Technology Laboratory (Dstl), MBDA and Leonardo, we demonstrated the capabilities of our world-leading beam combining technology with the UK's first high-power firing of a laser weapon against aerial targets. Subsequently, the MOD has recently announced that the cutting-edge DragonFire laser directed energy weapon system will be installed on Royal Navy warships for the first time from 2027, far sooner than previously envisaged.
- **Joint Adversarial Training and Testing Services (JATTS) for Australia** – The JATTS contract supports our ambition to double the size of the Australian business over the next four years through training support to the Australian Defence Force with 'enemy' force aircraft and aerial targets. In the year we achieved a 20% increase in aircraft flying hours and 90% more aerial target missions than originally planned. A notable highlight was providing our threat representation services into the Talisman Sabre training exercise involving 13 allied nations and involving 30,000 military personnel.

With strong visibility, and a pipeline of significant opportunities, our confidence remains high that EMEA Services will continue to support the sustainable growth of the Group.

### Global Solutions

Global Solutions was impacted by difficult market conditions in the US, with recent headwinds including one of the longest periods of Continuing Resolution on record. Overall, revenue was up 23%, declining 3% on an organic basis, with margin remaining stable at 10.5%.

Avantus delivered a high single digit revenue decline over the course of the year. However, the business achieved modest revenue growth in the second half, with double digit margin and cash conversion of c.100% over the full year. With the integration now complete, the benefits of Group synergies are now being realised with \$977m of total contract awards during the year and a funded book-to-bill of 1.2x. We remain confident of Avantus delivering value for shareholders and expect mid-single digit growth in FY25 before returning to double digit growth in FY26. Notable contract awards include a \$170m five year Tethered Aerostat Radar System (TARS) contract providing surveillance operations along the southern border of the US and its territories, a \$126m five year contract to provide technical, professional, and support services to the Office of the Secretary of Defense Strategic Capabilities Office (SCO), and a \$224m, five year, firm fixed price contract with the US Space Development Agency (SDA) to provide systems engineering and technical assistance support needed to deliver the Proliferated Space Warfare Architecture.

Revenue in the rest of Global Solutions was broadly flat for the year, due to the loss of the Optionally Manned Fighting Vehicle (OMFV) opportunity. We also saw the planned production ramp down of the Common Robotic System – Individual (CRS-I) small ground robots in the US, offset by QinetiQ Target Systems (QTS) achieving its highest ever production levels within the year in the UK. A significant step forward in the year was the successful certification of our Banshee target by the US Threat Systems Management Office, enabling market entry and opening up growth opportunities in FY25 and beyond.

### Formidable Shield



UK MOD Crown Copyright & LPhot Bradley

### DragonFire



UK MOD Crown Copyright 2024

### JATTS



£1.9bn

FY24 revenue

11.3%

FY24 operating profit margin<sup>2</sup>

104%

FY24 cash conversion

<sup>2</sup>: Underlying operating profit margin refers to operating profit from segments

Strategic achievements include:

- **Tethered Aerostat Radar System for the US** – We were awarded a five year \$170m TARS contract as a Prime System Integrator to the Department of Homeland Security providing persistent surveillance operations and sustainment along the southern border of the US and its territories. Upon award, we successfully transitioned eight operational sites in six weeks, hired 229 employees, negotiated union agreements, and the management of all critical services providers. We are on track to secure more than 10% on-contract growth in FY25 through expanded mission scope and capability enhancements, and have identified c.50% on-contract growth opportunities over the life of the programme.
- **Robotic Combat Vehicle Light (RCV-L) for the US** – Working alongside Oshkosh Defence, we were one of four awardees for the RCV-L full scale prototype contract from the US Army, following successful operational trials. The RCV-L solution works directly with warfighters on the ground providing an intelligence and reconnaissance platform used for forward scouting with the ability to carry lethal payloads. The prototype contract positions us well to compete for our share of the future development and production phases worth up to \$500m.

**TARS**



The appearance of U.S. government visual information does not imply or constitute U.S. government endorsement.

**RCV-L**



**NGABS**



- **Next Generation Advanced Bomb Suits (NGABS)** – A five year, \$83m contract for the testing and production of over 700 next generation advanced bomb suits for the US Army, demonstrating our ability to leverage our R&D into core capability.

With an attractively positioned portfolio of high priority capabilities, and the integration of Avantus complete, we are confident that Global Solutions is well placed to deliver a meaningful contribution to our FY27 organic revenue target of c.£2.4bn.

**Aligned with high priority needs**

Global tensions continue at elevated levels. In the Middle East, Houthi forces attempt to disrupt world supply lines and broaden the Yemeni civil war, whilst Iran has escalated the Israel-Hamas conflict, and Russian forces remain entrenched within Ukraine. China continues to provide a destabilising influence, notably in the Indo-Pacific, as does North Korea and transnational terrorist networks. As a result, Australia, the UK and the US, through the AUKUS security pact, and with their 5-Eyes and NATO allies, continue to review their evolving defence and security capabilities and investment priorities.

Given this heightened threat environment, levels of defence spending are expected to increase over the long-term. In the US, the Research, Development, Test and Evaluation (RDT&E) budget is the largest ever at \$145bn<sup>3</sup>. Governments in the UK and Australia intend to increase defence spending to c.2.5% of GDP over the long-term, with the UK ring-fencing 5% of the defence budget for R&D and 2% for exploitation. In total, our addressable market is estimated to be greater than £30bn<sup>4</sup> per annum. More broadly, a record 18 member countries are now set to meet NATO's target of spending 2% of their economic output on defence and security this year, a marked increase from 11 out of the 31 members a year ago.

These investment priorities are driving increasing spending in high-priority areas such as R&D, T&E, Training & Mission Rehearsal, and Cyber & Intelligence, to enable our customers to maintain and develop technological superiority in areas such as robotics, autonomy, directed energy, hypersonics, integrated sensing, cyber, advanced data analytics and artificial intelligence. We remain at the forefront of the adoption and integration of these new and emerging technologies with traditional defence capabilities, providing enhanced inter-operability between allied systems and enhancing our customers' operational effectiveness.

3: IN12209 (congress.gov)

4: Sources: Jane's Market Budget Forecast March 2023, UK MOD and US DOD forecasts, Australia Defence publications, QinetiQ estimates

A combination of our global reach and alignment to these high-priority high-growth areas provides confidence in the Group's ability to deliver organic revenue growth at double the rate of growth of national defence budgets, as we have done consistently over the past five years.

**Clear strategy delivering**

At this time of heightened geopolitical uncertainty and conflict, our purpose has never been more relevant: protecting lives by serving the national security interests of our customers. With a unique customer value proposition to rapidly create, test and train effective use of capability, we enable our customers to respond to their national and global security needs and counter the increasing threat at pace.

With a clear purpose and strategy, the Group is well positioned to deliver sustainable shareholder value. Our strategy has three inter-related components:

1. Delivering six distinctive and mutually supportive offerings: We co-create high-value differentiated solutions for our customers in experimentation, test, training, information, engineering and autonomous systems;
2. Applying disruptive and innovative technology and business models: We invest in and apply disruptive business models, digitisation and advanced technologies to enable our customers' operational mission at pace; and,
3. Leveraging those capabilities across our global operations: We are developing an integrated global defence and security company that leverages our capability in the UK, the US, Australia, Canada and Germany.

The disciplined execution of our strategy is building a global platform and delivering sustainable growth, underpinning our FY27 outlook to deliver c.£2.4bn organic revenue at c.12% margin. Our focus on our customers' high-priority areas, specifically Research and Development (R&D), Test and Evaluation (T&E), Training & Mission Rehearsal, and Cyber & Intelligence, provides confidence in our high single digit revenue growth guidance and is why our growth outpaces headline defence spending. Our strategy is further underpinned by a record order intake of £1.74bn with a backlog of £2.9bn, and an exceptionally strong pipeline of future growth opportunities worth more than £11bn over the next five years.

**Disciplined capital allocation**

Our strategy to deliver long-term sustainable growth is underpinned by an enhanced focus on disciplined capital allocation and execution. Given the highly cash generative nature of the Group, as well as the strength of the balance sheet, we continually assess the best risk adjusted opportunities to deploy capital to support shareholder returns.



We are continuing to invest in value accretive organic growth, with a focus on our people, technology and capability. This will be complemented by value accretive bolt-on acquisitions in time, following strengthened delivery and performance of our US platform and growth of Avantus.

Reflecting our confidence in the future prospects of the business, we have increased the growth rate of our progressive dividend from 5% to 7% and are returning excess cash to shareholders through the £100m share buyback programme announced in January.

Our strengthened balance sheet provides optionality for investment in growth and further shareholders returns.

**Sustainability**

In delivering our strategy, the single biggest contributor will be our people. Their safety, wellbeing and motivation is essential for our success.

We measure employee engagement each quarter and I was delighted that at the end of this year we achieved our highest ever employee engagement measure since introducing this metric five years ago. Since its introduction we have improved employee engagement by 19% and the loyalty measure by 25%, a fantastic achievement and symbolic of the inclusive culture we are growing.

We were deeply saddened by the fatal crash involving two aircrew on-board one of our PC-9 aircraft in the Neuenstein area of Germany whilst on a customer training exercise in September 2023. Our thoughts remain with the families and close colleagues. Although the formal investigations into this accident are ongoing, we do not believe that there was any contributory fault by the company.

We continue to make good progress on our Net-Zero plan. Our Scope 1 and 2 emissions have now reduced by 33% against our re-baselined FY20 base year, including a c.8% reduction in FY24, whilst some elements of our Scope 3 emissions, such as business travel, have increased as we have grown globally. With our strong focus on our Environmental, Social and Governance (ESG) agenda, we are ranked as one of the top ESG companies in the defence and security sector by Sustainalytics and we have retained our AA rating from MSCI.

**Leadership changes**

At the start of April, we announced that Carol Borg, Group CFO, and the Board together agreed that Carol would step down from her role. The Board and I were delighted to announce the appointment of Martin Cooper as Group CFO. Martin is a qualified chartered accountant with more than 25 years' experience leading multi-disciplinary teams in senior finance roles and is expected to join QinetiQ no later than October. To enable a smooth transition prior to Martin joining, Heather Cashin, previously Group Financial Controller, has been appointed Interim Group CFO.

Also in April, I was delighted to announce the appointment of Iain Stevenson to the newly created role of Chief Operating Officer. As an experienced senior business leader having previously led large business divisions in the defence and construction sectors, his skills will strengthen the delivery of consistent operational performance across the Group as we continue to scale and grow.

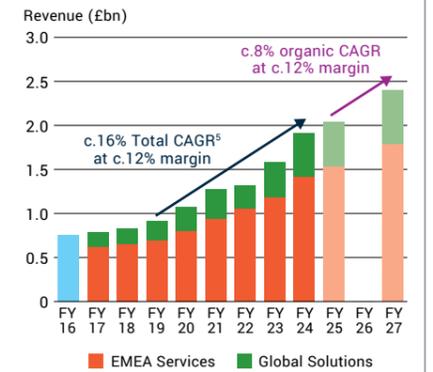
Finally, I was extremely pleased to confirm the internal promotion of Will Blamey to Chief Executive UK Defence. Will has played a critical role leading the successful development and delivery of major programmes, such as the LTPA.

These appointments will add strength and depth to our leadership team and further enhance our capabilities to execute our plan for sustainable growth.

**FY25 guidance increased and on-track to deliver FY27 outlook**

We enter FY25 with strong momentum, a healthy order book and increased visibility, with 64% revenue under contract. We expect FY25 to deliver high single-digit organic revenue growth, compared to FY24, at a stable operating profit margin.

We are on-track to achieve c.£2.4bn organic revenue at c.12% margin by FY27.



5: Compound annual growth rate

This will deliver an attractive return on capital employed at or above the upper end of the 15-20%+ range.

Cash conversion will remain high at 90%+, with capital expenditure within the £90m to £120m range. Our strengthened balance sheet provides optionality, through disciplined deployment of capital, for bolt-on acquisitions to compound growth at 11-12% margin and further shareholder returns.

**Summary**

I am pleased with the significant progress we have made in FY24, delivering another year of strong Group operational and financial performance with stronger growth in EMEA Services and stable performance in Global Solutions. The company is well positioned with a clear strategy, underpinning our confidence in delivering sustainable growth and attractive returns for our shareholders.

Our strategy and distinctive offerings are uniquely relevant to our customers' mission within the current heightened threat environment. Everything we do is about delivering on our purpose: protecting lives by serving the national security interests of our customers. Our purpose continues to connect us all, giving us a sense of focus, direction and pride. We look forward to continuing to deliver for the benefit of all our stakeholders in the coming years.

**Steve Wadey**  
Group Chief Executive Officer  
23 May 2024

# Our strategy is increasingly relevant to respond to market dynamics

## Our purpose

Protecting lives by serving the national security interests of our customers

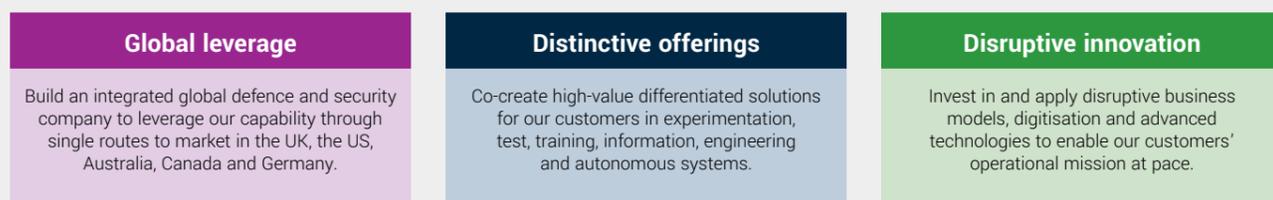
## Our vision

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

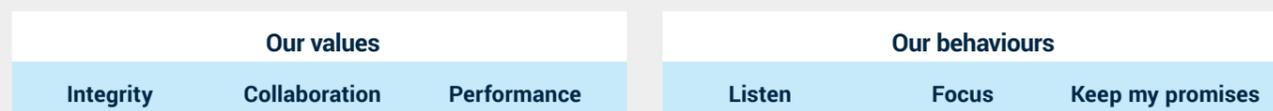
## Mission-led innovation



## Customer-focused growth strategy



## Creating a safe and secure environment for us all to thrive



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

# Customer focused growth strategy aligned with AUKUS shared mission



# Our business model

## Sources of value

### Our customer relationships

- **Understanding our customers' mission** We invest time in gaining a broad and deep understanding of our customers' mission, operations and challenges.
- **Gaining insights from operations** Through our training and mission rehearsal activities and in-service support experience, we gain unique and valuable insights into the operational context.
- **Collaborating and co-creating solutions** We put the customer at the heart of what we do. Collaborating with our customers, we innovate at pace and co-create value for money solutions.

### Our skills and knowledge

- **Deep technical expertise and know-how** Our highly skilled scientists and engineers apply their world-leading technical and domain expertise to deliver evidenced-based solutions, services and intelligence to our customers.
- **Understanding of threats and environments** Our capability to replicate realistic and dynamic threat environments enables us to evaluate system performance across the domains of cyber and information, land, maritime, air and space.
- **Broad knowledge of existing and emerging technologies** Our world leading experts apply their scientific and engineering knowledge across existing and emerging technologies, harnessing them for the benefit of our customers.

### Our partner relationships

- **Small to medium sized enterprises (SMEs)** In all our home countries, we have established relationships with a large network of SMEs, drawing on their specialist expertise and services to deliver value, agility and innovation.
- **Universities and research institutions** We actively engage and team with universities and research institutes to undertake collaborative research and development of new operationally relevant technologies.
- **Large defence and non-defence technology enterprises** We frequently form teaming relationships with a variety of large defence and non-defence companies, collaborating to deliver cutting-edge solutions to our customers.

### Our tools and techniques

**We invest in and maintain specialist tools such as facilities, aircraft, test ranges and software:**

- **Test facilities, aircraft and ranges** We operate some of the most advanced facilities and land, sea and air ranges in the world and manage live-fire exercises and rehearsals combined with digitally enabled infrastructure.
- **Datasets and models** We maintain and create extensive datasets and models to support the performance and evaluation of defence and security capabilities.
- **Digital engineering, innovation and transformation** We apply digital engineering techniques to accelerate innovation, improve efficiency and create new defence and security capabilities for our customers.

## Value we create



Delivering enduring operational advantage

## Value we deliver



### Our customers

Using our world-leading expertise we help our customers fulfil their defence and security needs. We are critical to the development, testing and assurance of cutting-edge systems and technologies essential to our customers' ability to maintain operational advantage.

**Our ability to add considerable value to customers was perhaps best demonstrated during Formidable Shield, with in excess of 20 ships, 35 aircraft, and c.4,000 Allied military personnel, from 13 NATO nations, involved in the test of missile defence capabilities.**

Image courtesy of UKMoD Crown Copyright & LPhot Bradley



### Our people

We are developing a culture that enables sustainable growth across our global business and supply chains. With world-leading engineers, scientists and technologists employed at QinetiQ we are focused on a high performance environment where all can thrive and deliver.

**This year we achieved the highest employee engagement score to date and delivered a breadth of development and growth opportunities for our people.**



### Our communities

We aim to make a positive contribution to the communities where we work. Our people volunteer and we support a number of charities across all our markets. We work with Armed Forces organisations and those which are aligned with the development of technology and STEM skills.

**Working with our Partner the Jon Egging Trust we have delivered interactive workshops to provide young people with insights into the range and value of apprenticeships (page 51).**



### Our shareholders

By focusing on our customers' needs and ensuring a disciplined approach to the management and governance of the Company, we aim to deliver sustainable and attractive returns to our shareholders.

**We engaged with our shareholders during the year through both physical/virtual roadshows, results presentations, the AGM and an Investor Day. Our Chair also engaged with shareholders to proactively seek their views on QinetiQ. This engagement was fundamental in the decision to instigate a £100m buyback programme.**



### Our partners

We forge partnerships with industry and academia to address the challenges of the current threat environment with agility. We form complementary partnerships to deliver the most effective solutions for our customers by, often managing large networks of small and medium-size enterprises.

**Supporting UK Home Office Accelerated Capability Environment (ACE), we continue to lead the Vivace Community consisting of over 350 organisations (75% SMEs and academia) to deliver cross-government impact at pace.**



### Our environment

We play our part in tackling climate change by reducing our greenhouse gas emissions. We are also developing and delivering solutions for our customers to support their sustainability ambitions.

**During the year we ran energy saving campaigns to help employees understand how to plan their part in our Net-Zero programme. (page 34).**

# Investment case



## Aligned strategic markets

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

- We are aligned to higher growth areas of the defence budgets, including sensors, communications, cyber, electronic warfare, autonomy and artificial intelligence
- We are a key partner to nations with shared defence and security interests, most significantly in the UK, Australia and the US, known collectively as AUKUS
- Our total addressable market is worth more than £30bn

>£30bn

addressable market

High single-digit

organic revenue growth to FY27+

## Increasingly threat relevant

**We have unique capabilities around the world critical to maintaining national defence and security, well aligned with customer priorities:**

- Unique position in the defence ecosystem, often in-between and alongside the end-customer and the prime equipment providers
- Involved across the lifecycle of defence systems, from early-stage research and development, through engineering services and support, complex test and evaluation capabilities, provision of advanced mission rehearsal, cyber security and data analytics and select niche defence and security products
- Key partner to sovereign nations providing world-leading technical expertise and state-of-the-art facilities, trusted by national defence agencies, with decades of project history and specialist capabilities
- A leader in advanced technologies with the ability to partner across industry and academia to deliver innovation at pace for our customers

£2.9bn

backlog underpins long-term revenue visibility

c.8,500

highly skilled employees

## Strong operational performance

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

- Long-term contracts and repeatable business: predictable and strong revenue visibility
- 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 clear capital allocation policy – investment to drive long-term growth
- Progressive dividend policy and buyback programme

90%+

cash conversion

21%

return on capital employed

## Investing in sustainable growth

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

- No exposure to controversial weapons
- AA Rated by MSCI and Top-Rated ESG company by Sustainalytics
- 33% reduction of our Scope 1 and Scope 2 emissions against our re-baselined FY20 base year
- Unique position to help our customers meet their ESG targets through advancements in technology

AA-rated

by MSCI

Top-rated ESG company

by Sustainalytics

# Themes driving market growth

## 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; and the Israel-Hamas conflict increasing further tension in the Middle East and threatening wider escalation in the region. These conflicts and ongoing tensions come at a time when many countries are holding national elections and this could potentially compound global uncertainty.**

**In parallel, rapidly emerging and evolving technologies continue to disrupt traditional business and society with both positive and negative outcomes including the creation of unprecedented vulnerabilities.**

**To meet these increasing challenges, Australia, the UK, the US and their allies continue to review their evolving defence and security capabilities and are increasing spending in high-priority areas aligned with our strategy.**

### 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 that have the potential to undermine Western superiority. In addition, digital-based threats continue to grow in sophistication and are often deployed in conjunction with more conventional capabilities.

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

### How are we addressing these 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 systems and platforms used to respond to these threats, to provide assurance.

#### 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 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 convert emerging technologies rapidly into assured deployable capability. We collaborate across the supply chain, but also form 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 multi-domestic strategy is aimed at developing sovereign defence capabilities within the countries in which we operate. The focus for growth is in our three home countries, Australia, the UK and US, where we are pursuing similar opportunities to support their shared defence and security missions. 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 Australian, UK 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.//

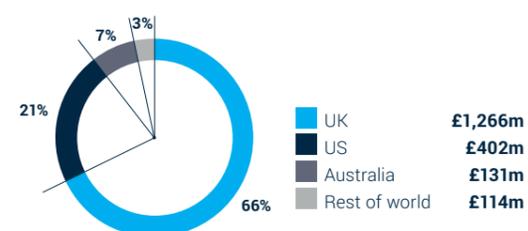


© Crown copyright

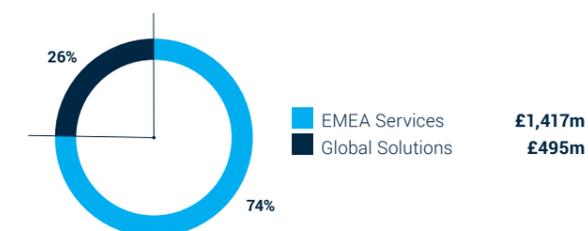
# Our >£30bn addressable market

Australia, the UK and US are our home countries and collectively represent 94% of our revenue.

Revenue by customer location



Revenue by division



## Australia

833 employees

9 sites



### Trading environment

In 2024, the Australian Government released the inaugural National Defence Strategy and Integrated Investment Program complementing the 2023 Defence Strategic Review. Recognising that the current environment demands a new approach to defending its national interests, there is a commitment to invest in conventionally armed, nuclear-powered submarines through a partnership between Australia, the UK and the US (AUKUS), alongside deepening cooperation on a range of advanced security and defence capabilities. The Defence Industry Development Strategy (DIDS) now articulates the defence industrial base required with Test and Evaluation, Certification and Systems Assurance (TECSA) forming one of the seven Sovereign Defence Industrial Priorities.

The consolidated Defence and Australian Signals Directorate funding for FY24/25 is estimated at AUD \$55.3bn<sup>1</sup>. In April 2024, the Australian Government announced that it will increase defence spending by \$50.3bn over the next decade, hitting \$100bn by 2033, or c.2.4% of GDP.

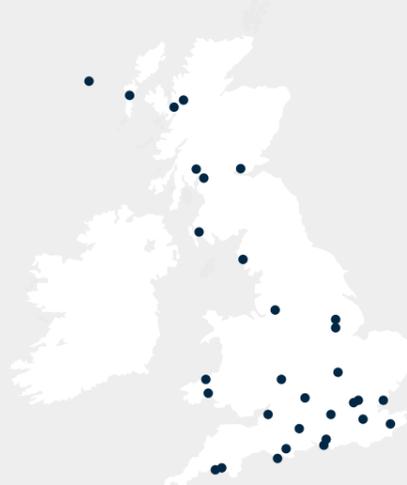


<sup>1</sup> Budget 2024-25 Budget Paper No. 1.4A, page 16

## UK

6,174 employees

32 sites



### Trading environment

A more contested and volatile international environment has reinforced the UK Government's commitment to increased defence spending. In April, the UK Government announced an incremental £75bn of defence spending over six years, with defence spending set to rise to 2.5% of GDP by the end of the decade - reaching £87bn a year in 2030. The Government states that "additional funding will be used to put the UK's defence industry on a war footing, deliver cutting-edge technology and back Ukraine against Russia"<sup>2</sup>. The new spending plan comes with a promise to spend at least 5% of the budget on R&D from next year, and another 2% to "support the exploitation of promising science and technology in military capability"<sup>3</sup>.

As the UK seeks to develop and deploy next-generation capabilities faster than its adversaries, we are well positioned to support our customers in applying mission-led innovation to achieve this.



<sup>2</sup> PM announces 'turning point' in European security as UK set to increase defence spending to 2.5% by 2030, 23 April 2024 (gov.uk)  
<sup>3</sup> Defending Britain 23 April 2024 (gov.uk)

## US

1,389 employees

14 sites



### Trading environment

The US continues to address the comprehensive and serious challenge of the People's Republic of China, while tackling the acute threat of a highly aggressive Russia, and increasing vigilance against the persistent threats of North Korea, Iran and transnational terrorist networks.

To support these aims, the Department of Defense funding for 2024 is \$841.4bn<sup>4</sup>. As part of this, the Research, Development, Test and Evaluation (RDT&E) budget is the largest ever at \$145bn<sup>5</sup>. Investment in critical technology areas aimed at strengthening technological advantage include directed energy, hypersonics, integrated sensing and cyber.

We serve our US customers' mission in the areas of Intelligence, Surveillance, Reconnaissance (ISR), mission operations, advanced cyber, information advantage, multi-domain autonomous solutions and systems and engineering and innovation.



<sup>4</sup> FY24 NDAA Bill Report (senate.gov)  
<sup>5</sup> IN12209 (congress.gov)

## Rest of the world

186 employees

5 sites



### Trading environment

During 2023 there has been a marked increase in global defence investment as many countries have re-evaluated their defence and security priorities as a consequence of the Russia-Ukraine war. The 2024 forecast for global defence spending stands at \$2.47tn<sup>6</sup>, which represents a 13% increase since 2022.

While priority and investment focus will be attached to the prosecution of our three home country strategies (Australia, UK and US), we continue to conduct business in the support of allied nations.



<sup>6</sup> Janes Defence Budgets, January 2024

# Segmental reporting

QinetiQ reports via EMEA Services and Global Solutions segments

We operationally manage the business through four operating sectors, each with their own Chief Executive and Leadership Team. This outlines how the sectors correlate with our external reporting framework and the financial results for each segment.

## EMEA Services

**Total revenue**  
**£1,417m**

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.

**UK Defence**  
**£825m**

**FY24 revenue**  
Our UK Defence sector provides test & evaluation, engineering assurance services, science & technology solutions, and enables training and mission rehearsal for our Air, Maritime and Land customers in the UK. It is a trusted partner throughout the acquisition lifecycle and provides services to international allies via our UK base capabilities.

→ Read more on page 23

**UK Intelligence**  
**£446m**

**FY24 revenue**  
The UK Intelligence sector helps government and commercial customers respond to fast-evolving threats based on its expertise in data and digital engineering (including Artificial Intelligence (AI) /Machine Learning (ML)), quantum, training and simulation, secure communication networks and devices, intelligence gathering, surveillance sensors and cyber security.

→ Read more on page 24

**Australia**  
**£146m**

**FY24 revenue**  
Our Australia sector delivers advisory and engineering services, threat representation and capability assurance services to customers in Australia and the rest of the world. This includes target services used for live-fire training and weapon systems test and evaluation, operational air-to-air training and special mission service delivery.

→ Read more on page 20

### Financial performance

Orders increased 7%, excluding the 10 year £260m MSCA order in FY23. Including MSCA in the strong FY23 comparator, orders decreased by 13% (organic and reported). The funded order backlog excluding LTPA ended the year at £1.4bn, with a book-to-bill ratio of 1.04x (FY23: 1.17x, excluding MSCA). There has been an increase in orders through the Engineering Delivery Partner (EDP) framework totalling £472m in FY24 (FY23: £404m), as well as an increase in the German business, which secured a significant, multi-year aerial training services contract, representing the single largest and longest contract award within our Threat Representation business.

Revenue increased by 20% to £1,417.4m (FY23: £1,179.3m), and grew by 19% on an organic basis, as a result of good growth in the UK, underpinned by new work as part of the EDP framework and a variation of price uplift on the LTPA.

At the beginning of FY25, we had £1.0bn of EMEA Services' FY25 revenue under contract, compared to £0.8bn (of the FY24 revenue) at the same point last year.

Underlying operating profit grew by 19% to £163.4m (FY23: £137.1m) in line with revenue growth. Operating margin remained stable at 11.5%.

Approximately 66% of EMEA Services revenue is derived from single-source contracts (FY23: approximately 64%). 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.

	FY24 £m	FY23 £m
Orders	1,193.1	1,372.2
Revenue	1,417.4	1,179.3
Underlying operating profit	163.4	137.1
Underlying operating margin	11.5%	11.6%
Book-to-bill ratio <sup>1</sup>	1.0x	1.4x
Total funded order backlog	2,551.7	2,768.8

<sup>1</sup> Book-to-bill (B2B) ratio is orders won divided by revenue recognised, excluding the LTPA non-tasking services revenue of £266m (FY23 £225m).

## Global Solutions

**Total revenue**  
**£495m**

Global Solutions combines our world-leading technology-based products and services. Our strategy is to expand the portfolio of solutions to win larger, longer-term programmes providing good visibility of revenue and cash flows.

**United States**  
**£407m**

**FY24 revenue**  
Our US sector provides design, rapid prototyping, systems engineering, integration and manufacture of defence mission solutions. It also delivers mission support, modernisation, enablement and operations, technical advisory, cyber and information advantage services for US Defense, Federal, Homeland and National Security customers.

→ Read more on page 27

**UK Defence, UK Intelligence and Australia Products**  
**£88m**

**FY24 revenue**  
The portfolio of our other products and solutions provides research services and bespoke technological solutions developed from intellectual property spun out from EMEA Services, and includes our threat representation product sales in QinetiQ Target Systems (QTS).

→ Read more on pages 23, 24 and 20

### Financial performance

Orders increased by 56% to £547.3m (FY23: £351.9m), 7% organically. This was driven by a growing order intake in the targets business and good order intake in the Avantis business.

Revenue was up 23% on a reported basis at £494.7m (FY23: £401.4m) due to the full-year impact of the Avantis acquisition. There was a small organic decline of 3%, with Avantis delivering high single digit revenue decline over the course of the year, but achieving positive revenue growth in the second half.

Revenue in the rest of Global Solutions was broadly flat for the year, impacted by the loss of the Optionally Manned Fighting Vehicle (OMFV) opportunity. We also saw the planned production ramp down of the Common Robotic System – Individual (CRS-I) small ground robots in the US, offset by the highest ever production levels in QinetiQ Target Systems (QTS) in the UK.

At the beginning of FY25, we have 52% of Global Solutions' FY25 revenue under contract, compared to 44% (of the FY24 revenue) at the same

point last year. In addition, we have a further \$150m of US contract awards in FY24, which are expected to be funded during FY25. This would increase revenue cover to 75% in FY25.

Underlying operating profit increased to £51.8 (FY23: £41.8m) due to the full-year impact of the Avantis acquisition, with a stable underlying operating profit margin of 10.5% (FY23: 10.4%). Organically, operating profit increased by 6%, driven by improved margins in the US business.

	FY24 £m	FY23 £m
Orders	547.3	351.9
Revenue	494.7	401.4
Underlying operating profit	51.8	41.8
Underlying operating margin	10.5%	10.4%
Book-to-bill ratio <sup>1</sup>	1.1x	0.9x
Total funded order backlog	321.3	301.5

<sup>1</sup> Book-to-bill (B2B) ratio is orders won divided by revenue recognised.

**Gary Stewart**  
Chief Executive  
Australia

# Australia

A specialist Australian advisory and engineering business with threat representation in the Australian, UK, German and Canadian markets.



//In my first year at QinetiQ, it has been great to learn and confirm the potential of the Australia Sector. We have a clear plan to expand our capabilities and relevance to our Australian and international customers, with a truly global team of 1,200 people operating in Australia, Canada, Germany and the United Kingdom.//

**Overview**

During the year we established a new leadership team, implemented an integrated operating model, adapted to the new Australian defence policy and priorities, and completed the integration of Air Affairs. Tragically, we lost two of our experienced and long-serving German pilots in a fatal aircraft crash while delivering training for the German military.

**Order Highlights**

The sector has performed well throughout the year. Order intake was impacted due to Australian customer delays arising from the Defence Strategic Review. However, we secured a number of strategic and long term orders, that position us well for the future.

- Our Advisory business obtained a significant, multi-year extension to deliver professional and technical services to major defence capability programmes in vehicles, maritime warfare, guided weapons, explosive ordnance, and aerospace surveillance and reconnaissance.
- Our German operation secured a significant, multi-year aerial training services contract, representing the single largest and longest contract award within our Threat Representation business.
- Our Canadian target systems operation entered an agreement with the Royal Canadian Navy and Defence Research and Development Canada (DRDC) to develop and supply a new Uncrewed Surface Vehicle. Joining the existing maritime target portfolio, this new multi-role boat will also feature remote autonomous operation with crewed and uncrewed functionality.

**Operational Highlights**

We continued to see demand for our technical engineering and advisory services in Australia, and global demand for our portfolio of aerial and maritime targets and mission rehearsal services. Notable operational highlights for the year include:

- Our UK target systems operation manufactured and delivered over 600 aerial targets, representing a 50% increase in volume.

- Our Engineering business invested in state-of-the-art facilities to support business growth. In Melbourne we established the QinetiQ Technology and Engineering Centre (QTEC), delivering a complex vehicle project for the Australian Army. In Adelaide we opened QLabs, providing critical capability in Directed Energy Weapons with the Department of Defence.
- Our MakerSpace programme added additional sites, helping the Australian Army create a culture of digital thinking and innovation.
- Substantial progress was made integrating the Air Affairs business acquired in December 2022. Now named QinetiQ Air Affairs (QAA), over the last year it was transformed from a local Australian specialist business into a key pillar of QinetiQ's global threat representation offering. QAA's achievements in FY24 have included participation in a number of international defence exercises and development of new training targets.

**QinetiQ Target Systems (QTS)**

Demand for QTS products led to the highest production levels ever during FY24. QTS will achieve the significant production milestone of 10,000 Banshee and 750 Hammerhead targets during FY25 and continues to innovate to meet the changing customer training needs and evolving threats.

QTS continues to make positive progress with customers such as the US Department of Defence, recently providing test and evaluation capabilities utilising the Rattler supersonic target to support the development of defensive high energy lasers in response to emerging and evolving threats.

QTS has delivered multi-domain threat representation, utilising both uncrewed aerial and maritime surface targets to present a realistic threat scenario for warships on pre-deployment training.

In Germany, QTS, working in collaboration with QinetiQ Germany as part of the newly established Threat Representation Business Unit, has delivered target services in support of the training and deployment of anti-aircraft systems.

**Case study**

## QinetiQ's multi-faceted contribution to regional security training

A range of offerings from QinetiQ Air Affairs were employed for Exercise Talisman Sabre 2023, the major military exercise involving Australia, the United States, along with their allies and regional partners.

QAA's Learjet capability was engaged to support various maritime strike operations. Learjet crews also flew threat representation profiles as aerial opposing forces from Darwin.

In a first in Australia, QAA's Remotely Piloted Aerial Target team carried out a number of Phoenix aerial target operations for the Japan Ground Self-Defense Force. Phoenix targets were used for radar tracking trials in preparation for the firing of a Type 12 Surface-to-Ship missile. Additional Phoenix target flights supported Surface-to-Air missile firings.

Finally, QAA provided a range of Learjet and helicopter aeromedical services to support military personnel participating in the exercise, with aircraft based in Weipa, Townsville and Bradshaw Range for rapid response evacuation support flights.

//QAA's engagement for Exercise Talisman Sabre 23 demonstrated the role we have in supporting a secure and prosperous Indo-Pacific region through our specialist capability in multi-domain threat representation and other aviation support functions.//

**Graham Ollis**  
Managing Director Threat Representation



## Case study

## UK's first high-power firing of a laser weapon against aerial targets

In collaboration with The Defence Science and Technology Laboratory, MBDA and Leonardo, we achieved the UK's first high-power firing of a laser weapon against aerial targets during a trial at the QinetiQ operated MOD Hebrides Range. This was an important step forward demonstrating the capabilities of QinetiQ's world-leading beam combining laser technology, and development of the enabling test and evaluation capability.

QinetiQ is investing in laser directed energy weapons and will continue to play a central role in the development, test and evaluation, and transition into operational capability of this UK sovereign capability.

//Investments with industry partners in advanced technologies like DragonFire are crucial in a highly contested world, helping us maintain the battle-winning edge and keep the nation safe.//

**The Rt Hon Grant Shapps**  
UK Secretary of State for Defence



**Will Blamey**  
Chief Executive  
UK Defence

## UK Defence

The UK Defence Sector is focused on protecting lives through innovative solutions for our Air, Maritime and Land customers.



//The UK Defence Sector has delivered a very successful year providing greater value and operational advantage to our customers in an increasingly challenging threat environment.//

**Overview**

The UK Defence Sector delivers mission critical solutions, innovating for our Air, Maritime and Land customers' advantage. The distinctive offerings across our customer base have delivered good revenue growth this year, whilst sustaining strong cash conversion and operating profit. Framework partnerships remain central to how we deliver customer value, with the EDP contract alone delivering over £1.5bn of orders in its first five years. Following a Principles Agreement with UK MOD for an extension option to jointly develop the LTPA test, trials, training and evaluation (T3E) capabilities beyond 2028, future prospects are well underpinned.

**Test, Trials, Training & Evaluation (T3E)**

Over three weeks in May 2023 at MOD Hebrides, we hosted Formidable Shield 23, one of the world's largest and most complex multi-domain tests of naval and missile defences. Operated by QinetiQ, the exercise saw over 20 ships, 35 aircraft, and nearly 4,000 allied military personnel from 13 NATO nations come together to test missiles, systems, sensors and software against representative threat scenarios in realistic live-fire mission rehearsal exercises.

We have secured significant orders to increase environmental testing capacity in support of the UK's Weapons stockpile resilience effort, and for further work at our Hurn vehicle testing capability. We delivered a complex synthetic training demonstration from Portsmouth Technology Park delivering collective training to three platforms docked at HM Naval Base in Portsmouth: HMS Queen Elizabeth, HMS Diamond and HMS Kent. This ability to train across multiple geographically dispersed units provides a step change in capability to the Navy.

**Engineering Services**

Demand remains strong for engineering services across a broad range of programmes, primarily as the Engineering Delivery Partner for MOD. Key achievements this year include securing:

- An initial task as Capability Partner in support of the new AUKUS submarine programme, and a greater role supplying specialist design services;

- Supply of further technical support services to the DE&S Catalyst delivery team for the Future Combat Air System (FCAS) programme;
- The Defence Science and Technology Laboratory (Dstl) funded Modular Integrated Protection System programme developing a new pan-fleet active protection system architecture for British Army vehicles.

**Science and Technology**

We have also been working closely with DE&S in support of the new acquisition reforms and investing in our enabling digital toolsets to deliver increased customer value from our engineering services.

In collaboration with Dstl, MBDA and Leonardo, we achieved the UK's first high-power firing of a Laser Directed Energy Weapon (LDEW) against aerial targets. This was an important step forward demonstrating the capabilities of QinetiQ's world-leading beam combining laser technology, and development of the enabling Test & Evaluation capability. The MOD has recently announced that the cutting-edge DragonFire laser directed energy weapon system will be installed on Royal Navy warships for the first time from 2027, far sooner than previously envisaged.

We also delivered the UK's first jet-to-jet crewed-uncrewed-teaming demonstration in March 2024 working in partnership with Dstl, the Royal Navy and the Air and Space Warfare Centre as part of the UK's Accelerating Air Autonomy Capability Experimentation programme. The trial showcased human machine teaming between a crewed aircraft and an autonomous drone; the UK's first jet-to-jet crewed-uncrewed-teaming demonstration.

During the 2023 NATO Robotic Experimentation Prototyping Augmented by Maritime Unmanned Systems (REPMUS) Exercise, we supported the Royal Navy leading a UK team delivering the experimental Command & Control exercises for the mission management of multiple uncrewed vehicles across a task group.

**James Willis**  
Chief Executive  
UK Intelligence

# UK Intelligence

Helping Government and commercial customers deploy mission critical capabilities at pace.



//The UK Intelligence Sector continues to serve as a key trusted partner to the UK Government, across the defence and national security mission. This is reflected in our strong financial performance during FY24, and will position us for further growth as the need for our C5ISTAR, training, & digital intelligence mission critical capabilities, to support customer operations, are continually in demand.//

## Overview

The UK Intelligence Sector utilises its unique domain knowledge across C5ISTAR (Command, Control, Communications, Computers, Cyber, Intelligence, Surveillance and Reconnaissance), allied to its research, innovation and applied engineering pedigree, to support UK Government in the development, assurance, integration and deployment of mission critical capabilities at pace. We are a key industry partner to the MOD, and continue to be well-placed to deliver critical digital change programmes over the coming years to Defence Digital (DD), Defence Intelligence (DI) and Defence Science and Technology Laboratory (Dstl).

Within the year, highlights include:

- SOCIETAS – 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. SOCIETAS continues to perform beyond expectations with the Full Operating Capability declared three months early.
- The establishment of the Training and Simulation Centre of Excellence at Farnborough providing increased support to Land (Army Virtual Proving Ground), Maritime (Type 23 and Type 45 training simulation systems) and the RAF, Dstl and secure cyber domains. This business area is growing strongly, achieving 30% revenue growth on prior year.
- New Style of IT (Deployed) (NSOITD) - We have continued our strong and enduring relationship with Defence Digital's successful NSOITD programme for over five years to a value of £107m, and have now secured another 12 months of support. Our offering enables the agile delivery of the nodes across Design, Engineering, Test and Integration and through engineering support to the Live Services.

## Operational highlights

We continue to demonstrate our ability to leverage our acquisitions for future success. Fully acquired in 2020, Naimuri demonstrated strong year-on-year orders growth exceeding 80%, and headcount growth to c.200 employees in the same time frame. Naimuri's portfolio has significantly diversified beyond National Security into Homeland Security, and UK MOD. Amongst the new orders were two sizeable three year contracts in Homeland Security, delivering two strategic aims: i) diversification of Naimuri's customer base; and ii) increase to the longevity of contracts. 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 and growth as part of the Northern Powerhouse.

UK Intelligence continues to evolve to ensure we have the capabilities and expertise in emerging technologies e.g. quantum technology. This is an emerging and disruptive capability covering quantum sensing, navigation and computing. We are building the capability through a mixture of internal investment and customer projects, and ensuring alignment with the UK's National Quantum Technology Programme.

Finally, 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.

# RIC

## Case study

### Rapid Innovation Cell within the Defence Intelligence Pillar

The Defence Intelligence Pillar (DI Pillar) was established over two years ago, and since its establishment has generated over £97m in revenue, of which £26.6m is focused on the Rapid Innovation Cell (RIC). The DI Pillar now encompasses 12 different thematic areas critical to DI. The Rapid Innovation Capability offers UK MOD a route to deliver exploitable innovation at pace. We are currently delivering approximately 30 commissions for a range of Defence customers, and across a range of technical and non-technical domains including the piloting of a reprogramming node at RNAS Yeovilton.

//As we've seen from the diversity of RIC users, the utility can extend beyond delivery of isolated innovation commissions, moving towards supporting in the wider delivery of the MOD's innovation strategy. This may include sharing of best practice, supporting triage of ideas with relevant technical input and aiding the evolution of innovation into operational capability.//

**Chris Walker**  
Managing Director, Cyber & Strategic Command



## Case study

## Robotic Combat Vehicle Light

QinetiQ US continues to enable human machine integration via the Robotic Combat Vehicle-Light (RCV-L) surrogate programme through collaboration with the US Army Futures Command (AFC), Next Generation Combat Vehicle Cross Functional Team (NGCV CFT), the Combat Capabilities Development Command's (CCDC), and Ground Vehicle Systems Centre (GVSC).

FY24 Highlights include continued delivery of 12 RCV-L platforms, development and integration of multiple capability upgrades, and ongoing support of user test and experimentation events.

After receiving multiple soldier centric upgrades, the RCV-L went through two training rotations with 11th Armored Cavalry Regiment "Black Horse" opposing force unit at the Fort Irwin National Training Centre during the summer of 2023.

//Black Horse has proved tremendously adaptive in how they have employed the robots.//

**Major General Glenn A. Dean**  
Program Executive Officer  
Ground Combat Systems

**Shawn Purvis**  
President & CEO  
United States

## United States

The combination of QinetiQ and Avantis to create a disruptive mid-tier US Defence and National Security business.



//The integration of Avantis generated positive momentum in the order book and sets the foundation to deliver mission led innovation in support of our customers' most critical mission needs.//

### Overview

Our US Sector provides design, development, rapid prototyping, systems engineering and integration and manufacture of speciality defence mission products and solutions related to robotics, autonomy, maritime and sensors. The integration of Avantis provided a complementary suite of services related to mission support, modernisation, enablement and operations, technical advisory, cyber, information advantage for US Defense, Federal, Homeland and National Security customers.

### Order and Operational Highlights

The US Sector had \$1.3bn of total contract awards during the year, including \$977m from Avantis. We have completed the integration of Avantis into a single operating model for the Sector and expect to benefit from market and operational synergies.

We won a \$223m, five year, firm fixed price contract with the US Space Development Agency (SDA) to provide systems engineering and technical assistance support needed to deliver the Proliferated Space Warfare Architecture, a threat-driven constellation of small satellites that deliver critical services to our warfighters from space. Services include tracking of advanced missile threats, low-latency data transport integrated with tactical data links, custody of time-critical land and maritime targets, and space-based battle management. During the autumn, our team supported SDA's successful demonstration of the first-ever Link 16 space to ground transmission.

We won a \$126m, five year, hybrid firm fixed price contract to provide technical, professional, and administrative support services to the Office of the Secretary of Defense Strategic Capabilities Office (SCO). This award builds upon our existing work within SCO and supports SCO's mission to analyse and accelerate the development, demonstration, and transition of capabilities to counter strategic adversaries and improve the United States security posture in peacetime, crisis, and conflict.

We won a \$170m, five year, firm fixed price Tethered Aerostat Radar System (TARS) Operations & Maintenance contract with the US Department of Homeland Security, Customs and Border Protection and Air and Marine Operations. The team provides persistent surveillance operations and sustainment services at eight sites along the southern border of the United States and territories, spanning from Arizona to Puerto Rico. Services include, air-surface radar operations, ground control and data networking systems monitoring, and data fusion and analysis as an integral part of the mission to detect, sort, intercept, track, and apprehend criminals in diverse environments at and beyond the US borders.

We secured \$2.7m of incremental funding on an existing contract to build and test the Electromechanical Actuator Power Conditioner and Controller (EPCC) for ten shipsets for the Virginia class submarine programme as an extension of our previous design and development effort. The EPCC is a rack of hardware and software designed to control precision actuators as part of the weapon stowage and handling system. In FY24, we have successfully delivered the first two shipsets.

We won a five year indefinite delivery, indefinite quantity (IDIQ) contract for \$83m to deliver the Program of Record Next Generation Advanced Bomb Suit (NGABS) for Product Manager Soldier Protective Equipment. QinetiQ's technology increases the situational awareness through advancement in its low/no light operation integrated capability provided by a Modular Sensor Suite and Heads Up Display.

**Heather Cashin**  
Interim Group  
Chief Financial Officer

# Overview of full year results



//Another year of strong cash generation has enabled us to return additional capital to shareholders.//

## Strong organic growth at stable margins

**The Group has delivered strong growth and underlying performance across all metrics, reflecting continued disciplined execution of our strategy.**

Consistently strong cash generation contributed to net debt to EBITDA falling to 0.5x (FY23: 0.8x). We have increased the growth rate of our progressive dividend from 5% to 7%, growing the distribution to 8.25p per share (FY23: 7.70p).

The Group achieved record orders in the year, totalling £1,740.4m (FY23: £1,724.1m), a year-on-year 1% increase and a book-to-bill of 1.1x. This is on the back of a very strong prior-year comparator, which included the 10 year £260m Maritime Strategic Capability Agreement (MSCA) contract. Excluding the MSCA contract, orders were up 19%; orders declined 10% organically with MSCA included. We have secured major orders across both of our operating segments. Within EMEA Services we secured £1,193m of orders, including a £54m variation of price uplift to the LTPA, a £39m extension to our Battlefield and Tactical

Communications & Information Systems (BATCIS) contract and a significant multi-year aerial training services contract in Germany.

Within Global Solutions, FY24 orders were £547m, a 56% increase on a reported basis and 7% organic. The drivers of this performance are an 18% increase in our QTS business to £68m, together with a significant increase in funded orders through the US business as a result of the Avantus acquisition in FY23.

In the US, the total value of contract awards was \$1.3bn. Of this, \$571m has been funded and is reported within the Global Solutions order intake. The remaining \$729m represents unfunded orders, which are contract awards for which funding has not yet been appropriated or authorised.

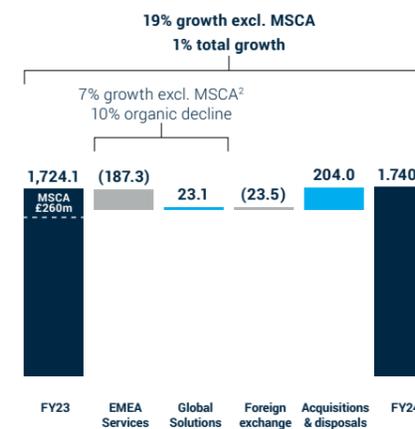
Highlights include a \$46m funded order for our Electromagnetic Aircraft Launch System (EMALS) and Advanced Arresting Gear (AAG) systems for the US Navy's CVN 81 aircraft carrier, and a five year contract worth \$83m for the Next Generation Advanced Bomb Suit (NGABS) (\$34m funded and \$49m unfunded). We secured contract awards for a five year contract with the Secretary of Defense Strategic Capabilities Office

## Financial performance

(£m)	Underlying* results		Statutory results	
	FY24	FY23	FY24	FY23
Revenue	1,912.1	1,580.7	1,912.1	1,580.7
Operating profit <sup>1</sup>	215.2	178.9	192.5	172.8
Profit after tax	169.6	152.9	139.6	154.4
Earnings per share (p)	29.4	26.5	24.2	26.8
Full year dividend per share (p)	8.25	7.70	8.25	7.70
Funded order backlog	2,873.0	3,070.3		
Orders	1,740.4	1,724.1		
Net cash inflow from operations	320.2	270.1	294.1	240.6
Net (debt)/cash	(151.2)	(206.9)		

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

## Orders bridge<sup>1</sup> (£m)



## Revenue growth (£m)



## Underlying operating profit from segments (£m)



1 Book-to-bill ratio is orders won divided by revenue recognised, excluding LTPA revenue of £266m (FY23: £225m)  
2 MSCA 10 year £260m contract in FY23

(SCO) for \$126m (\$14m funded and \$112m unfunded), a \$223m contract award for Space Development Agency (SDA) support (\$43m funded and \$180m unfunded), and a five year Tethered Aerostat Radar System (TARS) Operations & Maintenance contract with a total contract value of \$170m (\$16m funded and \$154m unfunded).

Funded order backlog remains strong at £2.9bn, or £3.7bn including unfunded orders, providing good visibility going forward:

- In EMEA Services the total funded order backlog was £2.6bn (FY23: 2.8bn). The reduction in the backlog is due to the delivery of non-tasking revenue (c.£266m per annum) within the Long-term Partnering Agreement (LTPA). This is a large multi-year contract that was booked in prior years and as we deliver this will naturally reduce the LTPA order backlog. Outside of the LTPA, backlog has remained broadly stable at £1.4bn (FY23: £1.5bn).
- In Global Solutions the total funded order backlog grew from £302m in FY23 to £321m in FY24. Our US unfunded order backlog grew from \$245m to \$974m driven by the contracts referenced above.

At the beginning of FY25 approximately £1.3bn of the Group's FY25 revenue was under contract, compared to £1.1bn (of the FY24 revenue) at the same point last year. In addition, it is anticipated that \$150m of unfunded orders will be funded during FY25.

We delivered strong revenue growth of 21% to £1,912.1m (FY23: £1,580.7m), 14% on an organic basis, demonstrating increasing demand for our six distinctive offerings. We saw a 19% organic revenue increase in EMEA Services primarily due to good growth in the UK, underpinned by new work as part of the EDP framework (delivering 28% revenue growth within the framework) and a variation of price uplift on the LTPA. Global Solutions revenue decreased by 3% organically with Avantus delivering high single digit revenue decline over the course of the year. Revenue in the rest of Global Solutions was broadly flat for the year, impacted by the loss of the Optionally Manned Fighting Vehicle (OMFV) opportunity. We also saw the planned production ramp down of the Common Robotic System - Individual (CRS-I) small ground robots in the US from \$40.2m in FY23 to \$13.8m in FY24, offset by the highest ever production levels in QinetiQ Target Systems (QTS) in the UK.

Operating profit from segments of £215.2m (FY23: £178.9m) was up 20%. This represents a stable 11.3% operating margin (FY23: 11.3%), consistent with our guidance range of 11-12%. The largest contributions to year-on-year growth were the full-year impact of the Avantus acquisition and organic revenue growth at stable operating margin in EMEA Services.

To ensure consistency and clarity on our headline profit figures, our headline profit figure remains as operating profit from segments and excludes any benefit arising from RDEC income (which was previously reported within the tax line prior to FY23). Statutory operating profit was £192.5m (FY23: £172.8m), including the impact of specific adjusting items and RDEC income. Underlying RDEC income increased to £27.2m (FY23: £17.4m) due to the increase in the applicable rate.

Underlying profit before tax increased 16% to £227.0m (FY23: £189.7m) in line with the increase in underlying operating profit, with underlying net finance expense at £15.4m (FY23: £6.6m). Underlying net finance expense increased due to the full-year impact of interest payable on the term loan drawn down to fund the Avantus acquisition.

**Specific adjusting items**

The total impact of specific adjusting items (which are excluded from underlying performance due to their distorting nature) on operating profit was a £49.9m cost (FY23: cost of £23.5m).

Acquisition and disposal costs of £2.7m (FY23: £16.4m) comprises costs associated with an aborted acquisition attempt during the year, as well as a number of ongoing disposal projects. Acquisition-related remuneration relates to specific post-deal retention arrangements relating to Avantus employees. Acquisition integration costs of £5.3m (FY23: £2.0m) comprises costs associated with the Avantus and Air Affairs acquisitions which were completed in H2 of FY23.

We continue to deliver on our discrete investment project to build our digital platform to enable our global growth strategy and our AUKUS customers' needs. The project runs for a further three years and we expect an additional c.£35m of non-recurring costs to 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 FY24 the non-recurring cost of the digital investment project was £16.9m (FY23: £5.8m).

FY23 included exceptional restructuring costs of £5.0m, as part of the significant Group-wide organisation redesign, and a £19.6m credit in respect of UK MOD appropriation for RDEC, following a determination by the Single Source Regulations Office on the interpretation of the Statutory Guidance for Allowable Costs regulations. The accounting judgement remains that RDEC on single-source contracts from 1 April 2019 onwards will not be paid on to the UK MOD, which was a change from the accounting judgement at the FY22 year end.

Also included within specific adjusting items are a gain on the sale of property of £2.1m (FY23: £2.0m), financing income from pensions of £5.6m (FY23: £9.9m), impairment of right-of-use lease assets in the US following space relocation of £0.7m, and amortisation of acquisition intangibles of £25.2m (FY23: £15.6m). Amortisation of acquisition intangibles has increased due to the amortisation of new intangible assets recognised on the FY23 acquisitions (primarily the Customer Relationships asset associated with Avantus). FY23 also included a gain on disposal of the Space NV business in Belgium of £15.9m.

	FY24 £m	FY23 £m
Acquisition, integration and disposal costs	(9.2)	(18.7)
Digital investment	(16.9)	(5.8)
Restructuring costs	–	(5.0)
Release of RDEC MOD appropriation liability	–	19.6
Gain on sale of property	2.1	2.0
Impairment of property	(0.7)	–
Amortisation of intangibles arising from acquisitions	(25.2)	(15.6)
Gain/(loss) on disposal of business	–	15.9
Pension net finance income	5.6	9.9
<b>Total specific adjusting items gain/(loss) before tax</b>	<b>(44.3)</b>	2.3

**Cash management and capital allocation policy**

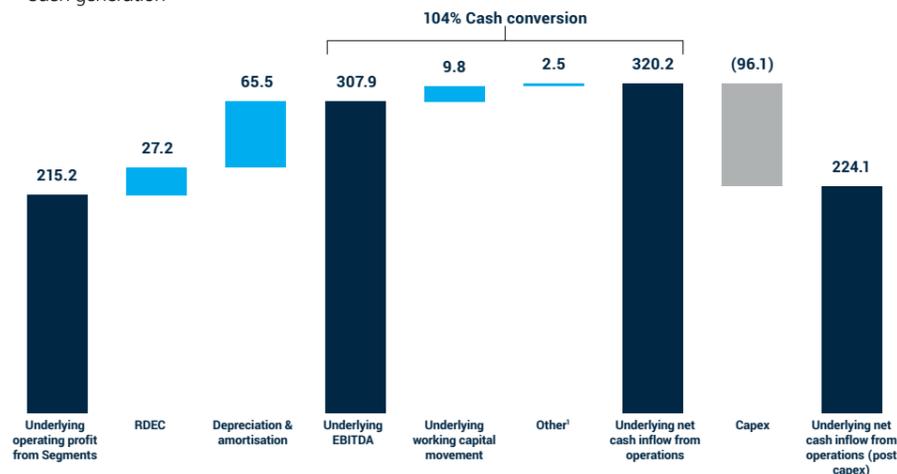
Working capital management and overall cash performance has remained robust, with a particularly strong performance in the second half.

Underlying net cash flow from operations was £320.2m (FY23: £270.1m). Our cash conversion definition reflects our pre-capital expenditure cash flows as a proportion of EBITDA to demonstrate how we convert our profit (excluding interest, tax, depreciation and amortisation) into cash flow – under this definition we achieved consistent underlying cash conversion of 104%, (FY23: 106%).

As at 31 March 2024 the Group had £151.2m net debt, reduced from £206.9m as at 31 March 2023 due to the strong operating cash conversion during the year. During the year, we have successfully reduced leverage to 0.5x (31 March 2023: 0.8x).

**Cash flow bridge (£m)**

Cash generation



<sup>1</sup> Other movements driven by share based payments, pensions impacts and provision movements

Through FY24 we have demonstrated our capital allocation policy in action:

- Invest in our organic growth – net capital expenditure of £96.1m (FY23: £109.0m), focused on contractual commitments (39% relating to customer funded contracts including £37m into the LTPA), sustainment of the portfolio and investment to support future growth
- Complement with value accretive acquisitions – successful integration of Avantus and Air Affairs with focus on proving delivery performance and growth
- Provide a progressive dividend to shareholders – increase in the year-on-year growth rate from 5% to 7%
- Return of excess cash to shareholders – £100m share buyback programme, with £16m completed by the end of March

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

**Tax**

The total tax charge was £43.1m (FY23: £37.6m). The underlying tax charge was £57.4m (FY23: £36.8m), on a higher underlying profit before tax, with an underlying effective tax rate of 25.3% for the year ending 31 March 2024 (FY23: 19.4%), increased from the prior year due to the change in UK statutory rate. The underlying effective tax rate is above the UK statutory rate of 25% (FY23:19%) primarily as a result of higher overseas tax rates and non-deductible overseas interest, offset by prior year adjustments to returns.

The underlying effective tax rate is expected to remain marginally above the UK statutory rate, subject to the impact of any tax legislation changes and the geographic mix of profits. The Group has engaged with advisers to assess any potential impact on the tax charge by the UK's enactment of the OECD's Global Anti-Base Erosion Model Rules (Pillar Two). The Group performed an assessment of the potential exposure to Pillar Two income taxes based on current period data. The Group understands it qualifies for one of the transitional safe harbours provided in the rules in all territories in which it operates. Therefore, the Group does not anticipate a material impact from Pillar Two legislation in the near future. The Group has applied the temporary exemption issued by the International Accounting Standards Board from the accounting for deferred taxes under IAS12 and neither recognises nor discloses information about deferred taxes related to Pillar Two income taxes. The Group does not anticipate a material quantitative impact from Pillar Two legislation, however, there are expected to be significant compliance obligations.

**Committed facilities**

The Group has a £336m Term Loan split into two tranches: GBP Term Loan £273m (Tranche A); and, USD Term Loan £63m (Tranche B), which will mature on 27 September 2026 and has a one year option to extend the final maturity to 27 September 2027. In line with Group policy, £270m (c.80%) of the floating rate debt has been fixed using SONIA interest rate swaps split over a three year and five year tenure at a weighted average rate of 3.29%. Including all fees and charges, the weighted average cost of debt is 5.21%.

At the year-end, the Group had a £275m bank revolving credit facility with an additional 'accordion' facility to increase the limit up to £400m. The facility was due to mature on 27 September 2025 and was undrawn at 31 March 2024. The facility was refinanced on 22 April

2024 and replaced with a new £290m facility, which will mature on 22 April 2027. It has two one year extension options to extend the final maturity date to 22 April 2029. It provides the Group with significant scope to execute its strategic growth plans.

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. The banks have been selected for their capabilities in our home countries to support our business.

**Return on Capital Employed (ROCE)**

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 underlying 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 FY24 Group ROCE was 21% (FY23: 23%), modestly lower due to the full-year impact of the increased capital employed with the acquisitions completed in the prior year. As we continue to invest in our business to support sustainable long-term growth, our ROCE is forecast to remain attractive, at or above the upper end of the 15-20%+ range, excluding the impact of any further acquisitions.

**Earnings per share**

Underlying basic earnings per share increased by 11% to 29.4p (FY23: 26.5p) driven by the higher underlying profit after tax. Basic earnings per share for the total Group (including specific adjusting items) reduced 11% to 24.2p (FY23: 26.8p), with the prior year including the gain on disposal of the Space NV business and the release of the liability for the MOD appropriation of RDEC.

The average number of shares in issue during the year, net of treasury shares and as used in the basic earnings per share calculations, was 577.0m (FY23: 575.9m). There were 573.5m shares in issue at 31 March 2024, reduced due to the ongoing share buyback.

**Dividend**

The Board proposes a final FY24 dividend per share of 5.65p (FY23: 5.30p) making the full-year dividend 8.25p (FY23: 7.70p). The full-year dividend represents an increase in the Group's progressive dividend from 5% to 7%.

Subject to approval at the Annual General Meeting, the final FY24 dividend will be paid on 22nd August 2024 to shareholders on the register at 26th July 2024.

**Pensions**

The triennial valuation of the Scheme was undertaken as at 30 June 2023 and resulted in an actuarially assessed surplus.

The net pension asset under IAS 19, before adjusting for deferred tax, was £18.4m (31 March 2023: £119.8m). The key driver for the decrease in the net pension asset since the March 2023 year end was an actuarial adjustment following recalibration of demographic and financial assumptions to the recently completed 30 June 2023 triennial valuation.

The next triennial valuation will be performed as at 30 June 2026. Under the new schedule of contributions agreed, and reflecting the Scheme being in surplus, there are no deficit reduction employer contributions required.

During the year the pension fund took out a loan of £125m to facilitate an increase in the level of hedging in place. This has increased the hedges to cover approximately 80% of the interest rate risk and 85% of the inflation rate risk as at 31 March 2024, as measured on the Trustees' gilt-funded basis. The loan will be repaid in tranches by FY27 using proceeds from the realisation of investments.

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

**Net finance costs**

Net finance expense was £9.8m (FY23: income of £3.3m). The underlying net finance expense was £15.4m (FY23: £6.6m), increased due to a full year of interest payable on the Avantus funding borrowings, with additional income of £5.6m (FY23: £9.9m) in respect of the defined benefit pension net surplus reported within specific adjusting items.

**Heather Cashin**

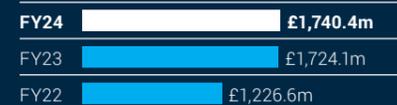
Interim Group Chief Financial Officer  
23 May 2024

→ 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 198.

# Financial KPIs

## Orders

£1,740.4m



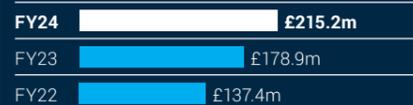
**Description**  
This is the level of new orders and amendments to existing orders booked in the year.

**Performance this year**  
Orders increased by 1%, or 19% excluding the MSCA contract in the prior year. On an organic basis EMEA Services declined 14% whilst Global Solutions grew 7%.

**Link to strategy**  
Enables us to assess the execution of our strategy to grow the Group. Order intake is used as a metric for the Annual Bonus Plan.

## Underlying operating profit\*

£215.2m



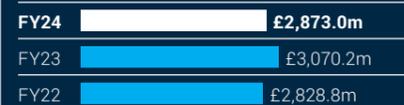
**Description**  
The earnings before interest and tax, excluding all specific adjusting items.

**Performance this year**  
Increased by 20%, driven by the full year impact of the Avantus acquisition in Global Solutions and organic revenue growth at stable margins in EMEA Services.

**Link to strategy**  
Used for performance analysis as a measure of operating profitability. Specific adjusting items are excluded because their size and nature mask the true underlying performance.

## Backlog

£2,873.0m



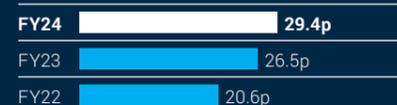
**Description**  
This represents the total future revenue currently on contract.

**Performance this year**  
Backlog decreased to £2.9bn in year due to the expected reduction in the LTPA as the backlog naturally decreases over the course of the contract.

**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

29.4p



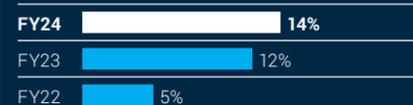
**Description**  
The underlying earnings, net of interest and tax, excluding all specific adjusting items, expressed in pence per share.

**Performance this year**  
Increased by 11% to 29.4p due to the increase in underlying profit after tax, driven by organic and inorganic revenue growth at stable margins.

**Link to strategy**  
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

14%



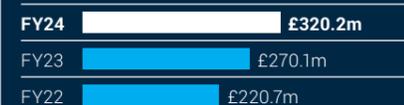
**Description**  
Calculated by taking the increase in revenue over prior year, at constant exchange rates excluding the impact of acquisitions and disposals.

**Performance this year**  
Grew 14% due to 20% organic growth in EMEA Services offset by 3% organic decline in Global Solutions.

**Link to strategy**  
Demonstrates the Group's ability to grow market share within its chosen markets. Delivering long-term sustainable growth reflects the successful execution our strategy.

## Underlying net cash flow from operations

£320.2m



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

**Performance this year**  
Growing 19%, reflecting higher underlying operating profit and consistent operating cash conversion of 104%.

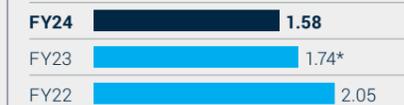
**Link to strategy**  
A measure of the ability to generate cash from operations. Gives an indication of the ability to make discretionary investments and pay dividends.

\* Definitions for the Group's 'Alternative Performance Measures' can be found on page 200. Underlying operating profit refers to operating profit from segments. See note 3 for details.

# Non-Financial KPIs

## Health and safety (LTI)

1.58



**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.

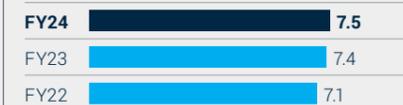
\* FY23 data have been restated (previously published as 1.20) following a data improvement programme.

**Performance this year**  
Our LTI decreased to 1.58 in FY24 from 1.74 in FY23, supported by our EHS Strategy and Safety Improvement Programme.  
→ Read more on pages 48 and 49

**Link to strategy**  
It is imperative we operate with the highest level of safety. This is the right thing to do for our people and for our customers who entrust us with safety-critical work. The safety, health and wellbeing of our people is therefore intrinsically linked to our success.  
→ Safety is linked to our Leadership Incentives (page 118).

## Employee engagement (score out of 10)

7.5



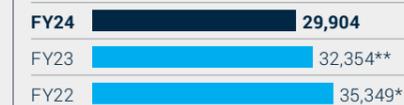
**Description**  
We use WorkDay Peakon, an employee engagement measurement tool, which provides regular insights into how our people feel about working at QinetiQ, enabling us to identify what we are doing well, but also where we can improve and take action.

**Performance this year**  
We continued to have good participation rates (71%) and have seen an increase in the overall score, 7.5 in FY24 compared with 7.4 in FY23.  
→ Read more on pages 50 and 51

**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'.  
→ Employee Engagement is linked to our Leadership Incentives (page 118).

## Greenhouse gas emissions Scope 1 & 2 (tonnes CO<sub>2</sub>e)

29,904



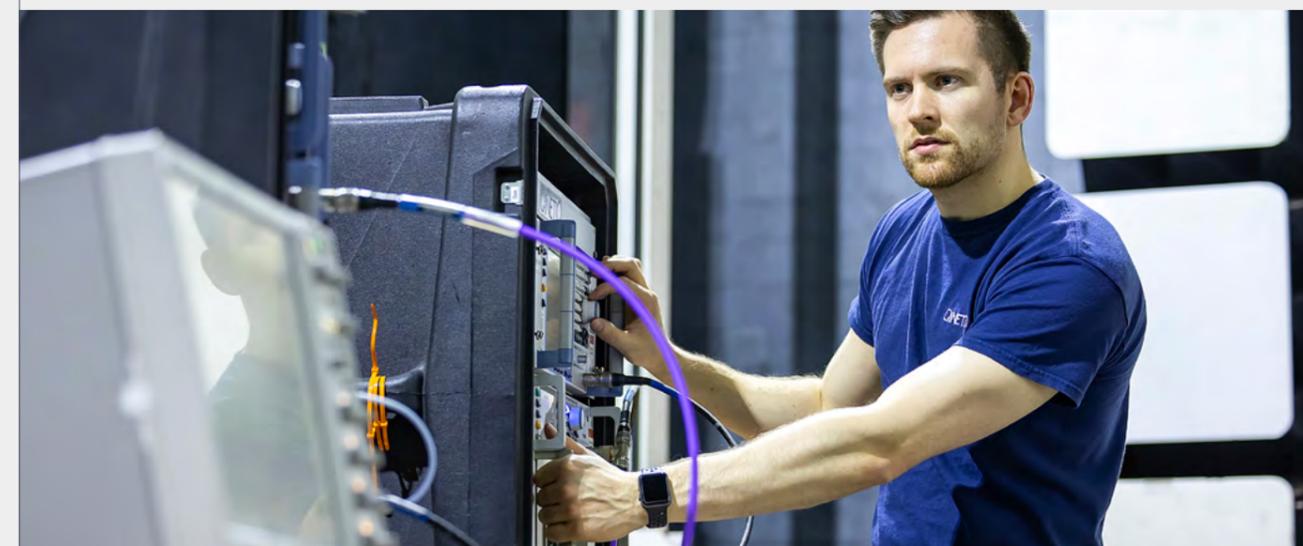
**Description**  
Our Net-Zero plan includes a near-term target of 50% reduction in Scope 1 and 2 emissions by FY30 from a base year of FY20.

\*\* Figures are restated as we have re-baselined our GHG data – please see page 37 for details.

→ Near-term and long-term targets and details of methodology are shown on page 37.

**Performance this year**  
We saw a decrease in our Scope 1 and Scope 2 emissions in FY24 compared with FY23, equating to a 33% reduction against our re-baselined FY20 base year.  
→ Read more on pages 36-41

**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. It is a critical part of our ESG strategy and underpins our wider business performance.  
→ Scopes 1, 2 and elements of Scope 3 GHG emissions are linked to our Leadership Incentives (page 118).



# Sustainability: Environmental, Social & Governance

## Highlights in FY24

Included in Sustainalytics Top-rated ESG Companies List (for second year)

New Internal Research and Development (IRAD) fund focused on sustainability

Accreditation by the Living Wage Foundation in the UK

AA rating from MSCI

New carbon calculator for all employees

'Let's Talk Sustainability' regular series of talks on a range of sustainability topics

UK Government Modern Slavery Assessment Tool score increased to 82%

International Women in Engineering Day (INWED) STEM outreach event

Signatory to the ADS Defence ESG charter

Implementation of new ESG horizon scanning approach

Supply Chain Climate Summits across Europe, US and Australia

Signatory to the Defence Aviation Net-Zero Charter

Employee recognition Gala awards Net-Zero project

"Count me in" campaign, part of our diversity, equity and inclusion programme

2023 was the warmest year on record. We have also seen further conflict and the increased cost of living. It is clear that environmental, social and governance (ESG) factors are important to QinetiQ and to our stakeholders. Focusing on the safety, security and sustainability of the world around us is critical; everything we do at QinetiQ is about protecting what matters most.

### Strategy and materiality

Sustainability encompasses a broad range of ESG factors but not all are material to QinetiQ, to our sector or the communities in which we operate. It is therefore important that we are focused on what matters most to our business as it evolves and grows and we meet the expectations and the needs of our stakeholders. Delivering our sustainability strategy, based on key ESG material factors, ensures we are addressing risks and creating value for our shareholders and customers. It means we create a great place to work for our people and future workforce, protect the environment and have a positive impact in our communities. Our ESG framework (page 35) provides a high-level overview of these factors and we describe our progress and plans in this section (pages 34-53).

### External landscape

The changing external landscape and how we and our stakeholders need to respond continues to evolve. With 2023 recognised as the warmest year on record, the focus on climate change continues and that on biodiversity has further increased. Conflict and the cost of living have also been important drivers. The evolution of a range of new reporting requirements is shaping our programmes to ensure we are better able to

articulate the sustainability-related risks and opportunities that could reasonably be expected to affect QinetiQ's prospects over the short, medium or long term. To ensure we understand future requirements, we actively horizon scan and this year have invested in new tools to support us. We provide monthly updates to the ESG Steering Committee, chaired by our Group CEO, and regular updates in our ESG reports to the Board.

### Stakeholder engagement

A core driver for our focus is meeting the needs and expectations of our stakeholders, so regular engagement with them is vital. Throughout the year, we engage with shareholders, customers and employees about ESG directly, and via reporting, surveys and questionnaires, so we are able to listen, understand, and identify what matters most to them. We also track and share best practice through industry sustainability networks. We strive to be proactive, chairing a number of industry groups. We actively collaborate with customers, peers and suppliers on topics such as climate change, ethics, diversity and inclusion and skills. (see pages 39 and 55 for more details).

We recognise the importance of supporting national and international sustainability programmes and frameworks. Our Net-Zero targets are validated by the Science Based Targets initiative (SBTi) (see page 36) and we support Race to Zero. We use the UN Sustainable Development Goals (SDGs) as a guide and remain committed to driving progress on specific goals that are aligned to our sustainability agenda.

Based on this approach, we believe that the aspects of sustainability that we are focusing on are the most material to our business and to our stakeholders, and our approach is to embed ESG into strategy, and our business processes.

In FY25 we will be focusing across all our programmes and looking further at non-financial data.

Over the following pages 34–55, we report progress on those areas of sustainability we consider most important including our regulatory required submissions.

→ Signposting

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

- Business Model value creation on page 10–11
- Investment Case on page 12
- Non-financial KPIs on page 33
- Risk management on page 56
- Stakeholders/Section 172 on page 65
- Non-financial and sustainability information statement on pages 68–69
- Corporate Governance including ESG on page 70
- ESG in leadership remuneration on page 118

Additional information is provided on our website: [www.qinetiq.com/en/our-company/sustainability](http://www.qinetiq.com/en/our-company/sustainability)

# Our ESG framework

## Our purpose

Protecting lives by serving the national security interests of our customers

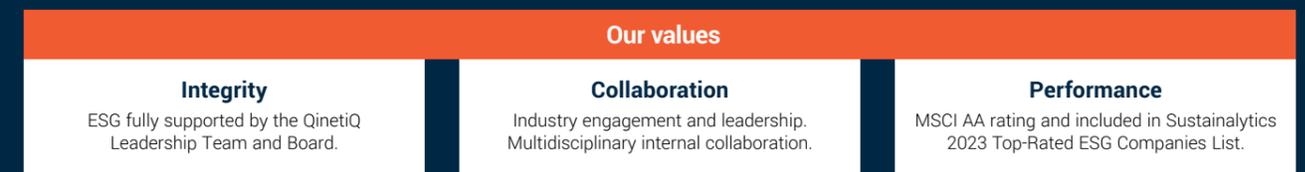
## Our ESG framework

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



## Creating a safe and secure environment for us all to thrive

Our values demonstrate our purpose and ESG framework in action



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



# Environmental

2023 was the warmest year on record. We have also seen the growing focus on degradation of natural habitats and the impact on biodiversity. Every business has a role to play and a duty of care to manage their environmental impact.

**We actively play our part in the stewardship of the environment, by reducing our greenhouse gas emissions, through our conservation activities and the solutions we offer to our customers to help meet their sustainability ambitions, while maintaining capability.**

### Climate change

#### Transition to Net-Zero

QinetiQ is committed to reducing our contribution to climate change. Building on our environmental stewardship and reductions in Greenhouse Gas (GHG) emissions, our journey to Net-Zero began in earnest in 2021, with the creation of a Climate Change Steering Group (CCSG), chaired by the Group CFO and attended by senior stakeholders from across the business. A commitment to setting science-based GHG emissions targets, and a Net-Zero Plan followed in early 2022, along with the creation of a permanent role for a Climate Change Programme Manager to lead the delivery of the key initiatives outlined in this Plan. In FY23, our ESG team transferred to the Finance & Governance function, to create a direct link to our Group CFO and consolidate closer alignment with key stakeholders across the QinetiQ Group. In the same year we introduced new metrics into our Leadership Incentive Scheme, tracking the

personal contribution of our senior leaders to our Net-Zero Plan and activities to reduce GHG emissions. The scheme was subsequently expanded to a wider leadership community and renamed the Annual Bonus Plan (page 118).

#### Net-Zero target setting

QinetiQ has been collecting and reporting GHG emissions figures for many years, and we have evolved our methodologies in-line with the GHG Protocol. We have set emissions targets which cover our full value chain, across all categories of Scope 1, 2 and 3 and these were validated by the Science Based Targets initiative (SBTi) in 2022, confirmed as ambitious, and fully aligned to a 1.5°C global temperature pathway. Through SBTi validation, QinetiQ is a member of the SBTi Business Ambition for 1.5°C Campaign and the United Nations Race to Zero Campaign.

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



As outlined in our Net-Zero Plan, our Climate Change Programme is built on four key initiatives, which are summarised in the table below. Our goal is to focus on absolute reductions in emissions. Within our emissions targets we have made a commitment to at least a 90% reduction across our full value chain by 2050 or sooner. We recognise that eliminating all sources of emissions will be challenging with current technologies and so up to 10% of our footprint may need to be offset. We recognise that change is essential to meet our goals, but change can introduce risk, so we apply programme management rigour with a clear strategy and robust governance. Our Climate Change Programme has been designed to ensure appropriate governance across the QinetiQ Group, to facilitate and support transformational changes to our ways of working. A variety of scheduled reviews and briefings are undertaken to both the Group Director ESG and Group CFO throughout the year, with climate change an agenda item on the monthly ESG Steering Committee, chaired by the Group CEO. Regular progress updates are provided by stakeholder groups across the business, and these are presented in a simplified dashboard, allowing progress to be captured and any areas of concern to be highlighted and resolved.

#### GHG emissions methodology

Our methodology for calculating our GHG emissions is aligned to the GHG Protocol, and best practice outlined by the SBTi. We are constantly striving to improve our calculations, to obtain a more accurate indication of our emissions. To be transparent about our approach, we publish our methodology documentation on our website. [www.qinetiq.com/en/our-company/sustainability/climate-change](http://www.qinetiq.com/en/our-company/sustainability/climate-change)

#### Net-Zero targets

	FY20	FY30	FY50 or sooner
<b>Scopes 1&amp;2</b>	<b>Base year</b>	<b>-50%</b> <b>Absolute reduction</b>	<b>Net-Zero</b>
<b>Scope 3</b>	<b>Base year</b>	<b>-30%</b> <b>Absolute reduction</b>	<b>Net-Zero</b>
<b>Total</b>	<b>Base year</b>	<b>-33%</b> <b>Absolute reduction</b>	<b>Net-Zero</b>

Capturing accurate Scope 3 data is challenging, and we use a 'spend-based' calculation for various categories of Scope 3, where 'activity-based' data are currently unavailable. Our largest source of emissions, and most difficult to obtain accurate activity data is Scope 3 Category 1, 'procured goods and services'. As our business grows there is an obvious connection in rising procurement activity to support increased operations. As a result, we expect GHG emissions associated with procurement to increase in the short term, while we work with our supply chain to obtain activity-based emissions data and encourage and support reductions in the emissions associated with what we buy. We are investing in new tools, and developing new processes and policy to improve data management (for example business travel).

#### Re-baselining of emissions targets

In FY23 QinetiQ made several acquisitions and divestments. Under the guidelines set out by the SBTi, (as outlined within the Restatement Policy of our methodology document), corporate

growth beyond a threshold value of 5% should trigger a 're-baseline' of stated GHG emissions targets, to be formally reported once any new acquisitions have been part of the Group for at least 12 months. We are therefore presenting the revised figures here for the first time. The re-baseline process requires the business to re-evaluate the carbon footprint of the organisation as it is today, while 'back-dating' the emissions associated with the new organisational structure to the date on which the original baseline was set.

For QinetiQ, we track our GHG emissions levels against the figures for FY20 (April 2019 – March 2020), therefore as part of the re-baseline we have removed all of the historic emissions figures back to FY20 from the businesses we have divested, while adding historic emissions figures from the new businesses we have acquired. We have maintained our original emissions targets, in terms of the percentage reductions against our Scope 1, 2 and 3 totals, as outlined above.

#### Net-Zero Plan

<b>Our ambition</b>	QinetiQ will be a Net-Zero company by 2050 or sooner with achievable and ambitious near-term GHG emissions reduction targets. To deliver this, we will take a global whole value chain approach. We will work proactively with our supplier ecosystem, continue to invest in relevant climate positive research and development to help our customers achieve their Net-Zero ambitions, while improving the operational efficiency and biodiversity of our estates and those we manage on behalf of our customers.			
<b>Our Net-Zero pathway initiatives</b>	<b>Achieving QinetiQ Net-Zero</b>			<b>Contributing to Global Net-Zero</b>
	<b>Initiative 1</b> Net-Zero Operations (Scope 1 and 2 GHG emissions)	<b>Initiative 2</b> Net-Zero Upstream and Downstream focus (Scope 3 GHG emissions)	<b>Initiative 3</b> Deliver critical internal and industry-wide enabling activities	<b>Initiative 4</b> Co-create with customers, invest in research & development and care for our environment
<b>Our targets</b>	50% reduction from 2020 to 2030 and Net-Zero by 2050 or sooner	30% reduction from 2020 to 2030 and Net-Zero by 2050 or sooner	Create and foster the internal foundation and productive industry engagement to deliver success	Helping our customers achieve their Net-Zero ambitions without compromising their capability



## Environmental continued

The original and updated FY20 baseline emissions for Scope 1 and 2 are as follows:

FY20 Baseline GHG emissions (tCO <sub>2</sub> e)		
	Re-baselined	Original
Scope 1	28,377	19,289
Scope 2	16,281	16,298

The increase in our recalculated Scope 1 emissions is due primarily to the nature of Air Affairs business which is aircraft based and so significant users of jet fuel. Re-baselining of our Scope 3 data will be finalised during the first half of FY25 and we will publish all updated figures on our website alongside our published methodology.

### Scope 1 and Scope 2 emissions

We have adopted a financial control approach, and used the GHG Protocol Corporate standard and UK Government emission conversion factors. We collect relevant data throughout the year via a dedicated team of energy experts. PricewaterhouseCoopers LLP (PwC) carried out a limited assurance engagement on selected GHG emissions data for the year ended 31 March 2024 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 below by the following symbol ⊙. A copy of PwC's report is available on our website: [www.qinetiq.com/en/our-company/sustainability/climate-change](http://www.qinetiq.com/en/our-company/sustainability/climate-change)

Scope 1 and Scope 2 emissions	FY24	FY23	FY22	FY21	FY20
Total Scope 1 emissions (tCO <sub>2</sub> e)	<b>19,362</b> ⊙	20,996 (PR 13,360)	23,126 (PR 15,727)	23,710 (PR 15,872)	28,377 (PR 19,289)
Total Scope 2 emissions (tCO <sub>2</sub> e)	<b>10,542</b> ⊙	11,358 (PR 11,358)	12,222 (PR 12,236)	13,555 (PR 13,572)	16,281 (PR 16,298)
Total Scope 1 and 2 emissions (tCO <sub>2</sub> e)	<b>29,904</b>	32,354 (PR 24,718)	35,349 (PR 27,963)	37,265 (PR 29,444)	44,658 (PR 35,587)
Intensity ratio (tCO <sub>2</sub> e per £m of revenue)	<b>16</b> ⊙	20 (PR 16)	27 (PR 21)	29 (PR 23)	42 (PR 33)
Energy consumption (kWh) resulting in the above reported emissions	<b>132,659,501</b>	146,600,802 (PR 114,809,565)	154,759,131 (PR 125,261,565)	156,719,332 (PR 122,808,625)	176,376,247 (PR 139,780,656)
Proportion of energy consumption arising from UK operations (%)	<b>73%</b>	75% (PR 96%)	80% (PR 98%)	79% (PR 99%)	77% (PR 98%)
Proportion of emissions arising from UK operations (%)	<b>70%</b>	72% (PR 95%)	78% (PR 98%)	78% (PR 99%)	78% (PR 98%)

Please note, following the re-baselining of our GHG emissions described on page 37, the figures (in black) in this table are different from those published in previous Annual Report and Accounts. We have included all previously reported figures in green and labelled 'PR' (Previously Reported), for completeness and to meet the requirements of SECR.

### Streamlined Energy and Carbon Reporting (SECR)

To comply with the UK Government's Streamlined Energy and Carbon Reporting (SECR) requirements, we present our energy performance in the table below (indicating the proportion for the UK). Our re-baselining exercise has resulted in adjustments to previous years' data and so we have included both re-baselined and previously reported figures in the table below for completeness. The following are examples of energy reduction projects undertaken in FY24:

- Implementation of a new energy monitoring software platform across our UK estate, to provide dynamic consumption figures, helping to highlight anomalies and forecast future demand.
- Installation of low-energy LED lighting solutions at various UK sites.
- Integration of a new multi-engine aircraft within our UK fleet, to increase capability while reducing the utilisation of larger less fuel-efficient platforms.
- Reductions to our UK vehicle fleet, and sourcing hybrid or pure electric alternatives to replace existing assets where possible.
- A trial of bio-fuel as a low emission alternative to diesel.
- UK "Energy Shutdown" campaigns across extended holiday periods in the UK.

For more information see [page 40](#), Initiative 1.

### Scope 3 emissions

We have set Scope 3 reduction targets and on [page 40](#) (under Initiative 2) report the programmes that are supporting our goal to reduce these emissions.

We have previously published our FY20 baseline total Scope 3 emissions of 229 ktCO<sub>2</sub>e, and we publish selected categories of our UK Scope 3 footprint within our annual Carbon Reduction Plan (please see our website for our 2023 report). While we are still processing our full Scope 3 footprint for FY24, we have already identified a significant increase in our emissions associated with business travel, which reflects the increasingly global nature of our business. As part of our annual processing of Scope 3 emissions and our emissions re-baselining activity, we will be restating all of our historic Scope 3 emissions figures from our FY20 baseline year to date, and we will be publishing this information on our website in FY25 enabling us to demonstrate our progress against our target.

### GHG emissions reporting

In addition to the information presented here and on our website, we disclose our GHG emissions figures in a variety of formats to a number of external organisations annually including disclosures on our Air Affairs business to meet Australian Government National Greenhouse and Energy Reporting Scheme (NGERS); the publication of a Carbon Reduction plan for our UK business to meet UK Government Policy Procurement Note PPN 06/12; Carbon Disclosure Project (CDP) and Sustainalytics Climate Questionnaire.

### Investment in Net-Zero

To deliver our Net-Zero plan, aligned with the four initiatives highlighted on [page 37](#), we are delivering a number of projects; a comprehensive list can be found on [pages 40 and 41](#), summarising what has been delivered in FY24, and planned activities for FY25 and beyond. These programmes are built into our annual Integrated Strategic Business Plan (ISBP). During FY25 we will be developing our Transition Plan (in line with the Transition Plan TaskForce) and aim to publish details in 2025.

### Stakeholder engagement

We have seen interest and focus on climate change from all stakeholders with a growing interest in climate resilience as well as emissions reduction. 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 our Group CEO is Industry Co-Chair of the Defence Suppliers Forum (DSF) and our Group Director ESG Chairs the UK Trade body ADS (Aerospace, Defence and Security) Sustainability Group. We have also engaged with our supply chain, via our industry working groups.

In January 2024, ADS launched a Defence ESG Charter which serves as a guiding framework, outlining commitments to environmental sustainability, social impact, and robust governance. QinetiQ contributed to the development of the charter, and were a primary signatory.

Our round table at the Defence and Security Equipment International (DSEI) Exhibition in September 2023 brought together a group of senior stakeholders from NATO, Australia and UK defence organisations, industry and academia and will be followed with a thought leadership report 'Sustainability on the Edge'. Cross-sector innovation will be central to defence and security effectiveness and climate adaptation. To support this, we engaged with innovators culminating in a Sustainable 'Tech Demo' Day to showcase an exciting breadth of emerging solutions to defence stakeholders.

We have continued and strengthened our cross-defence and industry collaboration. We are working with our academic partners to explore future capability development. We have continued to run the CHACR (Centre for Historical Analysis and Conflict Research)

programme which includes collaboration on Climate Change and (In)stability with Oxford University.

We engage with shareholders directly to discuss ESG and also provide ESG information to MSCI, Sustainalytics and CDP.

For our people we communicate regularly about sustainability through a range of channels and on a variety of topics. We have a dedicated online Community of Interest for sustainability (The Sustainability Knowledge Network). During the year we have run a number of talks as part of our "Let's Talk Sustainability" series, with inspirational internal and external speakers. Many of our people show significant interest in climate change and regularly pose questions to leaders as part of our Global Employee Roadshow. Net-Zero forms part of our leadership incentive scheme see [page 118](#) and we have provided a range of resources, blogs and drop-in sessions to support leaders.



### Case study

## Photovoltaic (PV) panel installation

At our Haslar site in the UK, we have installed three arrays of ground-mounted PV panels. The 2,000m<sup>2</sup> installation is expected to generate over 200 MWh, avoiding approximately 45 tCO<sub>2</sub>e annually.

The arrays were installed towards the end of FY24 and in total, 35 MWh of renewable power was generated in the year.

This project and the installation of PV arrays at our QTEC facility in Melbourne form part of a wider programme to reduce our use of fossil fuels.



Environmental  
continued

## Net-Zero pathway initiatives

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

Three things to **SWITCH OFF** Lighting | Heating | Electrical equipment

### Achieving Net-Zero

#### Initiative 01 Net-Zero operations

Scope 1 and 2 GHG emissions

##### Completed in FY24

- Bio-fuel trial, testing the replacement of diesel in specific assets with Hydrotreated Vegetable Oil (HVO), as a scoping exercise to support finalising plans for a phased removal of fossil fuels from our operations.
- Installation of Photovoltaic (PV) arrays at our Haslar site in the UK, as a pilot for future implementations across our UK estate and the estate that we manage on behalf of our UK customers. See Case Study on [page 39](#).
- Installation of additional electrical sub-meters across our UK estate, providing greater granularity on our electricity consumption, coupled with the implementation of a new third-party energy monitoring platform to enable more dynamic management of our energy usage and deeper analysis of trends to drive improvements in efficiency.
- Installation of additional Electric Vehicle (EV) charging stations across our UK estate, to support the ongoing adoption of more EVs across our corporate fleet, and for use by employees, customers and visitors.
- Performed risk analysis for a specific use-case to determine feasibility of using Sustainable Aviation Fuel (SAF) in future flight trials.

##### Planned for FY25 and beyond

- Installation of more renewable power sources across our UK estate.
- Installation of additional electrical sub-meters across our UK estate.
- Installation of additional EV charging units across our UK estate.
- Assess the findings of the HVO trial, and use these to refine our plans for the phased removal of fossil fuels from our operations.

#### Initiative 02 Net-Zero upstream and downstream focus

Scope 3 GHG emissions

##### Completed in FY24

- Roll-out of a new business travel booking platform across the Group, to provide a consistent approach to sourcing travel services and greater access to travel data to enable analysis and insight. Also making it easier for employees to include their travel carbon footprint into informed travel choices.
- Successfully delivered three Supply Chain Net-Zero summits across Europe, Americas and Australia to provide an in-depth understanding of the importance of supply chain to reducing Scope 3 emissions associated with Purchased Goods and Services and Capital goods.
- Engagement with colleagues across our Procurement functions, providing tools and resources to enable greater knowledge-sharing with our supply chain.
- Implementation of a new Supply Chain Taxonomy, enabling greater analysis and insight into our procurement practices to drive change.
- Following installation in 2022, the 200kw PV array is successfully running at the leased QTEC facility in Melbourne. The project won the Responsibility and Sustainability category of the 2023 Global Recognition Gala Awards.

##### Planned for FY25 and beyond

- Evolving our approach to business travel, enabled and supported by our new travel booking platform.
- Potential project to install PV panels at our leased facility in Medicine Hat, Canada.
- Implementation of a new Net-Zero clause in our standard terms and conditions, to support a drive for greater sustainability across our supply chain (see [Page 55](#)).

#### Initiative 03 Deliver critical internal and industry-wide enabling activities

##### Completed in FY24

- Investment in a number of innovation projects, directly supporting our Net-Zero plan, sourced through our employee ideation platform the IdeaXChange, and our internal research and development fund.
- Improved climate change element of our environmental mandatory training module for all employees.
- Second year of direct alignment of the Annual Bonus Plan for senior leaders to GHG emissions reductions, and inclusion of a larger leadership community (see [page 118](#)).
- Internally-developed Carbon Calculator available to all employees to help them calculate the carbon footprint of their activities.
- Hosted a roundtable discussion at the Defence & Security Equipment International (DSEI) exhibition with key customer representatives around sustainability and the forecast impact of climate change on their operations.
- Leadership of a number of industry collaboration forums and initiatives (see [page 39](#)).
- Signatory to the ADS EGS Charter (see [page 39](#)).
- Signatory to the Defence Aviation Net-Zero Charter
- Significant contribution to the Defence Supplier's Forum GHG Code of Practice.

##### Planned for FY25 and beyond

- Implementation of a new platform for GHG Emissions Data Management, to streamline our data processing and enable greater agility in meeting emerging reporting requirements, while offering analytical capabilities to support future planning.
- Strengthen environmental impact within our Technical Assurance processes, to drive greater sustainability in our ways of working and our delivered solutions.
- Review the introduction of environmental metrics into our Project Management toolset, to provide a better understanding of the impact from our operations.
- Review the formal introduction of our existing internal carbon price into financial forecasting toolsets.

### Contributing to Global Net-Zero

#### Initiative 04 Co-create with customers, invest in research and development and care for the environment

##### Completed in FY24

- Successfully delivered a Sustainable 'Tech Demo' event and webinar, focussing on small to medium enterprise (SME) business innovators and examples of potential for cross-sector innovation to support Defence challenges.
- Successfully delivered an ACE Research Network event relating to sustainability and how digital, data and security can contribute towards Net-Zero.
- Delivered support to DE&S on Sustainable Acquisition and the changes required to enable MOD to purchase lower-emission and more climate-resilient technology.
- Worked with customers to develop the Deployable Active Smart Grid (see case study [page 42](#))

##### Planned for FY25 and beyond

- Ongoing participation in collaborative forums to shape future solutions to address defence and security sustainability challenges.
- Presentation of our work in software-defined mobility solutions to NATO panel.
- Delivery of internally funded studies on defence energy transition termed 'energy-informed operations' and climate scenario war-gaming.
- Publication of 'Sustainability on the Edge' thought leadership report.



Environmental continued

**Sustainable solutions and innovation**

This year we allocated a modest but dedicated portion of our internal research and development (IRAD) funding to focus on sustainable science and technology. Supported by an Innovation Mentor, this builds on the launch of the IdeaXchange Net-Zero channel in 2023. Projects included the sustainable disposal of energetic materials, work on plant-based polymers, electro-optic monitoring of building heat loss, exploring cultural change toolkits and the benefits of electrification in defence operations (see case study below). We supported our customers in the UK to establish methods to acquire and support lower-emission, more climate-resilient capability, and collated the methods required to enable a coherent energy transition for defence. We continue to deliver a small proportion of our revenue from sustainability-related products and services (also see page 41).

**Environmental management**

Reflecting our intent to integrate environmental governance and leadership more strongly into our core strategies, QinetiQ's environmental policy commitments were incorporated into a new Environmental, Social and Governance Policy in FY24, sponsored by the Group CFO. We continue to demonstrate environmental management systems conformance to the Standard ISO14001:2015 for our activities at 24 locations in the UK and one location in Canada.

Our Environment Council is now operational, and the primary focus of this multi-national governance forum in FY24 has been to develop an overarching approach to the environment across the Group, and development of a new set of environmental requirements that go beyond legal compliance and set a framework for continual improvement in the way we progress environmental stewardship across QinetiQ. These requirements are due to be published in early FY25. A Group-level environmental management assurance initiative commenced in FY24, focusing on Business Management Systems documentation related to internal environmental standards in the UK and customer environmental management plans in Australia. Trends in environmental incident reporting is part of Board reporting, and in conjunction with a health and safety incident reporting campaign, an initiative to improve the awareness of environmental incident reporting is under development and will be promoted in FY25.

During FY24 we developed new environmental content for our integrated environment, health and safety training which all employees will be required to complete in FY25. This training will continue to evolve and new content, focusing on climate change, will be developed during FY25.

**Waste management**

For several years we have been reporting annual proportion (%) of UK waste that is re-used and recycled from underlying waste production. Non-hazardous solid waste and hazardous waste generated represents a relatively low level of materiality on environmental and financial impact as part of our operations. We are currently reviewing our environmental data and metrics and will be defining new metrics and targets in the year ahead to reflect our priorities and new reporting requirements.

**Conservation and biodiversity**

Eelmoor Marsh is a SSSI (Site of Special Scientific Interest), and forms part of our site in Farnborough, in the UK. We have worked with our conservation experts Marwell Wildlife to provide stewardship on this important site. We have raised awareness of the importance of biodiversity and conservation through our sustainability talk series as well as running conservation days as part of our environmental volunteering programme. We continue to perform conservation and biodiversity protection works at the sites we run on behalf of the MOD locations; supporting operation delivery while protecting flora and fauna.

In FY25 we will continue to focus on environmental stewardship programmes, building greater connection with our Net-Zero plan. We will be reviewing our policy and further improving training, awareness and environmental volunteering to engage our people.

Taskforce on Climate-related Financial Disclosures

The Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD) recommends a reporting framework across four themes: governance, strategy, risk management and metrics and targets. In line with Companies Act disclosure requirements (CA06 s414CB(2a)) and following the TCFD all-sector guidance (there is no specific supplementary guidance for our sector) we provide our disclosures here (pages 41-45) aligned to the four themes and providing material information against each requirement (we also outline our approach on page 68 in our non-financial information and sustainability statement). We provide links to where further information is provided in this Annual Report and Accounts 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.

**Compliance statement**

We believe our approach is consistent with 10 of 11 of the TCFD recommendations and recognise we need to do more on quantitative modelling as part of the Strategy disclosures. During FY24 we have worked with third-party experts to develop new financial models to progress our quantitative financial assessment and will be testing these during FY25. We are also currently re-baselining our GHG emissions and so will be publishing our Scope 3 data for FY24 during FY25, and not in this report.

**Board governance**

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 threats and opportunities resulting from climate change, and this is considered as part of our strategy. Our Group CFO is the Board Sponsor for the wider ESG programme, including climate change. Both the Group CFO, and our Group Director of ESG provide regular reports and briefings on ESG and climate change to the Board and Board Committees (see page 81 for our Board Governance Structure and pages 78-80 for membership of these committees). **The QinetiQ Board** sets the Company's strategic priorities, including ESG and Net-Zero and has regular oversight and input into our Net-Zero programme. As part of the regular monitoring and reporting cycle, the Board were updated and discussed climate change at the May and November FY24 meetings, ensuring their oversight of progress against our targets.

**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 68: Non-financial information and sustainability statement Page 78-81: Board Directors and board structure and committees Page 100: Audit Committee
b) Describe management's role in assessing and managing climate-related risks and opportunities	Page 110: Remuneration Committee Page 60: Climate Change Principal risk Page 54: ESG Governance Page 118: Leadership incentives Page 39: Leadership engagement

In addition the Board reviews our Integrated Strategic Business Plan (ISBP), where climate change is integrated into functional/sector plans and approves the annual budget (which contains Net-Zero targets and programmes). The Board also received updates on principal risks twice each year, which includes the climate change principal risk.

**The Audit Committee** reviews and monitors QinetiQ's financial and non-financial reporting requirements including TCFD. Updates on non-financial reporting were provided at both the November and March FY24 meetings (see page 100).

**The Remuneration Committee** has overseen and supported the inclusion of ESG within leadership incentives, including Net-Zero for the 2nd year, approved at the May meeting.

**The Risk and Security Committee** has oversight of and provides assurance to the Board on QinetiQ's risk management system. This includes quarterly monitoring and review of all QinetiQ principal risks, which includes the climate change principal risk (page 60).

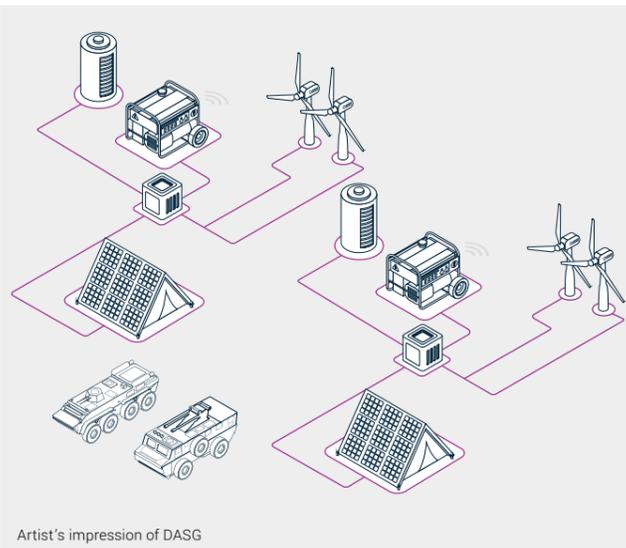
**Management governance and oversight**

The ESG Steering Committee, Chaired by the Group CEO, provided oversight, leadership and scrutiny of our Group ESG commitments and initiatives including performance against our Net-Zero Plan (see page 54). The Committee meets monthly and includes the Group CFO, Group Director ESG and members of the QLT. Leadership and delivery of the Climate Change Programme are the responsibility of the Group Director of ESG, reporting to the Group CFO. The Climate Change Programme includes leaders and subject matter experts from across the business, ensuring the necessary multidisciplinary approach. The programme is supported by a dedicated programme manager. The regular programme reviews and meetings create a

senior forum for developing and implementing strategy and plans and for reviewing risks and performance. Climate change is a principal risk (see page 60) and the Group Director ESG is responsible for identification, assessment and oversight of the risk and opportunities, undertaking monthly reviews of the programme and capturing those risks through the enterprise risk management governance process. The Group CFO has oversight of the programme and in addition to regular updates, undertakes a formal six-monthly review of progress and plans. Functional Councils support good governance across QinetiQ, where functional and sector 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 is the Environment Council, Chaired by the Group Director ESG, and the Risk and Assurance Council, Chaired by the Group Chief Risk Officer, attended by the Group Director ESG. Climate change has also been on the agenda at the Finance Council.

ESG and climate change form an integral part of our ISBP process, and so consideration of the role of individual sectors and functions was undertaken in H2 during the planning process, with oversight by the Group Director ESG and then reviewed by the CEO, CFO and Chief Strategy Officer.

In FY24, leaders were again incentivised specifically linked to our Net-Zero plan (See page 118). The scheme was expanded to include a larger cohort than FY23. This ongoing focus and involvement by leaders strengthens our commitment to our Net-Zero plan and underpins our leadership engagement (see page 39), oversight and governance.



**Case study**

## Deployable Adaptive Smart Grid

The energy transition is intricately linked with climate change and requires our customers to adapt to maintain their ability to operate. In parallel, the electrification of the battlespace is significantly increasing the demand for electrical capacity and reliability. QinetiQ is co-creating a Deployable Adaptive Smart Grid (DASG) with our Australian Defence customers (image shows an artist's impression) When mature the DASG will address the shortfalls in current deployable electrical systems by managing generators, loads, energy storage and external connections to reduce fuel consumption, maximise grid resilience and maintain power quality. It will be accessible to non-expert users and will enable the integration of varied energy sources such as gas turbines, fuel cells, energy storage and renewables.

Artist's impression of DASG



Environmental 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 business strategy and financial planning where such information is material

TCFD disclosures:	Additional information
a) Describe the impact of climate-related risks and opportunities on QinetiQ's business, strategy and financial planning	Pages 40-41: Net-Zero initiatives Page 8: Strategic framework Page 60: Climate Change risk
b) Describe the resilience of QinetiQ's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	Page 118: Leadership incentives Page 33: Non-financial KPIs
c) Describe the resilience of QinetiQ's strategy taking into consideration different climate related scenarios, including 2°C or lower scenario	Page 37: Net-Zero plan and targets Page 42: IRAD funding Page 62: Viability statement

Climate-related risks and opportunities

Working with third-party experts, in FY24 we have reviewed and refined our climate-related risks and opportunities (see table on page 45). We have assessed that our business is exposed to both physical and transitional risks (before mitigation activities) and opportunities, with impacts varying over the short (0-2 years), medium (2-5 years) and long-term (5-20 years), depending on climate change scenarios. This aligns with our business planning cycle (our ISBP operates a rolling five-year cycle). Each risk was associated (qualitatively) with a financial impact, for example an increase in costs or in the case of opportunities, an increase in revenue.

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, particularly focusing on quantifying the impacts, and we will report further information as this develops.

Impact on business strategy and planning

As the climate change risks (threats and opportunities) we have identified what will impact our business, we recognise the importance of integrating climate change and wider ESG into our strategy and planning and our wider business processes. While there is no requirement for a fundamental shift in our overarching business strategy due to climate change, having assessed the risks we understand it to be resilient to climate change (subject to the delivery of the plans and programmes).

We have committed funding to support our Net-Zero programme for a range of initiatives across our functions and sectors (see pages 40 and 41).

This is illustrated as follows:

- Our commitment to sustainability is part of QinetiQ's overarching strategic framework (page 8).
- Climate change is a principal risk (outlined on page 60).
- Scope 1 and Scope 2 GHG emissions form one of our core non-financial KPIs (page 33).
- Net-Zero is integrated into our leadership incentives (page 118).
- In FY22 we developed and published our Net-Zero plan; including targets for emissions reduction (page 37). An overview of progress and plans is provided on pages 40-41 along with links to the full plan.

ESG and climate change are embedded in our annual ISBP process. During FY23 we planned for a number of actions which were implemented in FY24, including:

- Allocation of budget to deliver energy saving projects which reduce our dependence on fossil fuels.
- Increase in resource: increasing our energy team capability and capacity and a new dedicated role to lead on sustainable solutions for customers.
- Investment in development of tools to mature the modelling and financial quantification of climate impacts.
- A new internal research and development (IRAD) fund to support Net-Zero projects (see page 42).
- Investment in access to third-party horizon scanning tools.

During our ISBP planning process in FY24 we undertook the following:

- The requirement for all sectors and functions to consider their contribution to ESG and Net-Zero.
- Refinement of our investment approach including greater emphasis on Net-Zero;
- Allocation of investment in our Net-Zero plan - including new GHG management tools and energy saving projects.
- Development of further resources and training on climate change for leaders and employees.

In addition as part of the broader scenario impact assessment of our ISBP, a climate change event (a significant flood at a critical site) was selected as one scenario for financial modelling. The findings inform the consideration of the recommended longer-term viability statement and going-concern statement disclosures (see page 62). Through the ISBP process we have also identified potential business growth opportunity with our customers.

Focus for FY25

During FY24 we worked with third-party experts to develop new tools to help define how to quantify the financial impacts of climate change, and will continue to develop this as part of our climate resilience programme, focusing on the risks and the controls and mitigations. We will continue to develop detailed transition planning (see page 39) which will underpin how we achieve Net-Zero targets and commitments, and mitigate the climate related risks we have identified. We will be further focusing on quantifying the growth potential of customer solutions, currently a small part of our capability portfolio, but with recognised potential.

Type of risk	Cause	Risk effect (unmitigated)	Financial impact	Scenario			Mitigation/adaptation
				Declining emissions	Stabilising emissions	Rising emissions	
Physical (acute)	Flooding	Direct damages to sites due to increase in severity and frequency of flooding, resulting in damage to assets and causing disruption to operations.	Reduced revenue and increased costs	X	XX	XX	- Risk assessment - Climate resilience business continuity planning - Customer and supplier engagement
				SM	SML	SML	
Physical (chronic)	Extreme temperature fluctuations	Increased need for cooling and heating to minimise damage to high-value equipment within buildings.	Increased costs	X	XX	XX	- Risk assessment - Climate resilience business continuity planning. - Customer and supplier engagement
				SM	SML	SML	
Physical (acute)	Wind and storms	Direct damage to operational sites due to wind and associated storms, resulting in disrupted operations and increased cost for building repairs.	Reduced revenue and increased cost	X	XX	XX	- Risk assessment - Climate resilience business continuity planning - Customer and supplier engagement
				SM	SML	SML	
Transition (market)	Increased cost of energy	Energy costs, such as those related to fossil fuels and electricity derived from non-renewable sources, are expected to increase.	Increased costs	XX	XX	XX	- Improving forecasting - Reduce reliance on energy through Net-Zero programme
				SML	SML	SML	
Transition (policy & legal)	Carbon taxes	Current and emerging regulations on carbon emissions may result in carbon taxes.	Increased costs	XX	XX	XX	- Legislative monitoring - Energy reduction programmes
				ML	SML	SML	
Transition (market)	Cost of raw materials	Potential for exposure to increases in prices of raw materials directly or in supply chain.	Increased costs	X	X	X	- R&D investment - Customer and supplier engagement
				ML	M	M	
Transition (reputation)	Access to capital	Failure to meet shareholder expectations of Net-Zero commitments, and resulting access to or cost of capital.	Increased costs	X	X	X	- Reporting of progress - Investor advocacy - Customer and supplier engagement
				L	SML	ML	
Opportunity (product and service)	Increased customer demand	Growth in customer demand for more sustainable and resilient solutions could result in increased sales/access to new markets.	Increased revenue	X	XX	XX	- R&D investment - Customer and supplier engagement
				ML	ML	SML	

Key: Scenarios (see below) Impact: x=low; xx=medium and xxx = high impact; Timescale: S=short term; M=medium term and L= long term

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, we consider different scenarios:

- <2°C strongly declining emissions: Intensification of decarbonisation action resulting in increasing and rapid transition, with more limited physical impacts.

- 2-4°C stabilising/slowly declining emissions: Physical risks continue and transition risks continue to increase.
- >4°C: rising emissions: Failure to address climate change results in high physical risks with more limited transition issues.

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 horizons aligned with our Net-Zero targets and used a variety of data sources.

We have aligned our assessment with our risk management approach (see next section - page 46) so that we are able to evaluate as low, medium or high. We plan to review this approach regularly.

We have made a qualitative assessment of the financial impacts (see above) and are currently working on modelling the quantitative impacts and this will be a focus for FY25.



## Environmental 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 QinetiQ's processes for managing climate-related risks	<a href="#">Page 56</a> : Strategic risk management <a href="#">Page 37</a> : Net-Zero plan
b) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management	<a href="#">Page 37</a> : GHG emissions data <a href="#">Page 39</a> : Industry engagement <a href="#">Page 42</a> : Environment Council
c) Describe how processes for identifying, assessing and managing climate related risks are integrated into QinetiQ's overall risk management	<a href="#">Page 60</a> : Climate change principal risk <a href="#">Page 43</a> : Board oversight

#### Identifying risk

In line with TCFD recommendations, our risk assessment approach addresses both physical risks and transition risks.

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. It is important that we understand where these types of issues are material to our business.

For **physical risks** we considered these primarily by site, and also considered issues such as our supply chain and business delivery. A variety of potential risks have been identified and captured (for example where there may be increased flood risk or exposure to storm events). 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 have a good understanding of the physical risks posed and the suitable mitigations.

To identify **transition risks** (such as market or regulatory changes) we undertake horizon scanning to identify any relevant changes. We have invested in access to a new third-party tool to strengthen our horizon-scanning approach.

During FY23 we acquired new businesses: Avantus, with offices in the US and Air Affairs, with facilities and an aircraft fleet, based in Australia. Integration of these acquisitions

progresses and we are focusing on improving data capture processes. We have also explored how we can further include aspects of Net-Zero and climate resilience as part of our mergers and acquisitions (M&A) approach.

#### Assessing risk

We recognise the need to review and update our risks regularly as our business evolves and the global landscape changes. So, building on the risk assessment work completed in FY22 and FY23 (which included briefings and workshops), we undertook a detailed risk review and multi-stakeholder workshop supported by third-party experts. Risks and opportunities were scored considering:

- the potential impact,
- the likelihood of occurrence,
- the velocity (proximity of occurrence).

Scenario analysis has been undertaken on our most material risks and opportunities, and this has formed the foundation for our new financial models to quantify financial impacts (taking into account impact on revenue, costs, and asset value).

#### Management of risk

Our risk management and control framework enables us to effectively identify, assess, monitor and manage risks.

Ownership and management of individual risks are assigned to members of the QLT who are responsible for ensuring the operational effectiveness of internal control systems and for implementing risk mitigation plans. Climate change is recognised as a principle risk (see [page 60](#)) and the Group CFO is accountable. This risk is reviewed quarterly.

The Board Risk and Security Committee review and discuss principle risks quarterly and the Board undertakes a twice yearly assessment of the principal risks (see [page 43](#)).

The QLT is supported by our Chief Risk Officer and our risk managers, who are able to have more tactical and operational oversight. All risks are assigned owners.

#### Integrating/embedding into risk management

We have based our approach to climate risks on our existing risk management methodology (see [page 56](#)), to ensure that we are embedding it into our existing processes.

We will continue to regularly review physical risks across our sites, recognising potential for different impacts across our different geographies (primarily UK, US and Australia as well as Germany and Canada), 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. 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. Our Sustainability Knowledge NetworQ (an interactive online portal for key stakeholders and all employees) includes a dedicated climate resilience 'resource hub'. We also engage with key stakeholders such as our Environment Council. We ran climate change workshops for our procurement community across the Group 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 ([page 39](#)).

Through FY24 and FY25 we are reviewing our Group policy to ensure that we have established and are maintaining robust and 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	<a href="#">Page 33</a> : Non-financial KPIs <a href="#">Page 37</a> : Net-Zero targets <a href="#">Page 36</a> : Validation of targets <a href="#">Page 118</a> : Leadership incentives
b) Disclose Scope 1, 2, and if appropriate, Scope 3 GHG emissions and if appropriate Scope 3 GHG emissions and the related risks	<a href="#">Page 38</a> : Scope 1 and Scope 2 GHG emissions <a href="#">Page 38</a> : Intensity ratio and energy consumption
c) Describe the targets used by the organisation to manage climate related risks and opportunities and performance against targets	<a href="#">Page 38</a> : Scope 3 GHG emissions <a href="#">Page 56</a> : Risk management <a href="#">Page 37</a> : Net-Zero plan

#### Metrics and targets

A key part of addressing the risks of climate change is to transition QinetiQ to Net-Zero, and so key metrics and targets are associated with our GHG emissions. We report progress against all key material metrics within the relevant sections of our Annual Report and Accounts.

#### Our metrics

In FY21 we introduced Scope 1 and Scope 2 GHG emissions as one of our non-financial KPIs (see [page 33](#)). We currently monitor a number of non-financial metrics for our wider ESG programme and environmental stewardship. This includes our waste, water use, and contribution to biodiversity. We report a number of material metrics in this Annual Report and Accounts (summary table below), which have a bearing on climate change; such as intensity ratio and energy (see [page 38](#)). Our sites form the basis of our assessment of the physical risks, and employees are a driver for our operational footprint (e.g. business travel).

Metric	FY24	FY23
Intensity ratio (tCO <sub>2</sub> e per £m of revenue)	16	20
Energy consumption (GWh)	133	147
Proportion of energy consumption from UK	70%	72%
Sites	60	60
Employees	8,588	8,261

#### Our targets

As part of our Net-Zero plan, published in March 2022, we committed to near-term and long-term targets across our value chain (see [page 37](#)) validated by SBTi in June 2022 (all from a FY20 baseline).

Scope	Reduction	Target date
Scope 1&2	50% absolute	2030
Scope 3	30% absolute	2030
Scopes 1,2 & 3	Net-Zero	2050 or sooner

We aim to limit neutralization to less than 10% of our emissions.

In FY23 we introduced Net-Zero into our leadership incentive scheme and for FY24 aligned with reductions in Scope 1, Scope 2 and aspects of Scope 3 emissions ([page 118](#)).

#### Disclosure of Scope 1, 2 and 3 emissions

We align with the Greenhouse Gas Protocol to calculate our emissions (page 35) and publish our methodology for Scope 1 and 2 on our website. [www.qinetiq.com/en/our-company/sustainability/climate-change](http://www.qinetiq.com/en/our-company/sustainability/climate-change) We have re-baselined our data to account for new acquisitions and divestments (page 38).

	Year	GHG Emissions (tCO <sub>2</sub> e)
Scope 1	FY24	19,362
Scope 2	FY24	10,542

Scope 1 and scope 2 emissions have been subject to independent limited assurance procedures (see [page 38](#) for details). We are in the process of calculating our Scope 3 emissions and will be publishing data in FY25 (we are not publishing previous Scope 3 data here as it is currently being re-baselined and so figures would not be correct and could be misleading). We disclose our GHG emissions as part of a number of regulatory, customer, and voluntary requirements, (see [page 38](#)).

Our Net-Zero plan identified how we will address the reduction of emissions through four initiatives, and we describe the progress against these plans on [pages 40 and 41](#). 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 56](#). We also describe on [page 38](#) the challenge of Scope 3 data and the approach we are taking to address this.

During FY25 will engage with stakeholders to develop a Transition Plan (aligned with guidance from the Transition Plan Taskforce) to build on our published Net-Zero plan and our current programmes. We plan to publish information on the Transition Plan in 2025.

#### Performance against targets

On [page 33](#) we have reported a 33% reduction in our Scope 1 and Scope 2 emissions against our re-baselined FY20 number towards our target of 50% reduction by 2030. We will be reporting progress against our Scope 3 emissions target during FY25 when we have published our FY24 data and completed the re-baselining exercise. However, we have identified there have been an increase in some categories of Scope 3, (e.g. Business Travel). 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 40-41](#). Progress against the non-financial component of the leadership incentives are reported in our remuneration report ([page 118](#)).

#### Plans for FY25

We will be focusing on an ESG data improvement programme during FY25 and so will be looking holistically at the most material metrics and targets to inform our climate change and wider ESG programmes and aim to share further metrics and targets as part of future TCFD reporting.



# Social

To support our people we are focused on having a culture that enables sustainable growth and a high-performance environment where they can thrive and deliver.

Furthermore, it is also important to us that we have a positive social impact in the communities in which we operate.

## Our people

### Safety and wellbeing

#### Safety

We continue to reinforce the positive impact we have on the health, safety and wellbeing of our people, creating a safe and secure environment for us all to care and thrive. Our QinetiQ Group-wide Safety Improvement Programme which was established in FY22 provides us with strong foundations for the future and we are proud of our achievements in FY24:

- Strengthened our global safety organisation further and built internal capability, enabling us to transition our safety improvement delivery in-house, while still maintaining a partnership with third-party experts dss+.
- Conducted risk stabilisation activities across the majority of our global footprint, setting us up for sustained, detailed safety assurance activities and refining our future approach.
- Brought in additional subject matter experts to support a risk-based approach at a strategic, tactical, and operational level in the areas of safety, occupational health and wellbeing.

- Refined the safety maturity assessment we introduced in FY23 to enable the ongoing measurement of our safety culture maturity and to identify improvement opportunities throughout the year.
- Linked our Common Goals to safety culture maturity to amplify the impact our leadership community has on our Safety Improvement Programme (see page 118).
- Refreshed our safety technology suite, introducing a new safety compliance tool to work in a more standardised way across the Group as well as making ongoing enhancements to our safety incident reporting system.
- Continued to update and refresh our safety management system and refine our processes, working closely with the teams in all our markets.

Our safety performance over the past 12 months shows:

- A fall in our Total Recordable Incident Rate (TRIR) rate from 2.75 in FY23 to 2.54 in FY24. (TRIR is calculated using the total number of recordable incidents, multiplied by 1000, divided by the average number of employees in that year).
- A decrease in our LTI rate from 1.74 in FY23 to 1.58 in FY24. LTI rate is one of our non-financial KPIs (see page 33).

### Lost Time Incident (LTI) Rate<sup>1</sup>

1.58



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

\* FY23 data have been restated (previously reported as 1.20) following a data improvement programme.



There were no prosecutions or prohibition notices issued by regulators during FY24.

We were deeply saddened by the fatal crash involving two aircrew on-board one of our PC-9 aircraft in the Neuenstein area of Germany whilst on a customer training exercise in September 2023. Our thoughts remain with the families and close colleagues. Although the formal investigations into this accident are ongoing, we do not believe that there was any contributory fault by the Company.

As we prepare to transition our Safety Improvement Programme activities into business as usual, and refine our ways of working, we continue to invest in our commitment to safety. Ongoing engagement of our people in our safety improvement journey is key and we will undertake a follow-on global safety perception survey in FY26.

### Wellbeing

Our wellbeing strategy provides direction and a common approach for our wellbeing programme, which ensures we have the tools, techniques and support networks to take care of our people. Our strategy includes not only physical and mental health, but also personal growth, working environment and financial wellbeing. Senior Level-led governance is in place with oversight of both wellbeing and safety through our Wellbeing Steering Group.

Through our Group enterprise agreement with LinkedIn Learning, we've provided access to resources to support the leadership of wellbeing for managers to help build their skills to support their own wellbeing and the wellbeing of their team. We've also reviewed the toolkits we provide to cope with workload and stress and anxiety.

To support financial wellbeing we've continued our employee hardship fund which has enabled 74 employees to access additional funds to help them through times of financial difficulty. Our progressive pay and reward review this year has also supported our Financial wellbeing initiatives, uplifting salaries to address market-rate gaps.

One of our many wellbeing interventions is Yu-life, an incentive-based App, providing daily challenges to improve physical and mental wellbeing. There is also a social impact benefit as completing the challenges can convert into opportunities to contribute to environmental or social good causes. We have seen 4,574 trees planted and 4,204 meals gifted.

We are progressive with adaptive working patterns, with colleagues shaping how and where they work so as to deliver the best business outcomes and support employee wellbeing.

How we support our people through our wellbeing agenda and strategy is evolving for FY25. Our focus will be to review our overall approach to health and wellness, across the entire employee life cycle.

### Diversity, equity and inclusion

Creating an environment where everyone feels they belong and can thrive is a vital part of our culture. In FY23 we launched our Inclusion, Diversity and Belonging Strategy (published on our website [www.qinetiq.com/en/our-company/sustainability/diversity-and-inclusion](http://www.qinetiq.com/en/our-company/sustainability/diversity-and-inclusion)). It shares our progress so far, as well as our focus and direction, demonstrating how we are committed to:

- Fostering inclusive behaviours and creating an environment where our people can thrive;
- Actively increasing the diversity of our Company to reflect the communities in which we operate;
- Providing equity of opportunity to all our people and prospective employees;
- Engaging with our customers, supply chain and external partners demonstrating and promoting best practice;
- Keeping our people, customers and shareholders informed of our progress.

In FY24 we appointed a new Global Inclusion, Diversity & Cultural Development Lead to work with colleagues across our Company to deliver our strategy.

The following outlines our focus and achievements in FY24.

Since October 2022, we have been proud to be part of KPMG's Cross Company Allyship programme, which is a mentorship initiative bringing together mentors with mentees with a focus on supporting those from black heritage and ethnic minority backgrounds to address under-representation in leadership positions. In our first cohort we had 20 mentees and 13 mentors and the current cohort, 16 mentees and 16 mentors.

In the US, our Head of Diversity Initiatives has launched a Leadership Inclusion Council to identify and champion "The Path to Belonging" which focuses on:

- Take care of yourself (Health and wellness)
- Take care of each other (ERGs)
- Take care of our community (Service Squad)

These focus areas are underpinned by the US Employee Resource Groups (ERG).

In FY23 we introduced a new diversity and inclusion category into our Gala Awards. The winners in the category represent the teams and people who go above and beyond their day-to-day roles to create a workplace where everyone feels they belong. In FY24 the winners of the category were the Neurodiversity Employee Network Group; a team of volunteers who care passionately about creating an inclusive place to work. The team were aware there was a need to raise awareness and understanding of this topic and they collaborated to create a session they could deliver virtually. They worked hard to research content, building on their own experiences to ensure it was presented in a way that was thoughtful, sensitive and impactful. Over 1,000 people voluntarily attended the sessions, demonstrating that this is a topic people would like to know more about.



With the introduction of a new people system (Success Factors) in FY21, we ensured we were able to capture diversity information about our people; to address gaps in representation, to shape and inform future decisions and facilitate targeted, measurable action. This information is driven by self-identification and we recognise that requesting personal data requires us to regularly share why it is so important.

In FY24 we launched the 'Count Me In' campaign in the UK to encourage greater awareness and participation in the UK and form a proactive step to building a more diverse and inclusive QinetiQ. Thorough and accurate reporting will help drive KPIs and subsequent progression. While we regularly publish data on gender, we look forward to be able to present more diversity information in future Annual Reports and Accounts.

QinetiQ is committed to fostering diverse leadership and increasing female representation. Not just because it's the right thing to do, but because we recognise the value that it brings to the culture of our business, and our ability to innovate.

Our target is to achieve 30% female representation at all levels across the Company, by 2030, and we are also focused on increasing ethnic diversity in leadership roles by 2027. These initiatives are integrated and mutually reinforcing, as progress in one area positively impacts the other.

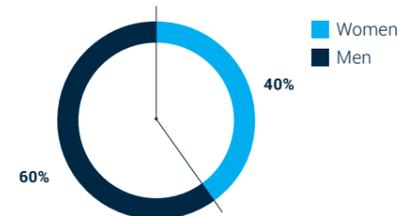
Through inclusive leadership development, targeted recruitment strategies, mentorship programmes and a supportive work environment, we are cultivating a diverse talent pipeline and fostering an inclusive workplace culture.

**Gender balance data**

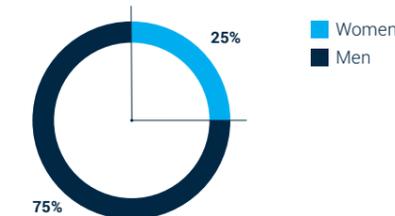
	FY24		FY23		FY22		FY21	
	Female	Male	Female	Male	Female	Male	Female	Male
Board Directors <sup>1</sup>	4 (44%)	5 (56%)	3 (33%)	6 (67%)	4 (44%)	5 (56%)	3 (37%)	5 (63%)
Senior managers <sup>2</sup>	69 (22%)	251 (78%)	57 (19%)	244 (81%)	59 (20%)	240 (80%)	57 (19%)	239 (81%)
Other employees <sup>3</sup>	2,114 (26%)	6,152 (74%)	1,976 (25%)	5,989 (75%)	1,478 (22%)	5,136 (78%)	1,447 (22%)	5,145 (78%)

- 1 For more information on Board diversity see page 74.
- 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 and the CEO and the CFO.

**QinetiQ Leadership Team**



**All employees (including leaders)**



The table and charts above show our gender balance data and we are pleased to see a further small improvement.

In our latest UK Gender Pay Gap report (for the FY23 reporting period) we report a mean pay gap of 11.8% which is a reduction compared with the previous year (12.9% for the FY22 reporting period).

We also participate annually in the FTSE Women Leaders Review. During FY24 we reported 28.2% female representation in our Executive Committee (the QLT) plus direct reports, compared with 27.8% in FY23.

No one action drives gender diversity and we recognise there is more to do to meet our target; we are focusing on further developing our plan in FY25.

**Employee voice**

Critical to all of our people is feeling informed and ensuring that the employee voice is heard. Our global operating model and 'Adaptive Working', requires an engagement approach that supports both 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.

We have a global Site Champion network, which focuses on creating a sense of community.

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 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 Chair and Board members during the year (see page 89).

In FY24 the GEV gave feedback that contributed to changes including significant investment in our employee reward offering (reward uplifts), changes in working schedules (compressed working), and the introduction of new learning solutions.

Our voluntary attrition has shown a small reduction from 14.1% in FY24, compared with 14.3% in FY23. We continue to observe some hotspots in the US and Australia, in line with the skills landscape.

Employee engagement is one of our three non-financial KPIs (see page 33), reflecting its importance to our business strategy. We have now been using the Workday Peakon as our Group Employee Engagement Survey platform for five years; it enables us to measure and track progress and benchmark against other organisations. Peakon also provides 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.

In FY24 we achieved our highest employee engagement score to date, reaching 7.5 (out of 10), an increase of 0.1 from FY23. Engagement has increased by 19% over the five years, and participation is now 71%. This is against a difficult backdrop with cost of living challenges for employees across our international footprint, which saw a dip in the Reward element of the survey in the middle of the year. Through our continuous listening approach we were able to quickly identify these concerns, understand how best to address them, whilst balancing our financial performance, and make meaningful pay interventions, which was reflected in an improvement in the reward indicators in Peakon.



Our employee engagement survey helps us understand areas we need to focus on to improve engagement. Effort in FY25 will continue across all elements of engagement with particular focus on employees having the right equipment to perform their roles (as currently we see this is below benchmark). Our Digital Transformation programme and site investment strategy will make a material difference in this area.

**Adaptability and flexibility**

We continue to place adaptability and flexibility as a key part of our employee offering. Our ability to attract and retain talent at QinetiQ is enhanced by having an adaptable approach to where, how and when our people deliver in their roles. In FY24 we saw more than 1,000 employees take advantage of compressed working patterns, driving benefits for customers, internal service levels and for the employees themselves.

In FY25 we will focus on our Digital Transformation of internal tools, so that global collaboration, cross-team and project working and the productivity of employees working a hybrid home/office pattern all benefit.

**Learning and development: skills and talent**

We are committed to nurturing talent and fostering a culture of progression within QinetiQ where our people can thrive and develop the right skills to grow and deliver. Similarly, as a company we see upskilling and reskilling as core to our AUKUS ambition, working across Australia, UK and US to build the capabilities for the future in support of our mission.

An example of this is the successful Test and Evaluation, Sovereign Skills Program (TESS-P) which upskills engineers in Australia with UK domain expertise because those skills are scarce but required. We are proud of this programme because it spans our international boundaries and is delivered both digitally and face to face through real exposure to live projects. Learners and instructors alike get a huge amount from each other as do wider parts of our organisation who benefit from the out-turn of digital courses.

Another area of success across the year has been the creation and early delivery of Project Management Improvement. This focuses on project delivery and seeks to unify our approach to projects with tools for understanding competence, improvement and learning aspects so that we can all execute, consistently and to a high quality, across our global portfolio. This will continue into FY25.

Through employee feedback, we know that having opportunities to develop and grow careers is vitally important. We have partnered globally with LinkedIn Learning delivering digital content to all parts of the Company with over 80,000 courses and videos accessed in the past nine months alone (June to February 24). This enables our people to access learning flexibly, at pace, in the flow of work.

Combining this technology with in-house content also allows us to build skills at scale by developing bespoke learning paths and helping us plan for the future.

Building on our success this year a key priority for us in FY25 will be to further enhance learning capability globally. We will do this through adopting new tools and process and partnering across all business leaders to enable in-year performance with various personal and collective development and mentoring interventions.

**Leadership**

We operate in a highly competitive and challenging market with an ambition to continue significant, sustainable growth. We recognise that to realise this, it is critical for us to develop the right leadership skills and capabilities, investing in our leaders to continually improve. Leaders are encouraged to take a coaching approach to their work with others and may have self-elected to become reverse mentees, themselves learning from Early Careers colleagues. The feedback on this programme continues to be very positive.



To further support leaders we completed a Group-wide Organisation Network Analysis providing a quantitative baseline from which to measure future progress. This has given valuable insight to design leadership expectations for performance, culture and global collaboration.

This was launched recently and already well received within the leadership community. The data is also being used to inform Group-wide leadership development initiatives for FY25 with the help of a recently established global QLC design community.

Spanning sector and functional stakeholders in design sprints, this shapes our leadership development approach and through cascading behaviours and positive attributes, helps set a tone for others to follow.

**UK Early Careers community**

	FY24	FY23	FY22	FY21
Apprentices	139	85	53	72
Graduate programme	105	128	105	98
Sponsored students <sup>1</sup>	16	26	24	24
% UK workforce	5	4	3	4

<sup>1</sup> Includes eight-week paid work experience and Year in Industry placements.

**Commitment to The 5% Club**

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 commit to publishing a breakdown of our UK Early Careers community each year (see table above) including the percentage they comprise of the UK workforce and we are pleased with the progress we have made towards our goal.

**Early Careers**

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.

Our Early Careers approach provides a rich and rewarding learning experience for individuals as they start their career with us. In the UK we focus on graduates and apprentices, as well as Year in Industry students and summer placements.

We continue to focus on ensuring our Early Careers community is involved in meaningful work, with 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 with very encouraging feedback from all stakeholders, including customers, managers and the apprentices themselves. 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.

It should be noted that these numbers do not include re-skilling; we have 39 experienced employees using apprenticeships to reskill across a range of disciplines.

**Reward and recognition**

Reward and recognition is key to our people strategy and an important part of our global employee offering. Our approach is designed to enhance the wellbeing of our people and incentivise both collective performance and individual contribution; enabling us to make choices about what works best for ourselves and for our families. Focus in FY24 includes:

- 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 FY24 paid £1,138 to each employee.
- We continue to invest in Pay and Progression, addressing market anomalies and managing in-year role and grade progression, with an investment of over £1.5m.
- Through Thank Q, our global recognition scheme, we celebrated 5,451 individual people and 1,688 teams, with 12,705 awards.

Building on the cost of living measures we implemented in FY23, we have invested further in our overall employee offering in FY24. In the UK, we have implemented a reward strategy and addressed market relativity through providing additional base salary increases to employees ensuring they receive a fair market level of pay. In the US we have implemented a compensation framework in support of integration. In the Australia sector we have commenced a benchmarking exercise and will be developing a sector-level reward strategy over FY25.

In March 2024 we were delighted to achieve accreditation by the Real Living Wage Foundation in the UK and are now one of over 14,000 Living Wage employers.

Our Group Hardship Fund and Employee Assistance Programmes (EAP) continue to provide additional support to our people who are experiencing challenging personal circumstances.

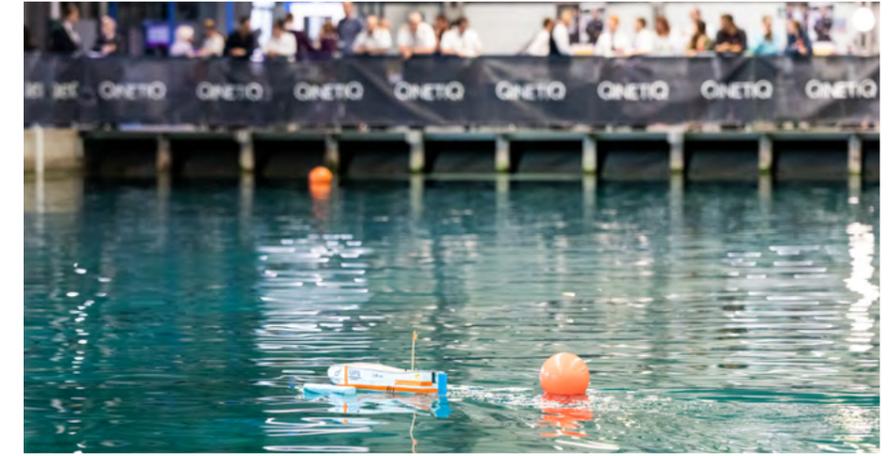
Looking forward to FY25, the Company will continue to invest in our global reward and benefits strategy and our employee offering.

**Responsibility and sustainability:**

**Volunteering**

At QinetiQ, volunteering is a vital part of our community impact strategy enabling our skilled workforce to dedicate their time and expertise to deliver social, environmental and economic benefits within the communities where we work. We focus on skills based volunteering, on STEM (Science, Technology, Engineering and Maths) outreach, to inspire the next generation of scientists and engineers and also environmental volunteering to contribute towards conservation and biodiversity.

In FY24 we supported a variety of projects, including scrub clearing on a SSSI (Site of Special Scientific Interest), our annual outreach event for International Women in Engineering Day, our Powerboat Challenge, where young people design build and race model boats, and a hands-on hydraulic experience at our QTEC facility in Melbourne. Through our global employee volunteering programme we've contributed over 2,600 hours of service.



We value the expertise of partnerships with organisations such as the Jon Egging Trust (JET), where we've continued to roll out our interactive apprentice workshop. We also started a new UK partnership with the Royal Air Forces Association (RAFA), which has enabled QinetiQ employees the opportunity to volunteer in RAFA's community check-in calls campaign.

During FY24 we launched our new external STEM Discoveries section of our website. This highlights the activities delivered by our STEM volunteers throughout the year; additionally it hosts valuable resources, including our new CREST-accredited project on compostable plastic, which students and teachers can freely download.

In FY25 we will be focusing on increasing our impact, including growing our volunteering include a new focus in our US business called "Impact Day".

**Charities**

Across QinetiQ we remain committed to creating a positive impact in the communities local to our sites. We proudly support a diverse range of charitable organisations and community causes, with a focus on areas such as health, veterans and local rescue services.

We supported 23 individual site charities nominated by our people. Our Corporate partner charities include two in the UK - JET and RAFA. In the US, we support the Joint Service Special Operations Fund (JSSOF). In Australia we've continued to partner with Legacy, and in Canada, we've supported Ottawa Food Bank and Root Cellar. Please see our website for more information: [www.qinetiq.com/en/our-company/sustainability/community-investment](http://www.qinetiq.com/en/our-company/sustainability/community-investment)

In FY25 we intend to continue to develop our partnerships with organisations that support us in creating a positive impact in our communities.

**Our defence partnerships**

We have always been passionate about supporting our Armed Forces community. Including veterans and reservists within our Company greatly enhances how we connect with our customers. This relationship goes beyond our legal obligations whether in Australia, UK, or US. In 2016 we were awarded Gold Award status by the UK Ministry of Defence (MOD) in their Defence Employer Recognition Scheme. This recognises employers who demonstrate a commitment to Defence by proactively supporting the Armed Forces community and inspiring others to do the same. Through our advocacy approach 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, 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 was published in 2023.

In the US, we have an Outreach programme for Veterans through Circa and Military Offices Association of America and we participate in military hiring events through Recruit Military and Corporate Grey. We contribute to the Virginia Veteran Values Program and have been active participants 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 as well as encouraging others to do likewise. We are also a signatory to the Prime Minister's Veteran Employment programme.



// We are proud to be founding members of The 5% Club. //

Chris Shirley, Head of UK Skills and Development



# Governance

Governance is a critical pillar, supporting us in how we deliver all we do, responsibly and sustainably.

## Governance and leadership of our responsible and sustainable business approach

Our approach to sustainability 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 and subject matter experts across the business, and provides regular papers and briefings to the Board and Board Committees. These cover all material aspects of our sustainability programmes including sustainability strategy, climate change, stakeholder engagement and non-financial reporting, ethics and community impact (page 87). Programmes such as anti-bribery and corruption, confidential reporting, safety or diversity, equity and inclusion are updated to the Board via direct papers from the function leaders. This provides oversight of our approach, including progress against programmes and plans.

During FY24 governance and oversight was also conducted via our monthly ESG Steering Committee, chaired by our Group CEO. Our Functional Councils provide additional focus on environment, our people and safety and wellbeing, as well as risk and assurance and governance. Pages 68 and 69 detail our policy and assurance approach.

Our sustainability strategy forms an integral part of our ISBP and includes longer-term plans e.g. our Net-Zero plan with targets to 2030 and 2050. Each function and sector is also required to articulate their contribution to sustainability within the ISBP process and we continue to embed ESG factors into our strategy and our day-to-day business processes. ESG is linked to the non-financial element of our leadership incentive scheme.

In FY25 we will be focusing on the new regulatory reporting requirements, supported by how we improve reliability and predictability of data and assurance of our non-financial information.

## Business ethics, doing business the right way

Our values of integrity, collaboration and performance underpin all that we do (page 76).

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. The Code is for our people but we also make it available for customers, suppliers and other partners. Our Code of Conduct is available on our website.

[www.qinetiq.com/en/our-company/sustainability/business-ethics](http://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 to 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 (page 55), both published on our website. 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 business ethics training. 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 90).

Our Business Ethics Committee, chaired by our Chief Ethics Officer (Group Director Legal & 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 FY25 will be to continue to promote and raise awareness on Speak Up.

## Anti-bribery and corruption

Our zero-tolerance approach to bribery and corruption in any form is explicitly stated in our Code of Conduct and our global anti-bribery and corruption procedures require that all business activity is conducted without the intent to bribe or corrupt; is reasonable and transparent; is appropriately documented with a business rationale and is authorised at an appropriate level.

Our anti-bribery and corruption programme is designed to support our people and business partners to demonstrate the highest standards of ethical conduct within all the jurisdictions in which we operate.

We provide practical guidance, including regular training, to ensure that our people understand what is expected of them and where they can get support or raise concerns.

Risk-based due diligence procedures are in place to identify and assess exposure to bribery and corruption in our operations; these are subject to on-going monitoring and periodic review. We review our programme regularly to ensure that it remains effective and incorporates improvements identified through internal assurance activity and feedback from our people.

In FY25 we will be focusing on supporting our people through training with a review of targeted role specific training modules.

## Human rights and modern slavery

As part of our ongoing programme to address the risk of 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 our website homepage. We achieved 82% against the UK Government Modern Slavery Assessment Tool.

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 confidential reporting mechanism (page 54) provides routes for third parties to raise concerns. We monitor the application of these policies and procedures through our business and supplier assurance processes and regular self-assessment, with oversight by our Business Ethics Committee. We believe that this integrated approach is effective in ensuring



our business acts responsibly and respects all human rights. More information, including all our annual modern slavery statements, can be found on our website: [www.qinetiq.com/en/our-company/sustainability/business-ethics](http://www.qinetiq.com/en/our-company/sustainability/business-ethics).

In FY25 we will continue to make progress against our modern slavery action plan and we will be reviewing and updating our policies and processes to support our approach to ethical trading and human rights.

## Responsible tax management

We make a significant tax contribution to the economies of the countries where we operate. In alignment with our sustainability and tax strategies, we strive to be responsible in all our business dealings with zero tolerance of tax evasion. Our annual tax strategy statement is published on our website. We apply our approach to tax management in a consistent and transparent manner in our dealings with tax authorities around the world. As a UK-headquartered Group we file our country-by-country report with the UK tax authorities. Our policies, processes and controls are regularly reviewed and risk assessed. Recognising the importance of embedding the tax strategy as a Group-wide culture, we provide relevant tax insights through our quarterly internal newsletter and bespoke tax training. Our Audit Committee oversees our approach to tax.

## Working with our supply chain

Our supply chain is an extension of our Company. We ensure that our suppliers are committed to the same standards and values of safety, security, sustainability and governance as we are. Working in collaboration with wider industry, we foster and develop ecosystems which draw together suppliers, academia and third-sector communities to answer complex challenges in science, social, engineering and technology, to support 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. We continue to support the SME community through the Defence Suppliers Forum SME Working Group and being an active prime contractor at the Defence Procurement Research and Technology Exportability (DPRTE) trade show. This has included enhancing our Small-Medium Enterprise Hub webpages to make it easier for suppliers to engage with QinetiQ and register their interest with us, by routing their enquiries directly to the relevant supply chain category management team through our taxonomy linked registration form.

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 FY24 we ran Collaborate events on modern slavery and SME's and Net-Zero. We also continue our work with the Aerospace and Defence Procurement Group (ADPG) and the Joint Supply Chain Accreditation Register (JOSCAR), an industry collaboration.

We have our Sustainable Procurement Guide and Supplier Code of Conduct; both documents are available on our website: [www.qinetiq.com/en/our-company/suppliers-and-smes](http://www.qinetiq.com/en/our-company/suppliers-and-smes)

As signatories to the UK Prompt Payment Code, we continue to report our payment performance as required by UK legislation. In FY24 we gained accreditation from the UK Real Living Wage Foundation, guaranteeing an above-statutory level of pay for third-party subcontractors working on our UK sites. We are currently working towards Real Living Wage accreditation with QinetiQ Canada.

In FY25 we will continue to develop our approach to sustainable procurement and run further Collaborate events. In support of our Net-Zero programme, we have developed new supplier terms and conditions related to GHG emissions, and will be engaging with suppliers in FY25.

# Risk management

Risk management in QinetiQ is an established process that is critical to the achievement of the Company's strategic goals. The Group has effective systems and controls in place to manage current and emerging risks within the established risk appetite levels.

In an ever-changing risk landscape, our end-to-end review and improvement cycle aims to ensure we are well positioned to deliver results, while understanding and addressing the risks that could impact the ability to execute our strategy.

## How we protect our business

On behalf of the Board, the Risk & Security Committee provides oversight of the Company's principal risks, reviewing and monitoring them through the course of the year. Each principal risk is assigned to a specific category (strategic, operational or financial), which helps establish appropriate risk control strategies and activities and provides an appropriate level of oversight and assurance.

Risk owners are accountable for confirming adequate controls are in place, and that the necessary mitigation plans are used to bring the risk within an acceptable tolerance level.

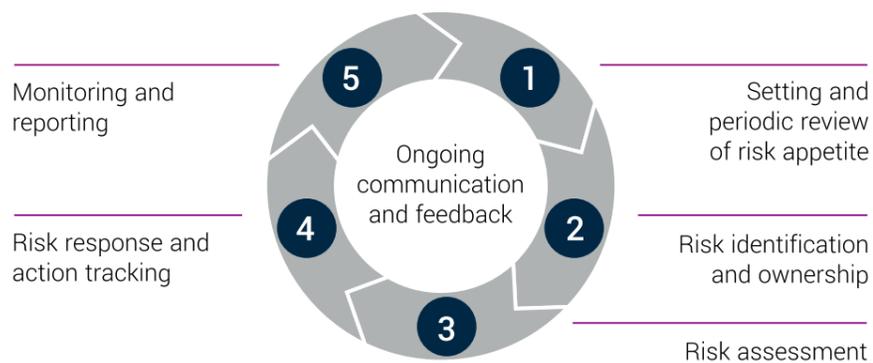
### Identifying and managing our risks

As part of our continual review and improvement of our risk maturity, we have embedded a cyclical process of identifying, evaluating, managing and reporting of current and emerging risks. This process ensures we keep pace with a growing business in a complex industry and that we manage our risks in line with our long-term priorities.

Our annual cycle consists of comprehensive identification and review of risks material to the Group which we conduct together with our Sectors and Functions, taking into account industry insights, competitor analyses, geopolitical developments and advancements in technology.

We align our assurance activity to the identified risks in the context of our business processes and how those risks may affect our strategic goals and day-to-day operations. This is presented to the Board and Risk and Security Committee, ensuring adequate monitoring to maintain the effectiveness of the Group's risk management activities and internal control processes.

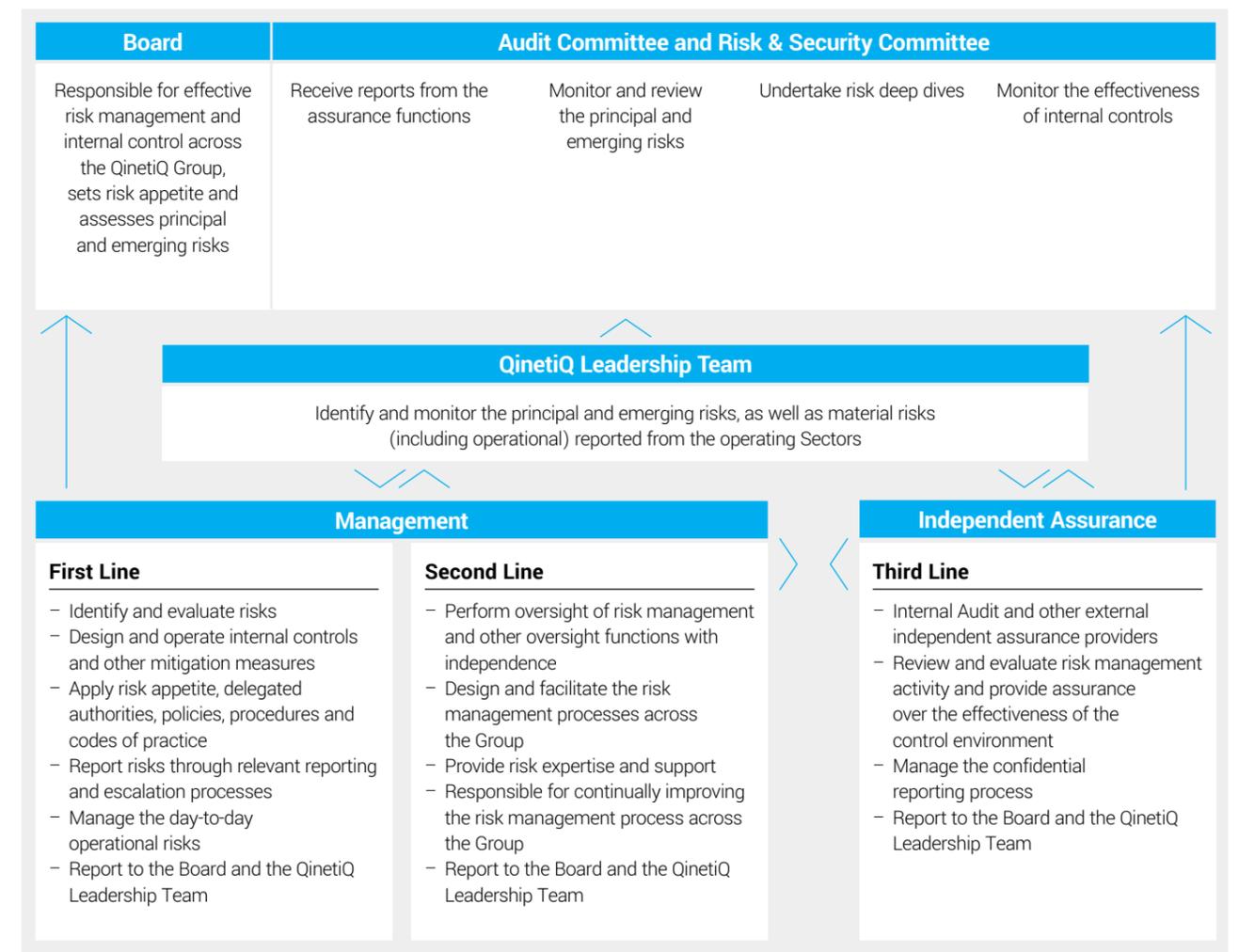
Sectors conduct bi-annual detailed reviews of their risks which is reported to the Board and Risk and Security Committee. This process ensures bottom-up and top-down views of risk have been considered and that the actions and controls to mitigate these risks are in place and are appropriate.



## Risk management and assurance activity

### The Three Lines Model

Our risk management and assurance activity follows the Institute of Internal Auditors' Three Lines Model which is the industry standard. The first line reports to the QinetiQ Leadership Team, second line through the Chief Risk Officer to the QinetiQ Leadership Team and the Risk and Security Committee, and the independent third line that sits outside the risk management processes and reports to both the QinetiQ Leadership Team and to the Audit Committee. The first line is performed by operational management who are responsible for managing risks. The second line is performed by teams that provide expertise, framework design and oversight role but sit outside of day-to-day management of the risks. The third line is performed by internal or external teams such as Internal Audit that provide independent objective assurance.

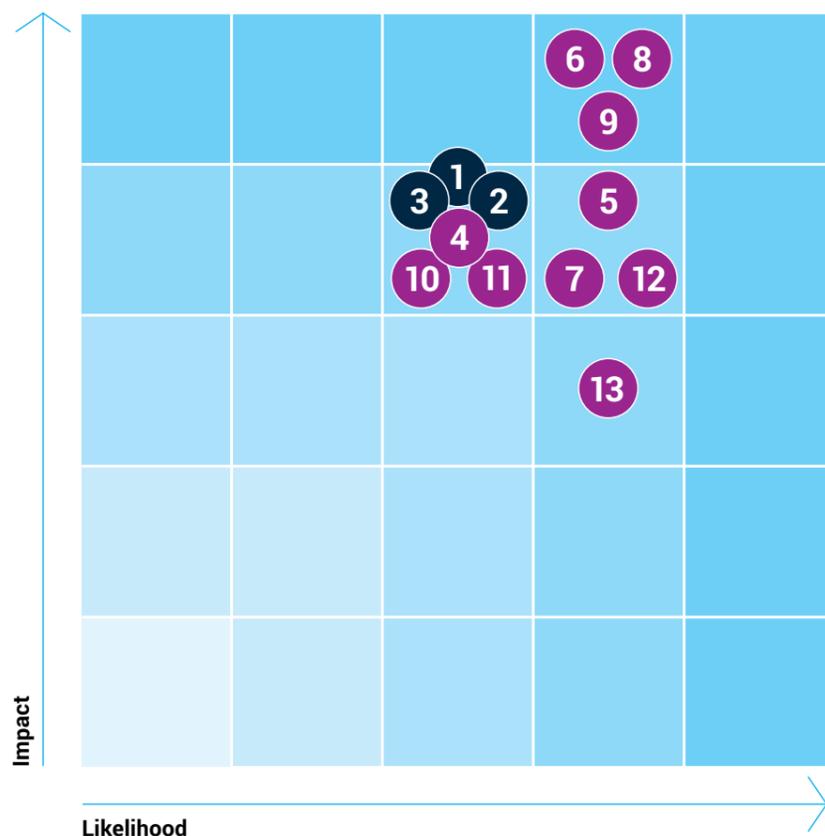


**Principal risks**

The Group Principal Risk Register consists of material risks that could affect the delivery of our strategic objectives and may have a material impact on our stakeholders and environment. We accept that risk is an inherent part of doing business and our Principal Risk Register aims to provide reasonable assurance that we understand, monitor and manage the effects of the main uncertainties that we face in delivering our objectives.

Each principal risk is assessed in relation to the impact to the Group and is overseen directly by the Board. The Board confirms that a robust assessment of the principal risks facing the Group has been carried out, including those that would threaten its business model, future performance, solvency or liquidity.

The summary of risks and associated handling actions taken by management including the controls and any additional mitigations are provided below.



**Principal risks F24**

Category	Risk Owner*	Executive Owner	Link to Strategy		
			Global Leverage	Distinctive Offerings	Disruptive Innovation
<b>Strategic</b>					
1 Competitive Landscape	GH Business Development	CGO	●	●	●
2 Disruptive Technologies	GD S&T Engagement & Enablement	CTO	●	●	●
3 Acquisition Integration	GD Mergers & Acquisitions	CSO	●	●	
<b>Operational</b>					
4 Climate Change	GD ESG	CFO	●	●	●
5 Organisational Culture	GD Employee Experience	CPO	●		●
6 Cyber Security	CIO	CESO	●	●	
7 Management of Change	GD Transformation	CESO	●		●
8 Health, Safety & Wellbeing	GD Safety Excellence	CTO	●	●	●
9 Information Security	CIO	CESO	●	●	
10 IT Infrastructure	CIO	CESO	●	●	
11 Licence to Operate	GD Legal & CRO	CFO	●	●	
12 P3M Capability	GD Programme Excellence	CTO	●	●	●
13 Strategic Capability Planning	GD Skills & Capability	CPO	●	●	●

\* GD – Group Director  
GH – Group Head

**Key changes to our Principal Risks**

In Q3 FY 2024, we conducted a series of workshops with function and sector leaders to review and discuss the company's risks. The results were shared with the QinetiQ Leadership Team, who agreed the principal risks and a number of key (watchlist) risks. The Risk & Security Committee subsequently reviewed and approved the risks.

- The **Digital & Data Programme** and **Large Contract Renewal** principal risks were retired due to mitigation activities that lowered their risk scores to an acceptable level.
- The **Macroeconomic Uncertainty, People Security** and **Physical Security** principal risks were moved to key risks (see section below).
- The **Health and Safety** principal risk was refined to include **Wellbeing** as a component.
- Recognising the dynamic landscape, **Competitive Landscape** and **Disruptive Technologies** were added as principal risks.
- With a number of key transformation projects underway, **Management of Change** was added as a principal risk.

- **IT Infrastructure** was added as a principal risk recognising the importance of the implementation of GII/DW and supportability of some of our business services.
- **License to Operate** was added as a principal risk acting as umbrella for legal, compliance and regulatory related risks.

**Key (Watchlist) Risks**

List of Key risks which sit outside of our principal risks, yet considered important to the Group, have been added. In addition to Macroeconomic Uncertainty, People Security and Physical Security, they include **Business Tools** and **Tension Related to Targets**.

**Strengthening our Framework**

We continue to enhance and embed our risk management framework to promote consistency across all our sectors.

Over the course of the year, we have:

- Completed a full risk review in conjunction with functions and sectors finalising the outcome with the Leadership Team and the Board enabling us to "ready, set, go" our risk strategy for the forthcoming year

- Achieved risk reduction in three major risk areas enabling us to decrease our overall risk exposure
- Successfully completed and achieved recertification in our major ISO certifications
- Established and continue to embed the Three Lines Model. The three lines: Sectors, the Chief Risk Officer and the Risk Team, other functional assurance and the Internal Audit continue to work together contributing to creation and protection of value.
- Continued to deliver our Business Management System transformation on-time and on-cost
- Continued to monitor and regularly report the status of our risk position and associated mitigation plans throughout the year, and perform in-depth reviews of our risks which have been presented to the Board and Risk and Security Committee.
- Continued to engage with our operating Sectors to improve our risk culture

**Strategic risks**

**Competitive Landscape**

Potential Impact	Mitigation
Loss of market share for QinetiQ associated with the changes in market landscape, business agility, changes in defence spending or competitors or new entrants with highly aggressive risk appetite.	QinetiQ is enhancing its competitive position as an established player in the defence and technology sector through our customer-centric approach to the digital transformation of our offerings. We are augmenting our diverse product portfolio and unique skill, capability and resource mix to align to our customer needs in our home and priority markets. This will mitigate contract risk, optimise project delivery, ensuring efficiency and customer satisfaction throughout capture & project delivery.
	Company performance will benefit from leveraging improved 'win' strategies which enhance through-life delivery and optimised business operational costs.
	We have strong collaborative and supporting processes that focus budgets, investment and resources on our strategic priorities. In addition, we are innovating the customer interface that aim to reduce customer costs, streamlines communication and makes it easy to conduct business with QinetiQ.

**Disruptive Technologies**

Potential Impact	Mitigation
Failure to exploit the emerging disruptive technologies (such as AI) into our operations (e.g. HR or Finance) or customer offerings as quickly or effectively may result in a decreased competitiveness in the market.	Group has established technical capability priorities with the operating sectors delivering insight into future customer and internal needs including plans for embedding and exploiting new technologies. This includes creation of an ethical trading policy in terms of artificial intelligence that carefully considers regulatory and legal frameworks and potential future regulatory needs. We continue to carefully monitor developments in this area.

**Acquisition and Integration**

Potential Impact	Mitigation
Failure to integrate, deliver the planned business benefits and drive subsequent value from our inorganic acquisitions.	Integrated governance process focused on transactions and progress monitoring through Merger & Acquisition and Integration Committee is in place for 3 years post completion. This is supported by relevant Integration Steering Groups for each newly acquired company. Enhanced due diligence process and associated policies including ESG, and external advisory support, are all in place to enable early warning, monitoring and action where and when necessary.

**Operational risks**

**Climate Change**

Potential Impact	Mitigation
Failure to meet our published targets, stakeholder expectations and resilience needs for climate change and Net-Zero, resulting in operational disruption, loss of new business, reduced investor confidence and compromised reputation.	We have developed a Net-Zero plan and are committed to science based targets 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. These are: investment in energy efficiency projects, development of programmes to deliver reductions in Scope 3 emissions, internal and industry-wide enabling activities (e.g. engagement, remuneration incentives) and working with our customers to develop sustainable solutions and protecting biodiversity. We are regularly reviewing the risk of climate change to our business and are embedding climate change into business as usual, including governance, strategy, risk management and metrics. We continue to improve this approach. See ESG section on <a href="#">page 34</a> .

**Organisational Culture**

Potential Impact	Mitigation
Failure to define and build a single organisational culture and leadership behaviour set to achieve our strategic goals and ambition.	Implementation of our QinetiQ Operating Model meant we were able to invest in developing our culture and focus on embedding our approach to inclusion, diversity, and people management as well as align rewards, pay and progression and other tools and processes that enable performance and help us to continuously improve our ways of working. Examples include quarterly Peakon reviews and actions, and completion of Organisational Network Analysis which inform our priorities in building and embedding a single organisational culture.

**Cyber Security**

Potential Impact	Mitigation
A successful cyber-attack which is able to exfiltrate data, deny the use of data, degrade or deny capabilities.	The implementation of a Group Cyber Security Programme and targeted cyber security training for key IT staff, including mandatory training for all staff and contractors. We have a robust programme of deployment and continual upgrade of our cyber security detection and protective capabilities and technologies. This includes a routine exercising and technical assessment of our networks, enhanced requirements for IT architecture and security.

**Management of Change**

Potential Impact	Mitigation
Failure to effectively embed, and realise the benefits of, operational change may impede our competitiveness and ability to realise market opportunities.	We are establishing an Enterprise Change Management capability to create a coherent approach to business change management and drive focus on successfully embedding change and realisation of benefits. This will be supported by integrated change management plans for each operating sector.

**Health, Safety & Welbeing**

Potential Impact	Mitigation
Serious physical or mental health injury, fatality of employee(s), third party personnel, or member(s) of the public; loss of assets or significant regulatory enforcement action.	A global Safety Improvement Programme is in place enabling measurable improvements in the safety culture maturity including more effective global safety processes to achieve overall risk reduction, aligned and integrated three lines of safety assurance approach, enhanced competence and upskilling employees to become better safety leaders and role models and inclusion of technology as an enabler for safety. We have established local emergency preparedness and in-country safety teams and are focusing on improving the engagement and training across the Group.

**Information Security**

Potential Impact	Mitigation
Compromise of QinetiQ, or customer, confidential, proprietary or sensitive information. Includes Intellectual Property (IP), ITAR and Personally Identifiable Information(PII); digital, verbal and hard-copy.	Information is protected through policy, procedural, physical and digital security controls, supported by ongoing assurance activities, ongoing awareness campaigns and the annual mandatory security training. We are further investing in tooling to improve tracking of trends to inform improvement in our security measures.

**IT Infrastructure**

Potential Impact	Mitigation
Unplanned instability in Sector IT services could affect broader Company business operations e.g. ability to support revenue generating services.	Implementation of Global Interoperable Infrastructure and Digital Workspace which enhances our collaboration and enables us to leverage our skills globally is well underway and includes replacement of some of the poorly-performing systems and introduction of new, more powerful tools. We have a robust programme of deployment and continual upgrade of our cyber security detection and protective capabilities and technologies. This includes a routine exercising and technical assessment of our networks, enhanced requirements for IT architecture and security.

**Operational risks** continued

**Licence to Operate**

Potential Impact	Mitigation
Non-compliance with relevant laws, regulations or non-conformance with business certifications may impact on the Group's reputation, operations, impact to share price, potential penalties or suspension or debarment from government contracting, with the potential to compromise our ability to conduct business, which would then have a further potential impact on our people, physical assets and the environment.	QinetiQ has a mature enterprise risk management in place, with a focus on maintaining and strengthening safety and regulatory compliance across the Group. The QinetiQ Operating Model defines responsibility throughout the organisation, led by the QinetiQ Code of Conduct that helps drive attitudes and behaviours. There are proportionate compliance policies and procedures in place, supported by mandatory training programmes applicable to all employees. 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 senior management. Continuous improvement is driven using a range of approaches such as audit and evaluation, focused training and strategic improvement programmes. The effectiveness of our internal control environment continues to be assessed at both senior management and Board level, helping identify any potential gaps in assurance over key risks.

**P3M Capability**

Potential Impact	Mitigation
Varying levels of competence, experience, capacity, capability, culture and behaviours in Project, Programme and Portfolio Management (P3M) community lead to poor delivery performance and increased likelihood of major programme failure.	We have updated and rolled out the Global P3M Competency Framework and the P3M Delegations process, ensuring Project Managers' skills and experience are matched to the project complexity. The P3M framework has been improved and provides a scalable and consistent approach to delivering outputs on time, cost and quality. We have launched Performance Excellence Global Training which in conjunction with Group Performance Excellence (GPE) outputs, Global Competency Framework and the P3M Delegations process form part of our business-as-usual controls.

**Strategic Capability Planning**

Potential Impact	Mitigation
Failure to implement a successful 2-5 year view of skills supply and development, and subsequent failure to create the right people capacity and competence for our future ambition.	Having implemented a Joint Strategy and People approach to Strategic Capability Planning which is supported by Talent Management Systems, we are further developing our Early Careers Programme and Diversity and Inclusion (D&I) plans. Employees' career growth is enhanced through the Personal Development Fund. This is further enabled through our Adaptive Working principles which have capitalised on the diverse ways that our people work. We have delivered a significant investment in our award and pay and progression strategy positioning us as a global employer of choice for both early careers and experienced hires.  The People function is developing a global engagement activity for harnessing future capability requirements, assimilating better understanding of the skills gaps and identifying strategic solutions to mitigate these. Our operating Sectors are supervising local SWPs via quarterly Programme Steering Boards.

# Viability statement

## Assessing the prospects of the Group

**This viability statement should be read in conjunction with the Group's Growth strategy on pages 8 - 9.**

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

- 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 / funding metrics;
- An annual budget process that covers the first year of the five-year planning horizon in detail;
- A rolling monthly 'latest best estimate' process to assess significant changes to the budget 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 59 - 61, 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 59 - 61) 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 87, 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 2029. This period is deemed appropriate as the Group has significant contract cover out to 2029 driven by long term contracts. The Group's financing arrangements cover the majority of this period, as the term loan has been extended to August 2026, with one year extension option to take it to August 2027, and the revolving credit facility has been extended to April 2027 post year-end. 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 whilst still providing an appropriate longer-term outlook.

The ISBP base case assumes the renewal of the Long Term Partnering Agreement (LTPA). A Principles Agreement was signed with the UK MOD for a five year extension during FY24.

### Assessing the viability of the Group

The scenarios applied consider the key risks facing the Group, as summarised in the Risks and Uncertainty section on page 56. These include:

- An environmental risk focusing on a severe flooding event at the Shoeburyness site
- Sensitivities on growth metrics in the plan such as margin achievement and revenue growth as a result of competitive pressures, macroeconomic environments, P3M capability, disruptive technologies and workforce planning
- Sensitivities based on our cash position including increased working capital burden
- Sensitivities linked to the economic environment including revenue reduction and FX risk

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 pressures and poor trading performance.

The Group has significant forecast growth resulting in a return to positive net cash from FY27. The sensitivities assume that the Group continues to have access to Revolving Credit facilities of £275m (renewed in April 2024 at £290m to expire in April 2027) and that the term loan of £336m can be extended by one more year (expiring September 2026). 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, or in aggregate, 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 109, 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 2029.

Scenarios modelled	Links to Principal Risks
<p><b>Scenario 1 - Major environmental event</b></p> <p>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><b>Assumptions:</b> 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
<p><b>Scenario 2 - Profit margin downgrade</b></p> <p>Profit margin is downgraded as a result of competitive pressure, project execution, inability to achieve supply chain and organisational efficiency savings or a regulatory fine.</p> <p><b>Assumptions:</b> A 2% reduction in profit margin, no impact on revenue.</p>	P3M Capability Health, Safety and Wellbeing Competitive Landscape Organisational Culture Information Security

## Viability statement continued

Scenarios modelled	Links to Principal Risks
<p><b>Scenario 3 - Reduction in revenue growth</b></p> <p>Revenue grows at a slower rate through the planning period driven by slow down in orders as a result of customer spending, macroeconomic pressures, a cyber incident or failure to plan the future resource and skillset needed.</p> <p><b>Assumptions:</b> Revenue restricted to 4% organic growth per annum.</p>	<p>Cyber Security Strategic Capability Planning Disruptive Technologies License to Operate</p>
<p><b>Scenario 4 - Reduced operating cash conversion</b></p> <p>Economic environment causes delays in customer payments, high inventory levels driven by supplier shortages, or IT system failure resulting in inability to raise invoices and receipt of supplier payments.</p> <p><b>Assumptions:</b> Cash conversion restricted to 85%.</p>	<p>Management of Change IT Infrastructure</p>
<p><b>Scenario 5 - Increased FX rates</b></p> <p>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><b>Assumptions:</b> 10% increase in FX (USD &amp; AUD) rates.</p>	<p>Acquisition and Integration Competitive Landscape</p>
Combined stress tests modelled	Scenarios used
<p>a) Financial pressures - Continued strengthening of GBP against USD and AUD crystallises a translation risk at group level. Customers exposed to FX volatility may struggle to meet milestone payment deadlines. Increasing returns on FX markets drives shareholders to demand better returns on investment. Likelihood moderate given macroeconomic environment.</p>	4 & 5
<p>b) Poor trading performance (profitability). Combination of all profitability related scenarios.</p>	1, 2 & 3

### Going Concern Disclosures

The Group's activities, combined with the factors that are likely to affect its future development and performance, are set out on pages 1 - 27. The Group meets its day-to-day working capital requirements through its available cash funds and its bank facilities. The Interim Group Chief Financial Officer's review on pages 28 - 31 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 'Principal risks' section on pages 56 - 61. 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 below, 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 at least the next 12 months from 23 May 2024.

# Creating lasting societal value

## How we engage with our key stakeholder groups

### Customers

Our customers are at the heart of our purpose and we strive to apply our strengths to their advantage to enable delivery of mission-led innovation. Every QinetiQ customer has a delivery team and we regularly invest time listening and understanding their views and needs via our formal customer research systems, for more information see page 10 and stakeholder engagement at page 32.

### People

We are a people business and our people are critical to our success. A key engagement form is our Global Employee Voice Group. To see more about how we engage with our people see page 89.

### Shareholders

We engage with our shareholders during the year through physical and virtual roadshows, results presentations and the AGM and we seek to keep an open dialogue with them regarding business, our strategy, and the management team. In the year under review, we also held an Investor Seminar in the US, a General Meeting, for engagement on the £100 million Share Buyback Programme, as well as undertaking a Shareholder Perception Audit, see pages 90 to 91.

### Suppliers

We occupy a unique position in defence and actively engage with our suppliers, working collaboratively to ensure we treat them with integrity and take a fair and sustainable approach. We are active Co-Chair of the Defence Suppliers Forum (DSF) and hold strategic relationships across organisations and engage with our supply chain through in a variety of ways, including our QinetiQ Collaborate events and industry working group; see Working with our Supply Chain page 55.

### Communities

We strive to have a positive impact on our local communities by engaging in community investment such as our outreach programme, volunteering, supporting local charities and community liaison. We provide services that promote the safety and security of members of society, supported by our Net-Zero plan; see ESG pages 53 & 55.

### Regulators

We engage with Regulators to understand changing regulations and ensure we meet their requirements. Our Audit Committee has undertaken a consultation in relation to the new proposed Corporate Governance Code and we have participated in the Parker Review by way of reporting on Board diversity, see pages 74, 87 & 104 or Directors' report pages 130 to 133.

## Section 172 Statement

We are committed to our responsibilities to promote the success of the Group. The Board of QinetiQ Group plc confirms that during the year under review, it has acted in the way that it considers, in good faith, would be most likely to promote the Group's success for the benefit of its members as a whole, having due regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006.

QinetiQ Group plc is a public Company limited by shares, registered in England and Wales No. 4586941.

Typically in large and complex companies such as QinetiQ, the Directors partly fulfil their duties 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 are outlined below.

This statement and the relevant disclosures referenced on this page summarise how the Board has upheld and discharged its duties, consider:

- (a) The likely consequences of any decision in the long term.
- (b) The interests of the Company's employees.
- (c) The desirability of the Company maintaining a reputation for high standards of business conduct.
- (d) The need to act fairly between members of the Company.
- (e) The need to foster the Company's business relationships with suppliers, customers and others.
- (f) The impact of the Company's operations on the community and the environment.

See page 67 for relevant disclosures.

## Creating lasting societal value continued

### Our stakeholders and approach to engagement

To deliver responsibly and for the benefit of all stakeholders, we must understand what matters to them. To do this we engage in a variety of ways in an open and transparent manner, with the aim of identifying common goals.

In some cases the Board will engage directly with certain stakeholders, however, the relevant delivery teams will also manage this engagement if they are better-placed to facilitate meaningful engagement.

We consider the stakeholder and relevant issues to ensure that engagement is led by those best-placed to affect any necessary change.

We expect that our approach and how we engage with our stakeholders will continue to evolve as we pursue further growth and geographic expansion, for the benefit of all of our stakeholders.

#### Board activity and principal decisions in FY24

The principal decisions taken by the Board in FY24 are detailed on pages 85 to 86. These decisions cover a variety of topics, including capital allocation, succession planning and the Company's 10-year outlook. Due to the nature of these decisions, a variety of stakeholders are considered as part of the Board's discussions.



### Impact of stakeholder engagement and how we create value

#### Customers

The formal feedback we receive from our customers allows us to respond and adapt our approach when achieving their objectives. It is reviewed at all levels of our organisation to ensure we continuously improve and evolve our business processes and delivery solutions. It enables us to deliver mission-critical solutions and help customers address their most pressing challenges. They benefit from a responsive and agile approach and the ability to innovate at pace while delivering value for money.

#### People

We have been able to identify priority focus areas to improve the employee experience by listening to our people through our Peakon surveys and directing our efforts to enhance areas highlighted by direct feedback. Including: ways of working, safety, digital improvements and concerns about the cost of living. See Page 89 for more information on Peakon.

Our peoples work makes a genuine difference to our customers, and we are committed to providing an employee experience which fosters rewarding careers in highly skilled areas, giving our people the opportunity to satisfy their intellectual curiosities.

#### Shareholders

Shareholder feedback and comments helps shape our strategic thinking and decision-making and their 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, and have sought to keep both our investors and the financial markets up-to-date with our progress and strategic decisions throughout the year.

#### Suppliers

We aim to bring down barriers for suppliers in defence and emerging sectors. Engagement with our supply chain gives us insight into industry partnering to effectively support our customers.

#### Communities

We aim to benefit the wider socio-economic wellbeing of communities and our community investment is viewed positively where we operate. Regular community liaison updates ensure local people are aware of our outreach activity. This has created aspirations and provided signposting to rewarding careers for young people, particularly in STEM.

#### Regulators

We take an active role in the defence industry through various forums and industry networks. Our engagement supports us meeting the high standards expected by our regulators.

## Section 172 relevant disclosures

### Considering long-term consequences

#### s172 link (a)

The Board holds annual strategy meetings which assess the long-term sustainable success of the Group and our impact on our investors, customers, people, and local communities over a 10-year outlook. Our Group Chair and Company Secretary working with the Executive Directors, set a rolling agenda for each Board meeting, including a two-day strategy review to consider the Company's overall purpose and strategy. This is supported by a budget for the following year and both medium and long-term (five and 10-year) financial planning informed by strategic assessments, such as SWOT analysis. These arrangements are supported by external political, institutional, customer and academic inputs. There are also 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 57 to 61).

#### Relevant S172(a) disclosures

Pages 76 to 77 Company purpose  
 Pages 10 to 11 Business model  
 Pages 6 to 7 Strategy  
 Pages 30 to 31 Dividend and Capital Allocation policy  
 Pages 62 to 64 Viability statement  
 Page 54 Governance and leadership of our responsible and sustainable business approach  
 Page 109 Frameworks for risk management and internal control  
 Pages 40 to 42 Net-Zero pathways initiatives

### Fostering stakeholder relationships

#### s172 links (b, c)

To encourage mutually beneficial stakeholder relationships, specific training is provided for Directors and senior managers and we ensure external assurance, through audits, stakeholder surveys and reports from brokers and other advisers, and stakeholder engagement. The Board receives regular presentations and reports on customer engagement, risk, health and safety, confidential reporting, defence process review, dividend policy, people and culture strategy, and operational business updates. The Company listened to direct feedback from UK employees this year in relation to reward and responded by committing to the implementation of a 'fair baseline for all' which enabled the Company to uplift UK employee rewards in line with its Rewarding for Performance approach. The Company also took feedback from its shareholders through direct Board engagement and a shareholder perception audit, which helped inform deployment of its capital allocation policy.

#### Relevant S172(b,c) disclosures

Pages 46 to 51 Our people  
 Page 48 Safety and wellbeing  
 Page 89 Employee engagement  
 Pages 51 to 52 Learning and Development: skills and talent  
 Pages 52 to 53 Reward and recognition  
 Pages 68 to 69 Non-financial information statement  
 Page 91 Board engagement  
 Pages 49 to 50 Diversity, equity and inclusion  
 Page 35 ESG framework  
 Pages 76 to 77 Purpose and culture  
 Page 90 Shareholder engagement

### Protecting communities and environment

#### s172 link (d)

The Group is committed to 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 the armed forces. Any major decisions taken by the Board includes formal consideration to these factors where relevant as well as regular reviews through the Board risk management process and the Audit, Risk and Security and Remuneration Committees.

#### Relevant S172(d) disclosures

Pages 36 to 42 Environmental  
 Page 68 Energy management  
 Page 53 Responsibility and sustainability  
 Pages 43 to 47 TCFD disclosures  
 Page 69 Community and Society, Human rights and Anti-bribery and anti-corruption  
 Page 87 Engagement environment and community

### Setting culture and conduct

#### s172 link (e, f)

The Board sets the Group's purpose, values and strategy, ensuring it is aligned with our culture. To ensure section 172 requirements are met, stakeholder factors are addressed in Board papers, and through 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) and the Company Secretary presents updates on relevant corporate governance and compliance matters.

#### Relevant S172(e,f) disclosures

Pages 48 to 53 Social  
 Pages 76 to 77 Purpose and culture  
 Page 57 Internal controls  
 Pages 90 to 91 Shareholder engagement  
 Pages 73 and 132 Annual General Meeting  
 Pages 56 to 61 Risk Management  
 Page 81 Governance structure

# Non-financial and sustainability information statement

The non-financial and sustainability 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. We have a range of policy and guidance, some of which is published on our website: [www.QinetiQ.com](http://www.QinetiQ.com).

## Certain of the non-financial and sustainability information required pursuant to the Companies Act 2006 is provided by reference to the following locations:

Non-financial information	Section	Pages
<b>Business model</b>	Business model	14
<b>Policies</b>	Non-financial and sustainability information statement	68
<b>Risk management</b>	Risk management	56
<b>Principal risks</b>	Risk management	58
<b>Key Performance Indicators</b>	Key performance indicators	33
<b>Sustainability (ESG)</b>	Environmental Social Governance	35
<b>Board Diversity Policy</b>	Corporate Governance	96

### Our people

Policy statement	Description
<b>Code of Conduct</b>	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 54). There is guidance on our standards, on ethical decision-making and also how to seek help and raise concerns. We review our Code of Conduct annually to reflect the needs of our business, regulations and best practice.
<b>Speak Up</b>	Guidance for our people and third parties on how to 'speak up' is provided within our Code of Conduct and our supplier Code of Conduct (see page 55), both are available on our website. Speak up and the Code of Conduct form part of the Business Ethics Committee and ESG Steering Committee 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 90.
<b>Health and safety</b>	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, quarterly through the Technology and Operational Excellence Council meetings, through QinetiQ Leadership Team (QLT) meetings and regularly as part of the Board Risk and Security Committee (see page 106). Lost Time Incidents (LTI) as a key non-financial KPI (page 33), and have shown an improvement compared with FY23. Safety programmes are described on page 48 and listed in our operational risks (page 60).
<b>Diversity and inclusion</b>	Diversity and Inclusion forms part of our Employee Engagement and Culture Group Requirement and underpins our approach to supporting an inclusive 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, Diversity and Belonging Strategy including an improvement in gender diversity (against our 30% by 2030 target), is described on pages 68 and 69. Data and progress against the Board's Diversity and Inclusion Policy is described on page 96.

### The environment

Policy statement	Description
<b>Environmental management; waste management and sustainability appraisal</b>	We are committed to embedding an environmentally sustainable approach to business because we understand its importance to our business and our stakeholders (see page 39). The effectiveness of our Environmental Group Requirement 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 Environment Council (page 40) 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. We recognise that reducing waste meets our sustainability goals and contributes to our Net-Zero plan. On page 42 we outline our approach. Our Environment Council has oversight of our approach. 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

### Climate-related financial disclosure requirements S414CB(2A)

The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 place requirements on QinetiQ to incorporate climate disclosures in the annual report and accounts. We believe these have been addressed within this years climate related disclosures within our statement on TCFD (pages 43-47)

- (a) QinetiQ's governance arrangements in relation to assessing and managing climate-related risks and opportunities (page 43)
- (b) how QinetiQ identifies, assesses, and manages climate-related risks and opportunities (page 46)
- (c) How processes for identifying, assessing, and managing climate-related risks are integrated into QinetiQ's overall risk management process (page 46)
- (d) The principal climate-related risks/opportunities arising in connection with QinetiQ's operations, and time periods to which they are assessed (pages 44-45)
- (e) The actual and potential impacts of the principal climate-related risks and opportunities on QinetiQ's business model and strategy (pages 44-45)
- (f) An analysis of the resilience of QinetiQ's business model and strategy, taking into consideration different climate-related scenarios (pages 44-45)
- (g) The targets used by to manage climate-related risks and to realise climate-related opportunities and of performance against those targets (page 47)
- (h) The key performance indicators used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and of the calculations on which the KPIs are based (page 47)

### Community and society

Policy statement	Description
<b>Volunteering</b>	Our instructions provides guidance for employees to use Company time to use their skills, which enable us to make a positive difference in the community (page 53). The effectiveness is monitored by the ESG team, with oversight by the ESG Steering Committee and via our assurance process.
<b>Safeguarding children and vulnerable adults</b>	Our Instructions explain the importance of safeguarding as part of our community investment programme and outlines requirements for risk assessment and the right behaviours. The Instructions are managed both by the ESG team and locally by safeguarding experts in our Early Careers Team and via our assurance process.
<b>Tax</b>	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 55).
<b>Sponsorship and donations</b>	Our approach 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 Sponsorship and Donations Committee and our assurance process.

### Human rights

Policy statement	Description
<b>Human rights</b>	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 Steering Committee, 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 55).
<b>Modern slavery</b>	We recognise our responsibility to comply with all relevant legislation, including The UK Modern Slavery Act 2015 and in accordance the modern slavery laws of other locations in which QinetiQ operates. Our supporting policies 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 the homepage of our website. The effectiveness is monitored via our assurance programme and leadership oversight (QLT and Board). See page 55 for details of the programme.
<b>Data protection</b>	Our Data Protection Group Requirement details how we manage the privacy and security of personal information. The effectiveness is monitoring via our assurance programme and leadership oversight (QLT and Board).
<b>Supply chain code of conduct</b>	Our Supplier Code of Conduct helps ensure our suppliers have clarity on our expectations on human rights issues. See page 55 and our website for more details.
<b>International trade compliance</b>	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
<b>Code of Conduct</b>	Our Code of Conduct lays out our ethical standards, and contains advice on anti-bribery and corruption (see page 54).
<b>Anti-bribery and corruption</b>	Our Anti-Bribery and Corruption (ABC) Group Requirement sets out our responsibilities in observing and upholding our zero-tolerance approach to all forms of bribery and corruption. This 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 54.
<b>Commercial intermediaries</b>	Managing commercial intermediaries is one of a suite of key Group Requirements which supports our zero tolerance approach to ABC. It provides clear guidance on approach. This has Executive and Board oversight, is subject to our assurance process and self-certification.
<b>Sanction screening</b>	It is key that we comply with any sanctions requirements and so undertake various screenings. This is captured in our Sanctions Compliance Group Requirement, which is designed to ensure we comply, has QLT and Board oversight, and is subject to our assurance process and self-certification.
<b>Gifts and hospitality</b>	Our Gifts and Hospitality procedure and guidance in the Code of Conduct supports our zero-tolerance approach to ABC. It provides clear guidance on what is appropriate and how to record. This has QLT and Board oversight, and is subject to our assurance process and self-certification.

# Corporate Governance

## Corporate governance

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**Neil Johnson**  
Non-executive  
Group Chair

# Introduction to Governance



//At a time of heightened world conflict, the Company's clear, proportionate and well-embedded system of corporate governance, which effectively supports and guides how we deliver against our mission and objectives, is key to giving our customers, partners and shareholders transparency and confidence in how our Company executes against its strategy.//

The following corporate governance statement provides an overview of the system of governance adopted by the Company and will enable our shareholders to evaluate the manner in which UK Corporate Governance Code Principles and Provisions have been applied by the Company for the year ended 31 March 2024.

## Key Board activities

During this reporting year, the Board has made improvements to its Board Diversity Policy, announced the commencement of a £100m share buyback programme and has overseen a number of changes to the make-up of the Board. The Audit Committee has been planning to implement the changes to the audit, risk and internal control provisions in the recently published 2024 UK Corporate Governance Code, as well as the proposed changes in the non-financial reporting and audit environment.

A fuller summary of the Board's activity during the year can be found on [page 87](#), and further information about the Group's stakeholder engagement can be found on [page 65](#).

I have already covered a number of areas in the Group Chair Statement earlier in this Report, so rather than repeat those comments, I set out below a few further additions.

## 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 have had many discussions on how to best keep evolving our approach to ESG matters including our Net-Zero programme and the evolution of non-financial reporting. 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.

This year, considerable effort has been made to further enhance the Company's safety culture, especially at senior leadership level, and further information on health, safety and wellbeing can be found on [page 48](#).

## 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 are 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 succession and evaluation of the Board's performance

I have already set out in the Group Chair Statement, earlier in the Report, the changes that are being made to the composition of the Board and I will say more about this in the Nominations Committee Report.

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 and FY23 by Tom Bonham-Carter of The Effective Board LLP, an internal review was conducted in FY24 to assess how the Company is progressing against the last two years' recommendations. Please see [pages 97 to 98](#) for details of the outcome of the review.

## Remuneration

During the year, the Board's Remuneration Committee has focused on ensuring that the Remuneration Policy approved at the 2023 AGM is operating 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 also aligned with the interests of, our shareholders and the returns we deliver to them.

The Company has also continued to enhance the reward schemes for its people, aimed at supporting them with the continued high 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.

## Application of the provisions of the 2018 UK Corporate Governance Code (the "Code")

In respect of the year ended 31 March 2024, the Company was subject to the Code. The Board confirms that it applied the principles and complied with the provisions of the Code throughout the year, with the exception of Provision 4. At the AGM in July 2023, the Chair received more than 20% of votes cast

against his reappointment as a Director of the Company. Provision 4 of the Code requires the Company to publish an update on the views received from shareholders and actions taken, no later than six months after the shareholder meeting. The Company released an announcement on 14 May 2024 giving further details in this regard. The reason for delay after 20 January 2024 until 14 May 2024 was to enable the Company to make a full response to the issues raised. Further details can be found on [page 90](#).

Further information on compliance with the Code can be found on [page 74](#).

## 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 18 July 2024 at the office of Ashurst LLP, London Fruit and Wool Exchange, Duval Square, London E1 6PW. Further details will be provided in our Notice of AGM and on our website [www.QinetiQ.com](http://www.QinetiQ.com).

**Neil Johnson**  
Non-executive Group Chair

# Governance framework and Board at a glance

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. The UK Corporate Governance Code is publicly available at [www.frc.org.uk](http://www.frc.org.uk). Further information on compliance with the Code can be found as follows:

## 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.

- Section 172(1) statement [pages 65 to 67](#).
- Board of Directors [pages 78 to 80](#).
- Company purpose [page 76](#).
- Social [pages 48 to 53](#).
- Stakeholder engagement [pages 65 to 67](#).
- Employee engagement [page 89](#).

## Division of responsibilities

- Governance structure [page 81](#).
- Division of responsibilities [page 82](#).
- Board of Directors [pages 78 to 80](#).
- Time commitment [page 83](#).
- Board and Committee processes [pages 83 to 84](#).

## Composition, succession and evaluation

- Nominations Committee report [pages 92 to 99](#).
- Board of Directors [pages 78 to 80](#).
- Director effectiveness [pages 97 to 98](#).

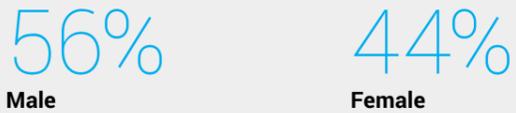
## Audit, risk and internal control

- Audit Committee report [pages 100 to 105](#).
- Risk & Security Committee report [pages 106 to 109](#).

## Remuneration

- Directors' Remuneration Committee report [pages 110 to 129](#).

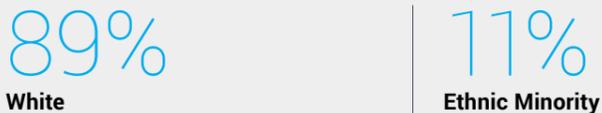
### FY24 Board gender diversity



### FY24 Board independence



### FY24 Board Ethnicity

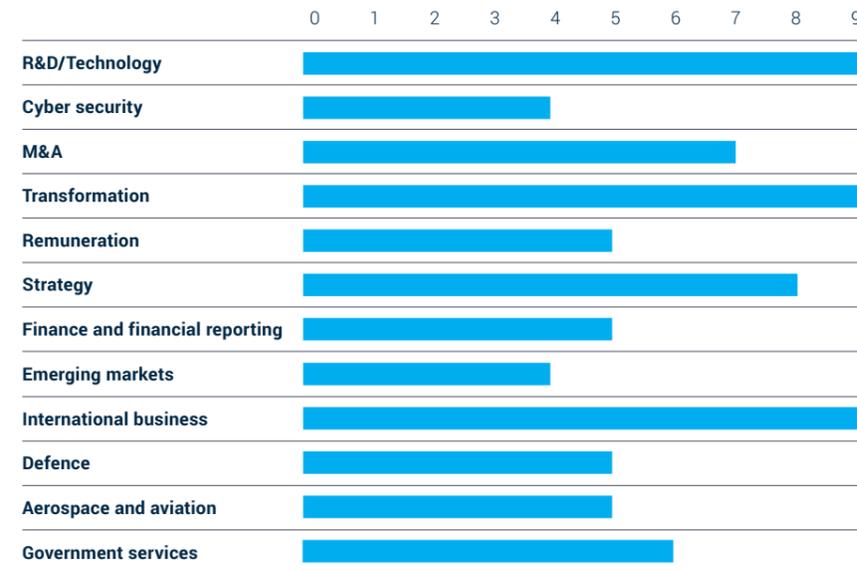


### Non-executive Director tenure

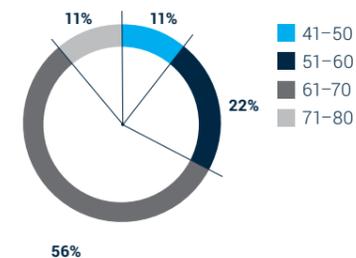
Name	Tenure (as at 22 May 2024). Average 3.3 years
Neil Johnson (Chair)	5
Shonaid Jemmett-Page	4
Dina Knight	0
Ross McEwan	0
Gordon Messenger	3
Steve Mogford	1
Susan Searle	10

### Skills and experience

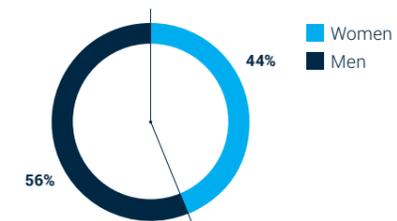
The chart below demonstrates the skills and experience of the Board members:



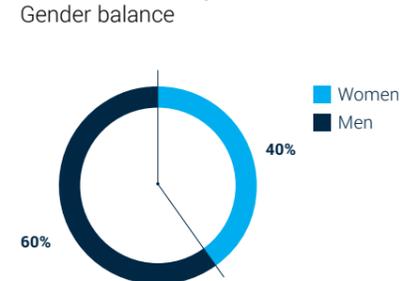
### Board members: Age



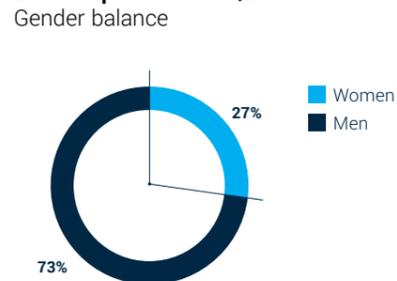
### Board members: Gender balance



### QinetiQ Leadership Team: Gender balance



### Direct reports to the QLT: Gender balance



# The significance of our purpose, values and strategy

## Our Values

### Integrity

Trusted to do the right thing at all times, we take pride in our decisions, and work to create a sustainable and responsible business. We are responsible and accountable for all our actions. We take personal responsibility to do the right thing, demonstrating this individually and as an organisation in our decisions, behaviour and day-to-day actions. We actively support each other to meet the highest ethical and professional standards.

### Collaboration

The chosen partner for customers and industry colleagues, we are a diverse and inclusive community with a common purpose; every contribution is valued. Delivering value through partnership and teamwork, we actively collaborate with our colleagues, customers and industry partners to bring together the best thinking, the smartest talent, breadth and depth in capability to our work, driving ambition. We know that working together is the best way to meet our stakeholders' needs.

### Performance

Customer-focused and highly responsive, providing operational excellence and assuring safe and secure delivery. Our performance is measured by how we deliver for our customers; meeting their needs through flawless execution and delivery of the mission-critical solutions on which they depend. This includes being accountable for getting things right the first time, safely, securely and in a cost-effective way. Taking an innovative and responsive approach to creating an outstanding customer experience, we try to go the extra mile and act with courage.

## Our purpose

Protecting lives by serving the national security interests of our customers

## Our vision

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

## Driven by mission-led innovation

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

## Creating a safe and secure environment for us all to thrive

Through our core values of Integrity, Collaboration and a High-Performance Culture, and our Company behaviours of Listening, Focusing and Keeping Our Promises

## Delivered through a customer-focused growth strategy

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, disruptive innovation and autonomous systems

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

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. 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 'Speak Up' 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 people, 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.
- Implement the work of Group support functions to advise on 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, the People 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 people reflect our values. These include:

- Reviews, in the Boardroom, of the outcomes of the Company's staff Peakon surveys, customer satisfaction scores and updates on confidential reporting 'Speak Up'. 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 people
- Directors' attendance at Company events, such as the bi-annual virtual Global Employee Roadshows.

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 and other stakeholders, have revealed matters that can be improved upon or have flagged concerns, the Board has discussed these and assured itself that management is putting action plans in place that are designed to drive improvements or address those concerns.

### Safety culture

QinetiQ's Health and Safety strategy sets the direction for how we look after ourselves, each other and our partners. Our Safety culture journey, is constantly progressing and adapting. The Safety Improvement Programme, established by the Board and led by the QLT is driving a step-change in our safety culture. More information on the SIP can be found on [page 48](#).

### Stakeholder engagement

Engagement and collaboration through our value chain is essential. Partnering with our stakeholders, understanding their challenges and managing risks, we can find solutions to enable 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 65 to 67](#) 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	<a href="#">pages 65 to 67 &amp; 90</a>
Employees	<a href="#">page 89</a>
Customers/suppliers	<a href="#">page 6</a>
Environment	<a href="#">pages 36 to 47</a>
Social	<a href="#">pages 48 to 53</a>

Further information about how the Directors have accounted for stakeholders in their decision-making is set out on [pages 85 to 86](#).

# Experienced and strategically focused

## Committee membership key

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



**Neil Johnson**  
Group Chair

**Committees** **N R RS**

**Nationality** British

**Appointed** April 2019

**Skills, competence and experience**

Neil's former CEO experience and current roles as a plc Group Chair and Non-executive Director brings to the Board relevant knowledge, challenge and leadership.

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

**Other appointments**

Chair of Dialight plc, Trustee and Council Member - National Army Museum.



**Steve Wadey**  
Group Chief Executive Officer

**Committees** **RS**

**Nationality** British

**Appointed** April 2015

**Skills, competence and experience**

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

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



**Steve Mogford**  
Senior Independent  
Non-executive Director

**Committees** **A N R RS**

**Nationality** British

**Appointed** August 2022

**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. Steve has a first class honours degree in astrophysics, maths and physics from London University.

Formerly the CEO of United Utilities Group PLC, Steve started his career at British Aerospace. During his long career with them, he held a number of senior positions before being appointed COO and a member of the BAE Systems plc Board. Steve then joined Finmeccanica 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**

Independent Non-executive Director of Costain Group PLC.



**Shonaid Jemmett-Page**  
Independent  
Non-executive Director

**Committees** **A N R RS**

**Nationality** British

**Appointed** May 2020

**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, is 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 and ClearBank Limited and Non-executive Director of Aviva plc.



**Dina Knight**  
Independent  
Non-executive Director

**Committees** **A N R RS**

**Nationality** British

**Appointed** March 2024

**Skills, competence and experience**

Dina has over thirty years' HR experience gained across private and PLC business environments. She is highly experienced in working across international workforces, building strong teams to deliver change and drive results, whilst ensuring that the workforce and business's well-being remain a top priority. Dina read Business Studies and gained a Post Graduate Diploma in Personnel Management from Teeside University.

Dina is Chief People Officer of global technology provider Datatec Group and Logicalis International, accountable for its people operations and strategy. Previously she was Global HR Director at Truphone, responsible for driving a collaborative and innovation-centred culture. She has also held positions as Group HR Director for Teledyne e2v and Northgate Information Solutions.

**Other appointments**

Chief People Officer of Datatec Group.



**Ross McEwan**  
Independent  
Non-executive Director

**Committees** **A N R RS**

**Nationality** New Zealand

**Appointed** March 2024

**Skills, competence and experience**

Ross has more than thirty years' experience in the finance, insurance and investment industries, and brings a strong focus on customers, business performance, capital management, technology transformation, risk management, and people and culture. He holds a Bachelor of Business Studies from Massey University, New Zealand.

Ross has been Chief Executive Officer and Managing Director of National Australia Bank Limited since December 2019. He was previously Group CEO of Royal Bank of Scotland. He also held the positions of Group Executive for Retail Banking Services and Executive General Manager at the Commonwealth Bank of Australia, as well as Managing Director of First NZ Capital Securities and Chief Executive Officer of National Mutual Life Association of Australia Limited/AXA New Zealand Limited.

**Other appointments**

Chief Executive Officer and Managing Director of National Australia Bank Limited (until 1 July 2024) and Non-executive Director of BHP Group Limited.

Committee membership key

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



**General Sir Gordon Messenger**  
Independent Non-executive Director

**Committees** **A N R RS**

**Nationality** British

**Appointed** October 2020

**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**

A Board member of the UK Health Security Agency, a member of the Advisory Board of C3.ai Inc., Senior Independent Advisor to BUPA, Trustee of Historic Royal Palaces, Trustee of the Kings Foundation, and serves as Constable of His Majesty's Tower of London.



**Susan Searle**  
Independent Non-executive Director

**Committees** **A N R RS**

**Nationality** British

**Appointed** March 2014

**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 Benchmark Holdings PLC, as well as Chair of Mercia Asset Management plc and Schroder UK Public Private Trust plc.

**Other appointments**

Non-executive Director and Chair of the Sustainability Committee of Gooch & Housego PLC, Chair of Greenback Recycling Technologies Ltd and Non-executive Director of Bibby Line Group.



**James Field**  
Company Secretary and Group Director Legal

**Committees**

**Nationality** British

**Appointed** July 2022

**Skills, competence and experience**

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.

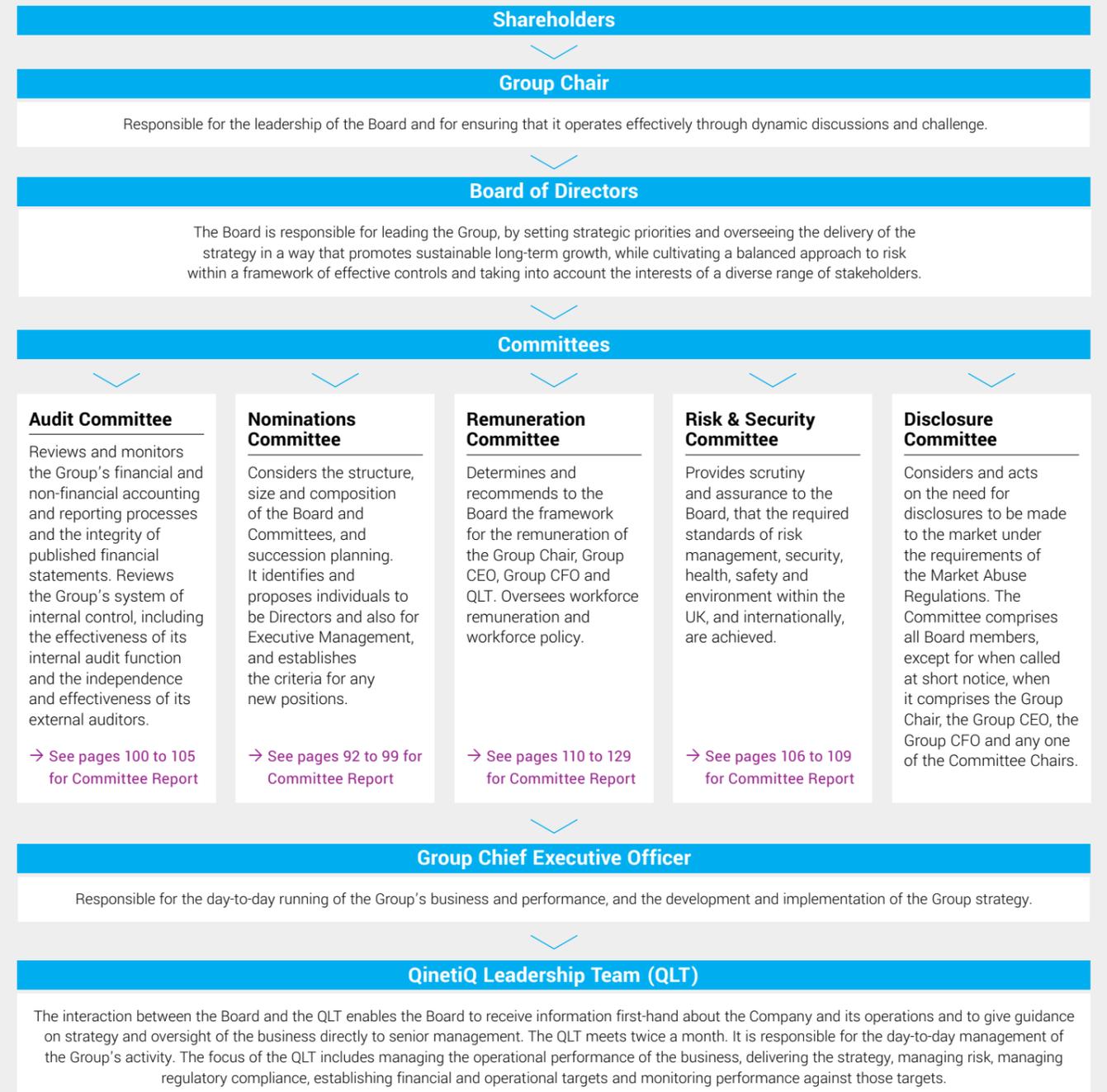
**Other appointments**

N/A

Carol Borg was Group Chief Financial Officer during all of FY24 and stepped down from the Board on 16 April 2024. Larry Prior was a Non-executive Director until he stepped down from the Board on 16 March 2024. More details can be found on [page 3](#).

# Governance structure

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](http://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.



## 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 the interests of all our stakeholders

### Roles and responsibilities

The Board has agreed a clear division of responsibilities between the Group Chair and the Group 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.

<b>Group Chair</b> Neil Johnson	<ul style="list-style-type: none"> <li>– Provides overall leadership and ensures effectiveness of the Board</li> <li>– Sets the agenda, character and tone of the Board meetings and discussions</li> </ul>	<ul style="list-style-type: none"> <li>– Maintains an effective working relationship with the Group CEO</li> <li>– Leads the annual performance evaluation of the Board, its Committees and ensures that each Non-executive Director makes an effective contribution</li> </ul>
<b>Group CEO</b> Steve Wadey	<ul style="list-style-type: none"> <li>– 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</li> <li>– Develops the Group's business model and manages the Group's operations</li> <li>– Overseas the development and implementation by the QinetiQ Leadership Team's corporate, safety and environmental policies and standards</li> </ul>	<ul style="list-style-type: none"> <li>– Establishes and services relationships with key stakeholders</li> <li>– Reinforces the Group's values and sets expected employee behaviours</li> <li>– Communicates (alongside the Group CFO) the Group's financial performance and strategic progress to investors and analysts</li> <li>– Ensures the Board is kept fully apprised of the Group's operational and safety performance, risks and opportunities</li> </ul>
<b>Group CFO</b> Heather Cashin (Interim)	<ul style="list-style-type: none"> <li>– Responsible for the financial stewardship of the Group's resources through appropriate accounting, financial and other internal controls</li> <li>– Directs and manages the Group's finance, tax, treasury, risk management, ESG, legal and governance and insurance functions</li> </ul>	<ul style="list-style-type: none"> <li>– Communicates (alongside the Group CEO) the Group's financial performance and strategic progress to investors and analysts</li> </ul>
<b>Senior Independent Non-executive Director</b> Steve Mogford	<ul style="list-style-type: none"> <li>– Acts as sounding board for the Group Chair and a trusted intermediary for the other Directors</li> <li>– Available to shareholders to discuss any concerns that cannot be resolved through the normal Group Chair or Group CEO channels</li> </ul>	<ul style="list-style-type: none"> <li>– 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</li> <li>– Meets with the Non-executive Directors without the Group Chair present at least annually, and as required, to discuss Board matters</li> </ul>
<b>Independent Non-executive Directors</b> Shonaid Jemmett-Page, Dina Knight, Ross McEwan, General Sir Gordon Messenger, Steve Mogford, Susan Searle	<ul style="list-style-type: none"> <li>– Monitor and scrutinise the Group's performance against its strategic goals and financial plans</li> <li>– Provide an objective perspective on the Board's deliberations and decision-making, drawing on their own broad collective experience and individual expertise and insights</li> </ul>	<ul style="list-style-type: none"> <li>– Monitor and assess the Group's culture, use appropriate and effective means to engage with employees and acquire an understanding of other stakeholders' views</li> <li>– Assess the effectiveness of, provide support to, and constructively challenge, the Executive Directors</li> <li>– Play a lead role in the functioning of the Board's Committees</li> </ul>
<b>Company Secretary</b> James Field	<ul style="list-style-type: none"> <li>– 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</li> </ul>	<ul style="list-style-type: none"> <li>– Responsible, with the Group and Committee Chairs, for setting the agenda for Board and Committee meetings and for high-quality and timely information and communication between the Board and its Committees, and between the Directors and senior management as required</li> <li>– Ensures that Board and Committee procedures are complied with</li> </ul>

## 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 Group CEO, Group 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 Susan Searle, who has served on the Board for more than nine years, was again subject to a rigorous review by the Nominations Committee in March 2024. When making this assessment for Susan (who has served on the Board since March 2014), the Nominations Committee based its decision on the fact that Susan continues to demonstrate integrity and independence in her advice and challenge. Susan was not in attendance during the review and the Nominations Committee remains satisfied that the length of her tenure has not impacted on her level of independence or contributions.

### Time commitment

Each Non-executive Director must be able to devote sufficient time to their role as a member of the Board 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 process.

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 and engagement with employees at the Company's global facilities.

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 its nature, the time requirements for this role are not as significant as at a FTSE 250 operating company such as QinetiQ. The Group Chair has reviewed Shonaid's current commitments and contribution to the QinetiQ Board, and he confirms that during the year she 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 Group CEO and/or Group 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](http://www.QinetiQ.com).

The Group Chair and the Company Secretary are responsible, in consultation with the Group 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 operational sector 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, people 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, which allows for detailed and informed 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.

## Composition, succession and evaluation continued

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 any 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.

**Board and Committee Meetings**

During the year, the Board has seven meetings, each scheduled over two days, for Board and Committee business. 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 FY24.

**NED board attendance FY24**

Board and Committee attendance – 1 April 2023 to 31 March 2024

Members	Board	Audit Committee	Nominations Committee	Remuneration Committee	Risk & Security Committee
Carol Borg <sup>5,6</sup>	7/7	–	–	–	4/4
Michael Harper <sup>3</sup>	2/2	1/1	0/0	2/2	2/2
Shonaid Jemmett-Page	7/7	4/4	2/2	4/4	4/4
Neil Johnson	7/7	–	2/2	4/4	4/4
Dina Knight <sup>2</sup>	0/1	0/1	0/1	0/1	0/0
Ross McEwan <sup>1</sup>	1/1	1/1	1/1	1/1	0/0
General Sir Gordon Messenger	7/7	4/4	2/2	4/4	4/4
Steve Mogford	7/7	4/4	2/2	4/4	4/4
Larry Prior <sup>4</sup>	6/6	3/3	1/1	3/3	4/4
Susan Searle	7/7	4/4	2/2	4/4	4/4
Steve Wadey <sup>6</sup>	7/7	–	–	–	4/4

1 Ross McEwan was appointed to the Board on 1 March 2024.

2 Dina Knight was appointed to the Board on 1 March 2024, but was unable to attend the Board meeting on 20 March 2024, and the Audit, Remuneration and Nominations Committee meetings on 21 March 2024, due to a conflict with a prior commitment.

3 Michael Harper resigned from the Board on 20 July 2023.

4 Larry Prior resigned from the Board on 16 March 2024.

5 Carol Borg resigned from the Board on 16 April 2024.

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

## 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 65 to 67 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. Share Buy-back Programme**

<b>Background</b>	In January 2024 the Company announced a 12-month, £100m share buyback programme.
<b>Board discussion</b>	Prior to a decision being made in January 2024 to commence a buyback programme, the Board held a number of meetings to consider and understand various factors which informed their decision: direct feedback from shareholders; advice from the Company's brokers; the views of its analysts; considering the application of the Company's capital allocation policy, including return of value to shareholders; and considering impact on the Company's five-year strategy and planned investments.
<b>Board stakeholder considerations and impact</b>	In arriving at its decision, the Board took account of the views of a number of its largest shareholders, through direct engagement at investor roadshows and one-to-one meetings held by the Group Chair. The Board also considered the cost impact the buyback would have on (i) its ability to invest in its facilities for the benefit of delivering to its customers; (ii) investment in operational improvements to reduce its carbon footprint; and (iii) planned investments for the benefits of its employees.
<b>Outcome and next steps</b>	The Board concluded that, based on and balancing the various considerations, a share buyback was in the best interests of its investors, including delivering returns on investment in the short term, and could be undertaken at a level of £100m without materially reducing the Company's ability to make planned investments in the medium to long term for the benefit of its customer delivery, employees and environmentally focused improvements to its operations.

**2. Board succession planning**

<b>Background</b>	FY24 saw a number of planned changes to the composition of the Board, driven by the implementation of succession planning aimed at ensuring the skills and experience of the Board remained best aligned to the Company's evolving global strategy and its geographic focus areas, and provided appropriate diversity of experience, culture and thought.
<b>Board discussion</b>	Succession planning during the year was supported by discussion at both Nominations Committee and at Board-level, which included input from the CEO and various senior leaders on the strategic focus of the Company and its businesses, and the support an input they would require from the Board, and advice from the Chief People Officer on people strategy and diversity plans within the Company, both of which would need to be well aligned with Board skills, experience and culture.
<b>Board stakeholder considerations and impact</b>	In setting its succession plans, the Board took consideration of the Company's strategic focus on the AUKUS partnership to meet the needs of its core US, UK and Australian government customers; its investors desire to see continued strong strategic input and direction at Board level, with the right experience to guide the effective growth of the Company, both organically and inorganically; and, from an employee perspective, the support needed for the continuing development of cultural diversity, especially in the areas of gender and ethnicity.
<b>Outcome and next steps</b>	During the year, as a result of its succession planning, the Board saw the planned retirement of Michael Harper, with Steve Mogford taking on the role of Senior Independent Director. As well as the appointments of Ross McEwan and Dina Knight who respectively bring additional experience of financial controls and intimate knowledge of the Australian market, and talent management, cultural diversity and leadership in multi-national corporates.

Board decision-making continued

3. Ten-year strategic outlook

<b>Background</b>	Conscious of a dynamic and fast-changing geopolitical environment and rapid advances in disruptive technology enablers, such as artificial intelligence, the Board perceived the need to enhance the Company's Integrated Strategic Business Plan (ISBP) process to ensure a longer-term lens was applied to the Company's strategic plans.
<b>Board discussion</b>	Board considerations included the time horizon for strategic planning; the need for a variety of external views points across industry, political, customer and academic perspectives to fully inform planning; and inputs and information required from the Company's businesses to inform the strengths, weaknesses, opportunities and threat position of the organisation. Board discussion also focused on how the individual Board members could most effectively bring their experience to bear on the long-term strategic decisions of the Company, which required a more interactive engagement in the planning process.
<b>Board stakeholder considerations and impact</b>	The Board brought to bear its experience of customer requirements and how those changed in a dynamic geopolitical environment, including where global allies are operating on a war-footing, which would drive how the Company needed to plan and position itself to respond to both changing customer needs and the changing nature of warfare. Thought was also given to potential impacts on partnerships on the Company's supply chain and how the Company would need to respond to those dynamics. Employee perspectives included the future changing needs and expectations of employees, and impacts that would have on planning for talent attraction and retention. From an investor perspective, thought was given to the Company's ability to set strategy in a way which enabled the rapid realisation of the benefits of critical technology enablers, such as artificial intelligence, in an ethically responsible and organisationally secure way.
<b>Outcome and next steps</b>	The FY24 ISBP process was initiated with a revamped approach to the Board Strategy meeting in October 2024, unpinned by a 10-year strategic outlook, beyond the Company's usual five-year ISBP process, and informed by external experts who provided longer term perspectives across a combination of industry, politics, customer relationships and academia, and UK, US and Australian geographical axes aligned to the Company's core operational centres. Board members' inputs were gained through interactive scenario setting sessions, providing richer and deeper insights for the strategy planning process. The output of those sessions were fed into the process for constructing the Company's FY25 ISBP, which was further reviewed and refined through regular engagement with the Board and its Committees at meetings between November and March 2024.

4. Board Diversity Policy update

<b>Background</b>	The Board considered updates to its Diversity and Inclusion policy to reflect the latest guidance in the UK Corporate Governance Code and from the Parker Review.
<b>Board discussion</b>	Board discussions centred on the current diversity culture of the Company and its plans for further development of its diversity and inclusion programmes, taking advice and input from the Chief People Officer, to ensure its own diversity policies were reflective of the Company's position and plans, as well as latest corporate governance guidance.
<b>Board stakeholder considerations and impact</b>	The Board was cognisant of its ESG commitments, in terms of social responsibility and from a governance perspective, in ensuring that its own diversity and inclusion policies were reflective of the Company's own cultural journey, including gender and ethnic diversity; and ensured that the make-up of the Board included the necessary diversity of perspectives and experience needed to recognise and promote opportunities for increased diversity within the Company. A key focus would be to create the diversity of thinking and operating which would ultimately provide benefit to the Company's customers and investors by ensuring that its operations and strategic planning harnessed a broad range of experience, skills and perspectives.
<b>Outcome and next steps</b>	The Board approved an updated version of its Diversity and Inclusion Policy, and committed to continue to review this through its Nominations Committee on a regular basis.

Board activity

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

Topic	Key activities
<b>Strategy and operations</b>	<ul style="list-style-type: none"> <li>Reviewed and considered the Company's purpose, values and strategy. See more on <a href="#">page 76</a></li> <li>Approved the FY25 component of the Group's five-year Integrated Strategic Business Plan (ISBP). See more on <a href="#">page 62</a></li> <li>Undertook in-depth reviews of business strategy and performance</li> <li>Undertook in-depth reviews of M&amp;A pipeline and specific opportunities</li> <li>Reviewed and approved material bid, contract and M&amp;A proposals, divestments and assessed performance against these</li> </ul> <ul style="list-style-type: none"> <li>Received updates from each of the Group's Sectors and Functions on their performance vs strategy and budget, and their priorities and initiatives</li> <li>Received reports and discussed the Group's Transformation strategy and investments</li> <li>Reviewed progress of the Group's Digital &amp; Data improvement programme</li> <li>Monitored the economic, environmental, legislative and geopolitical landscape, particularly as regards the political climate in Ukraine and Gaza and regarding other global economic pressures</li> </ul>
<b>Financial performance</b>	<ul style="list-style-type: none"> <li>Approved the Company's annual budget, business plan and KPIs, and monitored performance against them. See more on <a href="#">page 32</a></li> <li>Reviewed and approved the Group's full and half-year results and interim trading updates</li> <li>Approved the full-year and half-year dividends</li> <li>Approved the Company's Annual Report, including its fair, balanced and understandable nature</li> </ul> <ul style="list-style-type: none"> <li>Reviewed and confirmed the Group's viability statement and going concern status</li> <li>Reviewed the Group's capital, debt and other liquidity arrangements</li> <li>Approved the Group's tax strategy and treasury policy</li> <li>Considered and approved expenditure and guarantees related to material bids, acquisitions and contracts</li> </ul>
<b>Internal control and risk management</b>	<ul style="list-style-type: none"> <li>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 those</li> <li>Received reports from the Chair of the Risk &amp; Security Committee on its activities</li> <li>Received reports from the Chair of the Audit Committee on its activities and assessments</li> </ul> <ul style="list-style-type: none"> <li>Reviewed and validated the effectiveness of the Group's system of internal control</li> <li>Reviewed the status of the Group's internal Delegation of Authority framework</li> <li>Reviewed and approved confidential reporting policy and process</li> <li>Regularly reviewed reports on confidential reporting made within the Company (the process of which is described further on <a href="#">page 90</a>)</li> </ul>
<b>Leadership, people and culture</b>	<ul style="list-style-type: none"> <li>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</li> <li>Reviewed and actioned succession plans for the Board and senior management, having regard to skills, experience and diversity</li> <li>Reviewed and approved amendments to the Board Diversity Policy</li> </ul> <ul style="list-style-type: none"> <li>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</li> <li>Reviewed people reports, including updates on talent development, retention and acquisition programmes and diversity and inclusion programmes</li> </ul>
<b>Engagement, environment and community</b>	<ul style="list-style-type: none"> <li>Undertook an annual review of the Group's stakeholders – who they are, methods of engagement, outcomes and feedback. See more on <a href="#">pages 65 to 67</a></li> <li>Reviewed feedback from investors and analysts and the output of engagement with major shareholders and other stakeholders</li> <li>Reviewed workforce engagement activities and outcomes, including the results of the Peakon surveys and received reports on the Group Chair's workforce engagement activities</li> </ul> <ul style="list-style-type: none"> <li>Reviewed regular reports on our approach to ESG issues - see more on <a href="#">page 34</a></li> <li>Reviewed the activities of, and approved a financial commitment to, the Company's environmental programmes, Net-Zero plan and charitable and community initiatives</li> <li>Reviewed the reasons for having received a more than 20% against vote at AGM in respect of re-appointment of the Group Chair</li> </ul>
<b>Governance and legal</b>	<ul style="list-style-type: none"> <li>Approved the Group's section 172(1) statement. See more on <a href="#">pages 65 to 67</a></li> <li>Approved the Notice of the AGM</li> <li>Undertook an annual compliance review of the UK Corporate Governance Code and DTR7</li> </ul> <ul style="list-style-type: none"> <li>Reviewed the results of the internal Board and Committee effectiveness evaluations</li> <li>Reviewed and approved matters reserved for the Board and its Committees' terms of reference</li> <li>Reviewed and approved the Group's annual Modern Slavery and Human Trafficking statement, published on <a href="http://www.QinetiQ.com">www.QinetiQ.com</a></li> </ul>

## 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 Avantis 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 cleared facilities security, 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 Maner, 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 programmes. 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 Vecchiolla. The number of Outside Directors must outnumber the Inside Directors. The Outside Directors also form the Government Security Committee, which is in place to ensure US national security interests are upheld.

## Employee engagement

We have experienced, diverse and dedicated people who are recognised as key assets to our business and who are critical to our success.

The Group has a long-standing commitment to the importance and value of employee engagement.

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. The Board typically holds a number of its meetings at different Company sites and undertakes site visits outside of scheduled board meetings, both in the UK and other home countries, to take the opportunity to meet with employees in person.

The engagement channels 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 people

#### Dedicated Non-Executive Director

Neil Johnson is the dedicated Non-executive Director for gathering the views of employees.

- At least two meetings with the Global Employee Voice (GEV) each year
- 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 annually 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 bi-annually 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 person or through a number of online mediums
- Reported on to the Board by the CEO

#### Regular 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 regular one-to-one engagement

#### Monthly Q-Talks

Delivered by members of the QLC to their teams, 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 assess and understand issues affecting employee engagement throughout the Group. See more on [page 33](#)

- 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
- QLC members interact directly with their team to identify tangible actions in response to feedback from each survey

#### Global Portal – our intranet

A platform where all employees can access our policies and be kept fully informed of the latest Group news through internal communications and community groups

- Enables employees to ask questions and discuss topics internally

#### Confidential Reporting

Our 'Speak Up' programme includes an anonymous reporting line for employees to raise any concerns with escalations to the Board as necessary

- Issues raised reported to the Board at each Board meeting

#### How does it work?

- By using a number of different employee engagement mechanisms and accessibility ensuring flexibility
- By having a direct link to the Board via the 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 accessibility and unique experience as business leaders

# Shareholder engagement

## Shareholder engagement timeline



### 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, which provides 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 FY24 the CEO, CFO and Investor Relations team collectively met with over 30% 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 North America. The Investor Relations team and Management held a US Investor Conference and roadshow in November; overall North American institutional ownership of QinetiQ represents 24% of the share register as at 31 March 2024, increasing from 22% last year, and 14% the year before. We continue to be proactive in investor engagement.

### Constructive use of the Annual General Meeting (AGM)

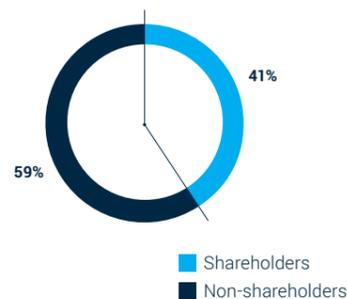
The Notice of AGM and related papers will, unless otherwise noted, be sent to shareholders at least 20 working days before the meeting. For those shareholders who have elected to receive communications electronically, notice is given of the availability of the documents via [www.QinetiQ.com](http://www.QinetiQ.com). This year's AGM will be held at 11:00 on Thursday 18 July 2024 at the offices of Ashurst LLP, London Fruit and Wool Exchange, 1 Duval Square, London E1 6PW.

After receiving more than 20% votes against the re-election of its Group Chair at the 2023 AGM, the Company engaged with a number of shareholders to understand the reasons for that. It related to concerns about the number of external Board mandates held by the Group Chair, and the Board composition not including anyone from a minority ethnic background. These concerns have been addressed through the Group Chair having resigned as Chair of Unbound Group plc in July 2023 as part of a planned succession; and the Company having made changes to its Board appointments which promote its objective to achieve and maintain targets on gender and ethnic diversity. More information on the Board's and the Company's progress towards its gender and ethnic diversity targets can be found on [page 96](#). Any updates to the arrangements for the conduct of the meeting will be communicated via [www.QinetiQ.com](http://www.QinetiQ.com).

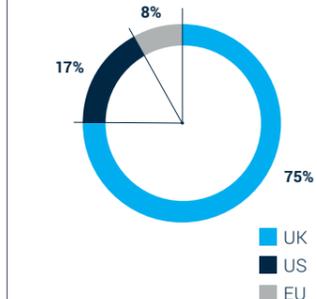
### Confidential reporting process

QinetiQ has in place a Group-wide Speak up programme, which includes a confidential reporting process, and this 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 Director – 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. More information on the Group's Speak up programme can be found on [page 54](#).

Investors met: By type



Investors met: By investor location



### Case study

## Board engagement

In January 2024, Neil Johnson, Steve Wadey, General Sir Gordon Messenger, Steve Mogford and Susan Searle visited the Group's operations and facilities based in Australia, including its recently acquired Air Affairs group. The objective was to gain a deeper understanding of the nature and technical capability of, and risks being managed by, that business; and to engage with a range of people working there, to take a perspective on the issues important to them. Following an overview of the Australia-based operations and its sites, from the Chief Executive and leadership team of the Australia sector, the

Directors visited the Air Operations Centre in Nowra and had a tour of the Air Manufacturing facilities, enabling them to gain an in-depth understanding of the intricacies of operating in a highly-regulated air environment. The Directors also visited the Australia sector headquarters in Canberra; to meet with the sector's extended leadership team and gain insights into the issues and opportunities in the various businesses which operate in the Australia sector, including its plans to leverage its capabilities for the benefit of the AUKUS partnership which comprises three of the Group's core government customers.

A BBQ lunch with employees based at Canberra gave the Directors access to a valuable range of views and perspectives across a broad spectrum of roles within the Australia sector workforce. 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 Australia-based people and facilities. The Directors were able to constructively engage with them to understand the strategy for the Australia sector, and directly input into thinking for its future development.

**Neil Johnson**  
Nominations  
Committee Chair

# Nominations Committee report



The Nominations Committee continues to mature and develop its focus on bringing diverse perspectives into the Company, to help form our strategic decisions in a way that complements and reflects both the strategy, and the breadth of skills, of the Company's growing business.

This year has seen continued development of our succession plans designed to maintain the effectiveness of the Board and its Committees, in-line with the Company's strategic priorities.

Further details of the changes to the Board during the last year can be found on [page 3](#).

This year we are pleased to have met the new Listing Rules targets on Diversity and have refreshed the Board's Diversity policy.

You can read more, later in this report, about the development of our Directors and our talented senior management team.

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 97 to 98](#).

//QinetiQ's strategy includes the retention and attraction of highly skilled and inspirational people delivering world-class engineering and technology for the benefit of our customers and the national defence and security of the countries we work in, both today and tomorrow.//

## Key responsibilities:

- Keep under review the structure, size and composition of the Board
- Succession planning for Directors and other senior Executives
- Keep under review the leadership needs of the organisation, both Executive and Non-executive, with a view to 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 and Committee vacancies, as and when they arise
- Review annually the time required from Non-executive Directors
- Undertake performance evaluation 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

## FY24 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 two new Non-executive Directors
- 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 and updated the Board's Diversity Policy as well as the Company's inclusion initiatives
- Ensured leadership succession plans enabled
- Diversity targets under Listing Rules would be met
- Oversaw the setting of Parker Review targets for diversity balance within Senior Management of the Company

**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

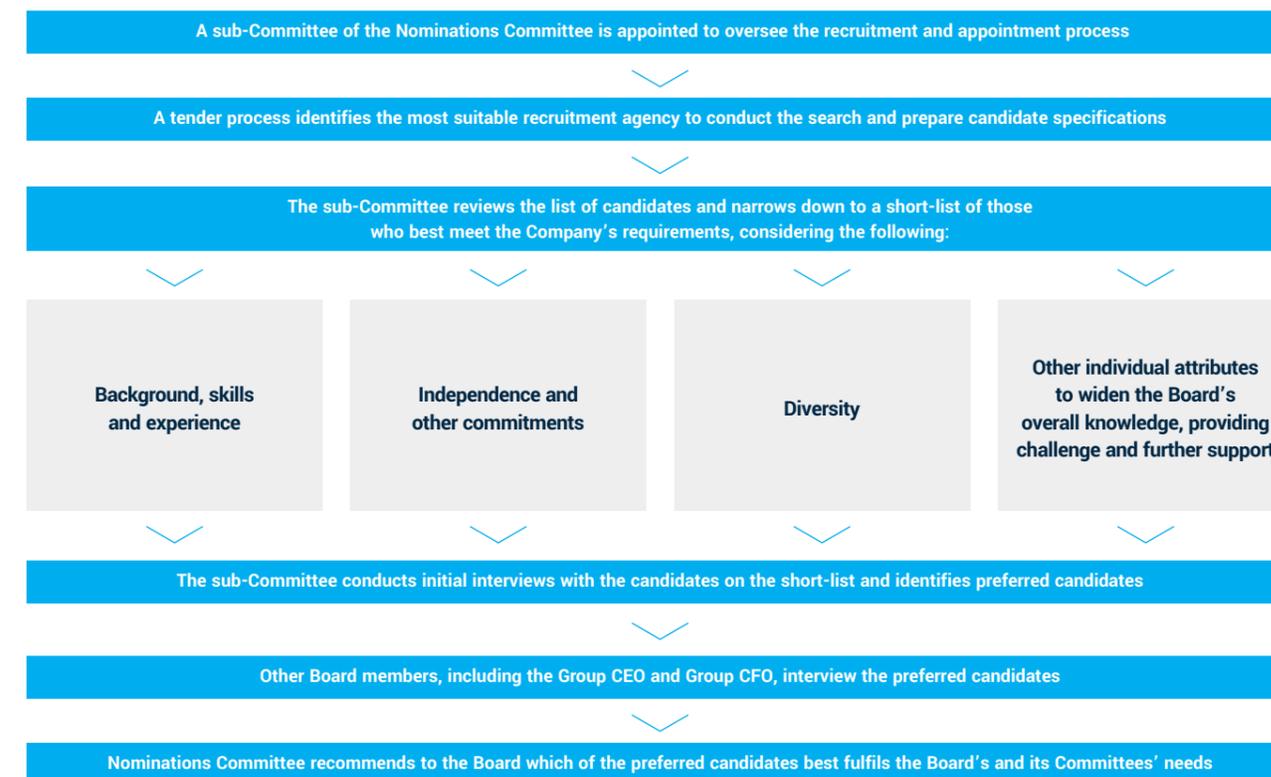
2024/2025 and beyond. We use the process outlined below to ensure that we continue to recruit only candidates of the highest standard, that we continue to make progress towards our diversity and inclusion targets, and that we have the right balance of an experienced Board, yet with a fresh perspective.

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
<b>Identifying current and future needs and skills gaps</b>	<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"> <li>– Diversity, including age, gender and ethnicity</li> <li>– Background, professional skills and experience</li> <li>– The number and balance of Executive and Non-executive Directors</li> <li>– Length of tenure</li> <li>– Independence</li> </ul>	<ul style="list-style-type: none"> <li>– The appointment of Ross McEwan and Dina Knight as Non-executive Directors</li> <li>– At the conclusion of the 2023 Annual General Meeting, Michael Harper stepped down as a Director of the Company, and Steve Mogford assumed the role of Senior Independent Director thereafter.</li> </ul>
<b>Ensuring that we get access to the best candidates</b>	<p>Regularly reviewing the recruitment agencies that we use 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.</p>	<p>Odgers (who has no other connection to the Group or to any individual Directors) was used for the recruitment of Dina Knight. No recruitment agency was used for the recruitment of Ross McEwan.</p>
<b>Ensuring accountability and success of the Board’s performance</b>	<ul style="list-style-type: none"> <li>– Annual Board effectiveness and performance evaluation, using an external provider every three years. See more on <a href="#">pages 97 to 98</a></li> <li>– Annual review of the Group Chair’s performance led by the Senior Independent Director. See more on <a href="#">page 99</a></li> <li>– Annual independence review of the Non-executive Directors. See more on <a href="#">page 83</a></li> <li>– Continued assessment of the Non-executive Directors’ time commitment. See more on <a href="#">page 83</a></li> <li>– Policy on Board members’ appointments to other Boards</li> <li>– 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 <a href="#">page 99</a></li> <li>– A thorough induction programme for new Directors. See more on <a href="#">page 99</a></li> <li>– Annual training for the Board as a whole and on an individual basis. See more on <a href="#">page 99</a></li> </ul>	<ul style="list-style-type: none"> <li>– The FY24 Board effectiveness review concluded that the Board has been effective, engaged with and helpful to the organisation</li> <li>– A summary of the Board’s decision-making, considering section 172(1) can be found on <a href="#">pages 65 to 67</a></li> </ul>

The effectiveness of the Committee’s succession plans is demonstrated by the appointment in FY24 of Ross McEwan and Dina Knight, who have further enhanced the Board’s experience in financial controls, talent management and corporate strategy. Ross brings valuable Executive and Non-executive Director experience as well as intimate knowledge of the Australian market, while Dina has great experience of executive leadership in multinational corporates.

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.



**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 QinetiQ Leadership Team, 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.

In FY24, the Group’s leadership has embedded the new operating model, implemented in the previous year, which was restructured into four sectors, supported by six Group functions.

This year has seen further focus on both promotion of internal talent and the strengthening of key aspects of the executive QinetiQ Leadership Team. This has resulted in leadership changes announced in April 2024, including the recruitment of Martin Cooper as a new CFO and Iain Stephenson in a newly created Chief Operating Officer role, as well as the internal promotion of Will Blamey to Chief Executive UK Defence.

**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 76), 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.

**Board Diversity Policy**

Our commitment is confirmed in the Board's Diversity Policy, which has been updated and strengthened this year, and 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 communities we operate in, and the 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:

- One member of the Board comes from an ethnic minority background
- The Audit and Remuneration Committee Chairs are female

- Female representation on the QLT has increased from 36.4% in 2023 to 40% in 2024
- Female representations of the direct reports to the QLT has remained at 27%, and remains a key area of focus
- Data obtained on a voluntary basis through a secure electronic portal detailing the ethnic representation of the senior management team.

Further to the appointment of Dina Knight in March 2024, the Company has, as at 31 March 2024, met the following targets, as referenced in Listing Rule 9.8.6(9): that one of the senior positions on the Board (Chair, CEO, SID or CFO) is held by a woman and that there should be a Director from a minority ethnic background on the Board. Although we note the subsequent departure of our CFO Carol Borg at the beginning of FY25 has taken us below the targets, we believe that our established and effective process, as outlined above, will help us once again achieve and maintain these important targets in the 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 2024

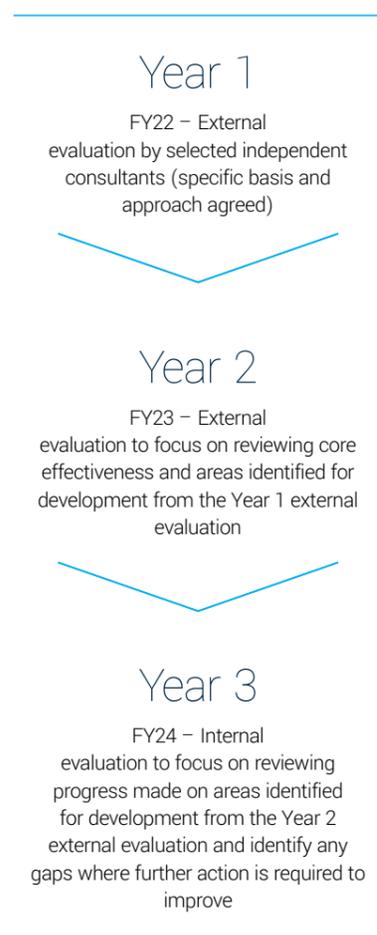
**(a) Table for reporting on gender identity or sex**

	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	5	56%	3	1	50%
Women	4	44%	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)	8	89%	4	2	22%
Mixed/Multiple Ethnic Groups	N/A	N/A	N/A	N/A	N/A
Asian/Asian British	1	11%	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	N/A	N/A	N/A	N/A	N/A

The above data was obtained on a voluntary self-reported basis. Participants were invited to provide information through a secure electronic portal, wherein they were asked to share detail such as ethnic background. As part of our inclusion, Diversity and Belonging strategy, we are focusing on increasing our ethnic minority representation within our Senior Management team by the end of 2027. This will be achieved through creating diverse recruitment and talent pipelines and creating an inclusive culture where everyone can feel they belong and thrive.



**The employee Inclusion, Diversity and Belonging Strategy**

Pages 49 to 53 describe the progress of our Inclusion, Diversity and Belonging Strategy in relation to employees and other diversity policies and procedures of the Company.

Our Inclusion, Diversity and Belonging strategy can be found on [www.QinetiQ.com](http://www.QinetiQ.com) which outlines our approach to creating an environment where everyone feels they belong and can thrive. We encourage inclusion and diversity to be fully embraced in our workplace so that each and every one of our colleagues can be themselves, fulfil their potential and feel inspired to deliver for our customers.

The effectiveness of the policy is governed by our assurance processes and with oversight by our Executive Team. To help us reach our goals we have various tools in place, including global employee mandatory training, inclusive leadership development and employee network groups. During the year we continued to see an increase in employee activity and engagement around Diversity and Inclusion including the launch of a global 'Count Me In' campaign enabling employees to voluntarily share information about their diversity to inform our strategic priorities. We are confident that this focus will continue in 2024 and beyond to ensure we create an environment where people have a true sense of belonging, enabling us to attract and retain the very best people who will make us a stronger company.

**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 adjacent chart, 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. In FY24 an internal review was undertaken to identify whether further actions were required to meet recommendations made in the FY22 and FY23 external reviews.

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 FY22 and FY23 reviews 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.

The FY24 internal review analysed evidential progress against recommendations made in the FY22 and FY23 reviews and identified any potential gaps in recommendations being met. The questionnaires were designed to understand the need for further actions to be taken to address gaps and what those actions should be.

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 significant improvements had been made, acting on the prior two 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.

**Director effectiveness continued**

The key strengths and material areas for further attention identified by the FY24 Board and Committee evaluation are shown below.

Key strengths	Areas for further attention
The Board has evolved its review of the Group strategy to ensure that a longer five to 10-year view is taken when considering factors that impact the operational, financial and competitive performance of the Company's businesses; to take into account broad external perspectives; and to support its review with SWOT analysis. This has increased the effectiveness of the Board's support to the development and implementation of the Company's strategy, aligned to its purpose and vision.	Achieving a deeper level of Board understanding of material risks in the Company's supply chain and how those risks are managed and mitigated by its businesses.
The Board has continued to work well as a unit during the year, with Board discussions being constructive and appropriately challenging, the Executive Directors being transparent with the Board and open to advice. This way of working has been effectively preserved throughout the recent planned changes to the Board's composition.	Supporting the further maturation of the Company's Three Lines Model within its Group-wide control and assurance framework, including the embedding of defined roles and responsibilities for the first and second lines of assurance
The Board has further strengthened its oversight of, and input to, the Company's ESG agenda. This has included a particular focus on progress against the Net-Zero plan and implementation of non-financial reporting on climate change, including TCFD, and planning for development of internal controls to meet the upcoming changes to the UK Corporate Governance Code. This has been enabled by review of both of these areas at each Audit Committee meeting during the year. See more information on ESG on <a href="#">page 34</a> .	Undertaking re-assessment of the Board's skills and experience, following a number of recent changes in Board composition, to be reflected in an update to the Board's skills matrix, aligned to the Company's evolving strategy

When comparing the outcome of the FY24 evaluation against principal areas for improvement identified through the FY23 review process, the following progress has been seen:

Areas for further attention	Progress during the year
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	The Annual Planners of matters considered by the Board and its Committees have been further evolved to ensure regular Board updates and oversight of (i) the operational performance of the Company's four business sectors; (ii) the strategic development and operational delivery of its four Global Campaigns; and (iii) deep dives in to areas of key transformational improvement across its Group. These have included tangible examples of emerging risk issues which have affected areas of the business, business continuity response to those issues and actions taken to mitigate the impact of those risks. This has allowed the Board to engage in lessons learned from such risk issues and input into improvements made to better manage emerging risk issues.
Review needed 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'	Throughout the year, the Board has been actively engaged in evaluating and inputting guidance into the Company's programme for strengthening and maturing its Three Lines Model, with a particular focus on improvements required to its first-line capability and second-line controls. This has been facilitated through updates to the Board and its Committees by the Chief Risk Officer and Group Director Internal Audit; facilitated workshops outside of the regular Board meeting cycle; the provision of more granular data enabling the Board to assess progress against improvement plans; and site visits allowing members of the Board to gain tangible and contextualised insights into the control environment for some of the Company's more highly regulated operations.

**The Group Chair's individual performance**

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

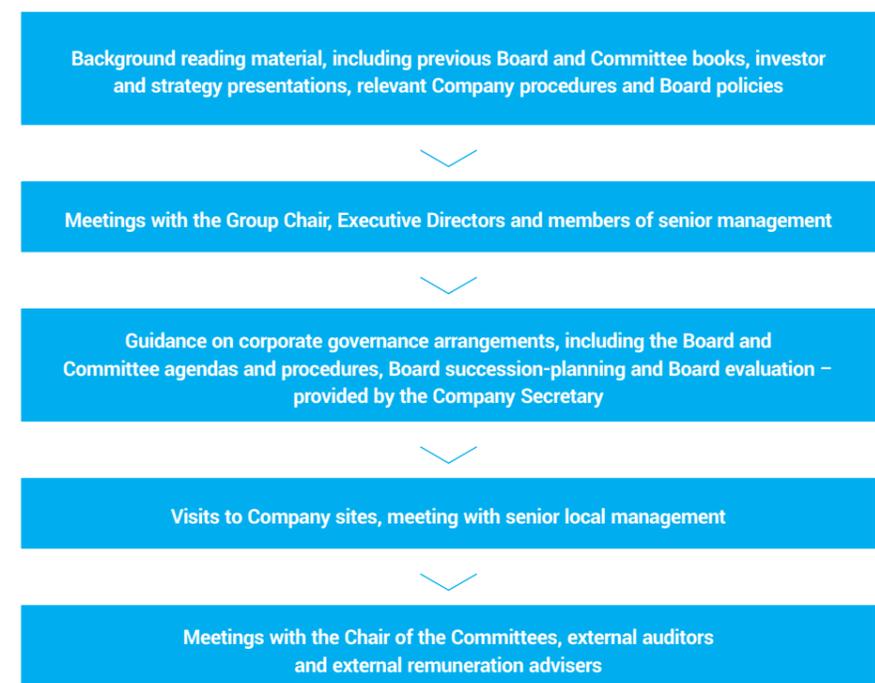
**The Directors' individual performances**

The Group Chair, Neil Johnson, held performance meetings with each Board member to discuss their individual contribution and performance over the year, and their future training and development needs. Following these meetings, Neil Johnson confirmed to the Nominations Committee that, 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**

Physical Board meetings and Director visits are scheduled throughout the year 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, London and Portsmouth in the UK, as well as some Board meetings that continue to be held virtually.

In May 2023, the Group Chair paid a visit to our Inzpire business headquarters in Lincoln, where he received briefings, including the DMI project in Qatar, and had a demonstration of both GECO and JTAC Case firsthand. He was able to engage with Early Careers employees and plans for further developing their career opportunities.

In July 2023 the Group Chair visited the Applecross site and MOD Hebrides, and in October he visited the Haslar site.

In September 2023 Shonaid Jemmett-Page, General Sir Gordon Messenger and Steve Mogford spent two days visiting MOD Pendine and MOD Aberporth.

In January 2024 a number of the Directors visited sites in Australia. For more information on this trip see [page 91](#).

**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 training on safety was provided to the Board, including a special session on the use of defibrillators.

Further training on recent legal and regulatory updates, as well as further safety and security training is planned for FY25.

**Shonaid Jemmett-Page**  
Audit Committee Chair

# Audit Committee report



//We continue to strive for continuous improvement and I am proud of the progress that has been made this year in enhancing the internal control environment.//

Dear Shareholder,

I am pleased to present the report of the Audit Committee for the work carried out by the Committee over the course of the year. This report outlines the key topics the Committee has considered during FY24 and how it has discharged the responsibilities.

The main purpose of the Committee continues to be the oversight of a robust system of internal controls and risk management across the business. This includes considering both financial and non-financial risks and ensuring the integrity of all reporting, including the Annual Report and Accounts. The key 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](http://www.QinetiQ.com).

We continue to strive for continuous improvement and I am proud of the progress that has been made this year in enhancing the internal control environment, including evolving the assurance model with the risk function in alignment with the updated UK corporate governance code. A particular focus during FY24 was the Group's capital allocation model, with discussion around the priorities for capital allocation and the £100m share buyback programme which was initiated during the second half of the financial year.

The US continues to be an area of focus for the business and therefore for the Committee. This year has seen the first year of post-acquisition performance of the Avantus business, which has been a key topic during the year. As the business continues to evolve and the integration progresses, we need to ensure that there remains a robust system of internal control and risk management which is appropriate for the scale of operations in the US. The Committee maintains regular dialogue with the US Special Security Arrangement (SSA) Audit Committee, regarding scope and coverage and the sharing of best practice.

The Committee continues to embrace the relevant aspects of the evolving sustainability agenda, including target-setting, assurance and reporting. The Task Force on Climate-related Financial Disclosures (TCFD) reporting, on [pages 34 - 55](#), have been reviewed and endorsed by the Committee.

In May 2023 the FRC published its Audit Committees and the External Audit: Minimum Standard. The Committee is content that it meets the relevant responsibilities set out in the Standard.

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

Following the Group entering into a net debt position for the first time in several years in FY23, the Committee held deep-dive sessions into covenant management, operating cash performance management and foreign exchange management. Foreign exchange management is increasingly important with the expansion of overseas operations and the associated internal financing arrangements.

The Committee again spent significant time reviewing the critical accounting estimates and judgments inherent within the annual financial results. These include judgments relating to the Group's complex long-term contract accounting, the assumptions within the Goodwill Impairment calculations, the quality of income generated during the year and the distinction between specific adjusting items and those which impact underlying performance. The quality of income review includes considering one-off items such as provision releases within the income statement and the overall sustainability of earnings. 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 FY24 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 FY24 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.

## Rigour over non-financial reporting (TCFD and other sustainability metrics)

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 FY24 reporting (see [pages 43 - 47](#)) aligned with the TCFD and BEIS recommendations, we are able to demonstrate a number of refinements, for example reviewing and updating our risk profile. 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 have a standing agenda item to continue to be briefed regularly on this evolving area of interest. An overview of the various new requirements across relevant geographies was discussed, including the International Sustainability Standards Board (ISSB) sustainability-related financial reporting standards; reporting in both the US and Australia and the next steps and investment needed. The Audit Committee charter has been extended into ESG, which strengthens the Audit Committee's oversight of non-financial reporting (including TCFD), increasing its reviews to quarterly.

## 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 Tax and 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 reviews of 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 without risk of retaliation
- Data protection policies to detect breaches and other issues

**Key issues and Judgements impacting FY24 accounts**

Issue	Key uncertainties and judgement	Review and challenge	Conclusion
<b>Impairment of goodwill and acquired intangibles</b>	<p>The Group holds goodwill on its balance sheet in respect of various Cash Generating Units (CGUs).</p> <p>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.</p> <p>There is a reduced level of headroom in respect of the US CGUs however applying a reasonable level of sensitivity to the assumptions would not lead to an impairment.</p>	<p>The Committee reviewed the outputs of management's annual impairment testing exercise, noting the use of external advisors to prepare the technical assumptions (discount rates, long term-inflation) which have also been verified as appropriate by the external auditors.</p> <p>The Committee held detailed discussions with management and the external audit team, specifically challenging revenue and profit assumptions, as well as the technical assumptions.</p>	<p>There are a wide range of outcomes to the impairment test which is very sensitive to outer year cash flows. On challenging management, the Committee concluded that no impairments need to be recorded in the year. The committee also agreed that the disclosures made within the financial statements were adequate.</p>
<b>Long-term contract accounting</b> Risk assessment on key contracts	<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, assumed forecast savings challenges and the use of Monte-Carlo modelling).</p>	<p>The Committee concluded that management's best estimates were reasonable.</p>
<b>Provisions and contingent liabilities</b> Pendine and other provisions	<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) the likelihood of QinetiQ being prosecuted, found guilty and 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£12.8m being recorded together with an equally offsetting Other Receivable).</p>	<p>The Committee concluded that management's best estimates were reasonable.</p>
<b>Specific adjusting item</b> Digital investment  Acquisition and disposal related costs	<p>The Group reports underlying performance which excludes the impact of specific adjusting items.</p> <p>Following the change in accounting policy relating to the capitalisation of intangible assets for software as a service, the ongoing one-off period of digital investment is included as a specific adjusting item.</p> <p>Specific adjusting items also include a number of acquisition and disposal related costs including post-acquisition integration costs and one-off post-acquisition remuneration costs.</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>

Issue	Key uncertainties and judgement	Review and challenge	Conclusion
<b>Pensions</b> Net pension asset valuation	<p>The Group's net pension asset increased during the year, with a significant increase in the value of the assets being partially offset by changes in the demographic assumptions and liability experience data.</p>	<p>The Committee reviewed and challenged the results of the valuation exercise, and the 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>
<b>Taxation</b> Key judgments including recoverability of losses	<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 and challenged 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 long term viability statements**

The acquisitions of Avantus and Air Affairs during FY23 took the Group into a net debt position. It has been pleasing to see leverage reduce during FY24 and we continue to pay particular attention to these assessments, specifically considering if covenants may be breached, debt capacity and the implications of the share buyback programme which was announced in the year. 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 2029. The Committee considered it appropriate that the long term viability statement covers a five-year period. In reaching its conclusion, the Committee reviewed the budget for the next financial year, the five-year forecast, the stress tests applied and the mitigating actions available to the Company. The viability statement and the going concern statement can be found in full on [pages 62 - 64](#), including the detail on how the process was conducted.

**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 57](#) for further details). The function is well integrated within the business, providing an independent input to help maintain a robust system of risk management and internal control, and also to ensure there remains a collaborative approach to assurance across the Group.

Group Internal Audit have formally reported to the Audit Committee four times during the year. The Committee approves the annual audit plan, reviews findings, and assesses the overall effectiveness of the internal audit process. A key aim for the audit plan is to ensure that significant financial and non-financial risks are reviewed within a rolling four year period.

The audit plan was built around a number of priorities including a US integration review, a review of the internal cultural change programme, an assessment of large contract renewal and facilities management processes, and a review of the operating model adoption across the Group. The overall assessment following the audit and assurance activity is that the control environment is considered effective, with a culture conducive to improving internal controls and risk management processes.

The effectiveness of the Group Internal Audit function, and the internal assurance model more generally, was assessed by the Committee in the year using a survey and questionnaire completed by members of the Committee, the external auditors, and a number of senior managers from across the business. The outcome was that the Group Internal Audit function remains effective in its activities, noting the period of transition in the last 12 months, as a new team has been built.

Looking forward into the next financial year the Committee recognise the importance of addressing the new UK corporate governance requirements including those relating to material risks and controls whilst allowing sufficient time to provide assurance over other key internal projects such as the business systems upgrade in the UK and Australia. Other priorities include the Group-wide project management improvement programme and fraud risk management, which is planned to be reviewed following the release of new UK legislation.

### 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 57](#) 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 the continual activity to monitor the risk landscape and ensure the principal risks to the business are mitigated effectively through robust and transparent risk management activity.

### 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.

The Committee continually challenges and reviews this framework to ensure that it is fit for purpose and robust to meet the changing nature of financial and counterparty risks, the new higher interest rate environment and the banking sector's policies on investing in the defence sector, which impact the availability of liquidity.

### Tax strategy and compliance

The Group Tax policies and procedures provide the framework of internal controls for the management of tax risks for the growing business in an ever-changing global regulatory environment, in which tax transparency has increasing prominence. The Committee reviews the Group's tax affairs annually, which includes considering the Group Tax Strategy, status of any tax audits and filings, tax accounting judgements and disclosures, the structuring of key transactions and important regulatory changes. Group tax policies and procedures were tested last year with the identification of a significant VAT error and the issuance of a suspended penalty by the tax authority. The matter has now been resolved without any penalties in large part due to the Group's open and transparent approach with the tax authority.

### External Audit

#### PwC audit scope

Consistent with last year QinetiQ Australia, QinetiQ Inc. (C5ISR) and QinetiQ Limited, are full scope. Following its first full year of trading post the acquisition, and its significance to the Group's overall results, Avantus has been included as a full scope component in the FY24 audit. The scope for Foster Miller Inc. (Technology Solutions) consists of audit procedures being performed over Cash and cash equivalents, Inventory, Revenue and associated balances only. Consistent with the prior year, QinetiQ Target Systems Limited is also in scope for inventory only. The Committee viewed it appropriate for the audit scope to be enhanced for Avantus so as 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.

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 151](#).

Non-audit related fees paid to the auditor QinetiQ Group plc | Annual Report & Accounts 2024 105 Corporate governance during the year were £0.15m (FY23: £0.15m), representing 9% (FY23: 8%) of the audit fee. This included £0.12m (FY23: £0.11m) relating to the review of the half-year results. 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 FY23. It concluded that there had been several improvements implemented since the FY22 audit, following learnings for both PwC and the Group. 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 seventh year as auditor, with the external audit engagement partner, John Ellis, in his second year, having taken the lead for the FY23 audit cycle. 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 timing for the audit tender strikes an appropriate balance between continuity for the current audit firm and consideration of alternative firms.

The Committee and the Board will be recommending PwC's re-appointment at the 2024 AGM.

### Governance

#### 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 Chair, Group Chief Executive Officer, Group Chief Financial Officer, Group Financial Controller, Group Director Internal Audit, Chief Risk Officer and representatives of the external auditor 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 US 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

The evaluation of the effectiveness of the Committee was conducted alongside the Board effectiveness review. See more on [pages 97 - 98](#). 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.

### 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.

**General Sir Gordon Messenger**  
Risk & Security Committee Chair

# Risk & Security Committee report



Dear Shareholder,

I am pleased to present our Risk & Security Committee report for FY24, 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, quality, security and health and safety are achieved. This includes ensuring that the organisation fulfils its statutory requirements and duty of care. This assists the Board in setting the risk appetite and reviewing and assessing the Group's risk management systems.

### Risk profile of the Group

During the year, the Committee has focused on further developing the maturity of the Group's risk management system. This includes robust review and progress updates on various process enhancements including a deep-dive workshop on risk management and internal controls, dynamically reviewing new risks and successfully reducing the Group's risk profile. The continual cyclical review of the Group Risk Register, which is described further on pages 58 - 61 continues to be key for the Committee to undertake its duties. The Principal Risk Register contains details of the Group's principal risks, their impact on the Group 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. As our future success is dependent on our ability to exploit and operate technology at pace while still retaining the rigorous 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, and Chief Risk Officer, developed a schedule of security-related agenda items, ensuring that the Committee continues to be able to oversee this key pillar. As a defence, technology and engineering Company, we are set to remain continuously aware about our risks and adapt our tools, processes, systems and people to address increasing risks arising from changing cyber, climate, technological and geopolitical instability.

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

**General Sir Gordon Messenger**  
Risk & Security Committee Chair

### Key Highlights FY24:

- Strengthened our risk and security teams
- Progressed the implementation of the Three Lines model contributing to improved first line compliance and second line assurance activities
- Embedded the Security & Information and Risk & Assurance Councils as key bodies to reinforce Group-wide awareness of risk and assurance
- Progressed our transformation activities including the Global Interoperable Infrastructure (GII) Programme that strengthens the security and agility of the Group
- Improved the consistency of enterprise risk reporting

### FY25: Priorities

- Fully embedding the Three Lines model
- Further enhancing our enterprise risk management framework
- Driving a positive and mature risk culture to ensure we stay on top of our global dynamic view of risk
- Enhance exiting and embed new tools that help us manage our governance, risk and control activities
- Continuing to ensure that we are recruiting, building and retaining the right workforce skills and talent to drive our environment, health and safety and physical and non-physical security focus
- Further build on foundations set to ensure our compliance to the announced changes to the FRC UK Corporate Governance Code

### 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 56 - 61)
- 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, corruption and modern slavery and compliance with applicable laws, regulations and codes of conduct

The Board assumes ultimate responsibility for the effective management of risk across the Group, determining its risk appetite and ensuring that each operating Sector implements appropriate internal controls. The Group's risk management systems are designed to appropriately manage the risk of failure to achieve business objectives, and thus 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 increased competition and disruptive business models, technological advancements, economic volatility 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 monitoring and 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	Risk monitoring
<ul style="list-style-type: none"> <li>– Review risk management structures and reporting lines (i.e. effectiveness of control environment)</li> <li>– Evaluate the effectiveness of risk reporting processes including risk control assessment</li> <li>– Review the effectiveness of risk identification processes</li> <li>– Consideration of any security issues relating to the appointment of external auditors</li> </ul>	<ul style="list-style-type: none"> <li>– Review of risk register and key exposures</li> <li>– Monitor Health, Safety and Environmental performance</li> <li>– Scrutinise Internal Audit reports with respect to risk and security issues</li> <li>– Oversee international business governance</li> <li>– Oversee application of applied anti-bribery and corruption measures</li> </ul>

//We continue to strengthen our processes to protect tomorrow, navigating risk and security in a dynamic world.//

### Security management

The business has progressed towards a proactive threat assessment process with effective horizon scanning for future and emerging threats to the business- a move from 'risk identification' process to one of 'risk management'. Security Incident Management has demonstrably improved through maturing of the Security and Information Governance process with a defined structure and escalation process through Sectors, Group, Security and Information Council, Security Steering Group and on to the Risk and Security Committee to ensure visibility of current and emerging risks and their management. This has been evidenced by the timely reaction and successful resolution to matters that happened over the course of the year.

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. As part of the drive to further control our risk exposure, we are further refining our risk appetite definitions. The 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.

### Cyber security

Given the nature of our business, emergent security threats such as the adoption of artificial intelligence and the broader geo-political landscape, we continue to invest in our Digital and Cyber Security Programmes.

In combination with our wider education and culture initiatives, we continued to strengthen our policies, procedures and tooling to ensure we can appropriately identify, assess and manage cyber security risks. We have expanded our Cyber Security Operations team with further improvements to our protective monitoring and response capability. Our strategy remains under constant review and our refreshed Cyber and Information Security Operating Model ensures we best utilise our technical expertise and knowledge across all business areas.

The Committee continues to receive regular reports from the CIO and CISO on our cyber and information security risks, the performance of protective controls and the progress of any ongoing security improvement activities.

All employees must complete mandatory cyber, information, physical and personnel security training each year, which focuses on our policies, procedures, culture and behaviours 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 FY24.

### Business continuity and crisis management

Our business continuity and crisis management procedures have been designed for flexible arrangements when responding to incidents and emergencies. They are scalable and can be adapted to work in a wide range of specific scenarios. We focus on resilience, informed by our risk identification and assessment rather than individual emergency scenarios. Our Crisis Management Plan sets out a decision-making model and overarching management response which supports the Leadership Team and ultimately the Board in making effective decisions during an incident. This has proved to be an effective approach with incidents managed well without causing adverse effects on the business. Supplementary training has been provided to the Leadership Team and we will continue with this approach in FY25.

### Self-certification process

An annual process of self-certification on the effectiveness of internal controls has been established and embedded across the Group. This process provides a documented and auditable trail of accountability for the operation of the system of internal controls and continues to be our preferred tool to tangibly assess the effectiveness of those controls in all functions and sectors across the Group. It is informed by a rigorous and structured self-assessment that addresses compliance with Group policies and processes, and provides a comprehensive level of assurance to be given at higher levels of management and, finally, to the Board.

Each sector and functional Chief Officer are required to make a declaration that their system of internal controls are effective, are fit for purpose and are being monitored throughout the year. Any material risks, control failures or non-compliance with the Group's risk policies, legislation and/or local delegations of authority must be highlighted as part of this process. The outcomes of the self-certification process, which is carried out at the full and half-year, is reported to the Risk and Security Committee by the Chief Risk Officer.

### 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 69](#).

### 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 2024 an effectiveness review was conducted internally. This process is described further on [pages 94 - 99](#). The performance of the Committee was rated highly overall. The Committee agreed it would continue to focus on cyber and security risks in FY25.

### 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. To discharge this responsibility, the Board has established frameworks for risk management and internal controls using the Three Lines Model, see [page 57](#), 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 controls and risk management and has reviewed their effectiveness during the year. The frameworks are regularly reviewed for prudence. They were in place throughout 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 and specifically considered the principal risks facing the company including the impacts to the Group's business model and future performance and therefore require management prioritisation and action when approving the Group business plan.

During the year, as part of the oversight process, the Board and the Risk & Security Committee received updates on risks and associated mitigating actions. Principal 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.

Our risk management framework is designed to consistently identify, evaluate, manage, monitor and report the principal risks to the achievement of the Group's strategic objectives and is embedded throughout the Group. It is codified through risk policy and associated processes and procedures which set out the risk appetite, requirements and controls for the Group's worldwide operations. This is further described on [pages 56 - 61](#).

The Group maintains a manual of financial reporting policies which is compliant with International Financial Reporting Standards (IFRS). An internal control framework is in place across the Group which covers Group financial reporting and local statutory reporting activity. The process follows a risk-based approach, with management identification of 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 56 - 58 and 104](#). There are strong working relationships between the Board Committees, which enable robust oversight of internal controls and risk management. Committees 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.

**Susan Searle**  
Remuneration  
Committee Chair

# Directors' Remuneration Report



//The Committee was pleased that the new Policy received a 84.3% 'For' vote at the 2023 AGM and will continue to work with stakeholders to ensure that the Policy supports the delivery of our strategy and growth ambitions.//

QinetiQ's Gender Pay Gap data can be found on our website at [www.QinetiQ.com](http://www.QinetiQ.com)

Dear Shareholder,

As the Group Chair notes in his statement on [page 2](#), FY24 was a year of continued strong Group performance. This was reflected in the incentive out-turns where stretch annual financial targets were exceeded on orders and cash, with profit between target and stretch performance.

#### Reward decisions for FY24

The Remuneration Committee awarded base salary increases of 3.8% for the CEO and 3.9% for the former CFO effective 1 July 2023. 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 2023 salary review.

Following the approval of the new Directors' Remuneration Policy (the Policy) at the 2023 AGM, the unadjusted FY24 out-turn under the new Annual Bonus Plan (ABP) would have been 87.5% and 85.0% of the maximum to the CEO and former CFO respectively, reflecting strong financial performance. The payment for FY24 will be structured as 70% in cash and 30% in shares, deferred for two years.

FY24 saw the first grant under the new Long-term Performance Award (LPA). The three-year performance metrics for the grant were cumulative underlying operating profit, Return on Capital Employed (ROCE) and total revenue growth, with stretch targets aligned to our growth ambition.

Cycle 3 of the legacy Bonus Banking Plan (BBP) will be released as shares in June 2024 as the FY24 performance underpin has been achieved. The BBP is now closed and will cease to operate.

The FY21 contingent share award under the legacy Deferred Share Plan (DSP) will vest in June 2024 as the performance underpin, that FY24 profit had to exceed that delivered in FY21, has been achieved. No further awards will be made under the DSP as it was replaced by the LPA.

The FY24 CEO single figure on [page 117](#) is higher than FY23, despite the lower FY24 annual incentive payment; this is largely due to there not being a FY20 DSP contingent share award vesting in June 2023.

The Committee agreed to exercise discretion to adjust downwards the ABP payment for FY24 in view of the tragic deaths of two of our colleagues in the German business. Although the formal investigations into this accident are ongoing, we do not believe that there was any contributory fault by the Company. Notwithstanding this, the CEO and the Committee felt it appropriate to reduce the safety out-turn of the common goals element of the ABP to demonstrate our commitment to the highest levels of safety performance. The Committee notes, however, that underlying safety performance and controls continued to improve in FY24 as a direct result of leadership actions. This downwards adjustment will be applied to the CEO, former CFO and all senior leaders in the QinetiQ Leadership Community (some 100 employees globally). Further details are provided on [pages 118 and 119](#).

The Committee also considered carefully the potential impact on incentives of the share buyback programme which commenced in February 2024, involving the gradual purchase and deletion of some £100m of shares over 12 months. The Committee noted that no current incentive plans measure performance on a 'per share' basis and that there was no direct boost to financial performance as a result of the share buyback. The Committee therefore determined that no adjustment to incentives is necessary in relation to the share buyback.

#### Leadership changes

After the end of FY24 on 16 April 2024, the Company announced that Carol Borg, Group CFO, and the Board together agreed that Carol would step down from her role. Martin Cooper has been appointed as Group CFO to succeed Carol and he is expected to join the Company no later than October 2024. The Committee determined that she should be treated as a Good Leaver for elements earned in year and also agreed the appointment terms for Martin as detailed on [pages 123 and 128](#).

Two further critical roles were appointed to the QinetiQ Leadership Team (QLT) in April 2024 for which the Committee approved the remuneration terms - Iain Stevenson to the newly created role of Chief Operating Officer and the promotion of Will Blamey as Chief Executive, UK Defence.

#### Directors' Remuneration Policy

In FY23 the Committee spent a significant amount of time considering the new Policy and consulted widely with shareholders. The Committee was pleased that the new Policy received a 84.3% 'For' vote at the 2023 AGM and will continue to work with stakeholders to ensure that the Policy supports the delivery of our strategy and growth ambitions.

#### Implementation for FY25

The ABP for FY25 is based on the same financial metrics as in FY24 (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 Committee has reviewed the performance metrics for the FY25 LPA three-year performance period and decided that as for FY24 they will be cumulative underlying operating profit, ROCE and total revenue growth to drive consistent profit performance, robust investment selection and value creation for our customers through collaboration. The Committee is cognisant that inclusion of a relative Total Shareholder Return (TSR) metric is a preference for at least one of the Company's major shareholders and it is therefore committed to keeping the use of TSR under review. However, the Committee continues to believe that relative TSR is strongly influenced by market sentiment and is also mindful of the challenge of identifying appropriate comparators for a Company such as QinetiQ that has few direct UK peers.

#### Employee engagement and reward

Building on the cost-of-living measures we implemented in FY23, we have invested further in our overall employee offering in FY24. In the UK, we have implemented a reward strategy and addressed market relativity through providing additional base salary increases to employees ensuring they receive a fair market level of pay. We have also achieved Living Wage accreditation guaranteeing an above-statutory level of pay for our lowest paid UK employees. In the US we have implemented a compensation framework in support of integration. In the Australia sector we have commenced a benchmarking exercise and will be developing a sector-level reward strategy over FY25. Our Group Hardship Fund and Employee Assistance Programmes (EAP) continue to provide additional support to our employees who are experiencing challenging personal circumstances.

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 48](#) details our employee engagement activity.

I met with the Chair and other representatives of the Global Employee Voice during the year which provided a really insightful opportunity to discuss the evolving global economic situation, the working environment post COVID and how we are focused on enhancing the performance culture within the business.

The Company operates 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. FY24 performance was just below the stretch profit target resulting in a payment for the Company element of the AEIS of £1,138.

In addition, high-performing employees can earn up to an additional 5% of salary based on personal performance rating.

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 FY25. Looking forward, the Company will continue to invest in our global reward and benefits strategy and our employee offering.

#### Conclusion

Supporting leadership to drive Company performance and strategy by implementing the new Policy were the primary areas of focus of the Remuneration Committee in FY24. The Committee believes the evolution of the QLT at the beginning of FY25 sets the Company up for success as it continues to scale and grow globally. We also remain mindful of the global competitive environment and the increasing levels of responsibility.

The Company performed well in FY24 with continued strong Group performance. To achieve the next phase of profitable growth we need simple stretching incentives which offer motivating opportunities for leadership aligned to the five-year strategy with consistent operational performance.

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 Report at the AGM on 18 July 2024.

I am pleased Dina Knight joined the Committee in March 2024 and it is our intention that she will take over the Chair role in 12 months time.

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

**Susan Searle**  
Remuneration Committee Chair  
23 May 2024

# Remuneration at a glance

## Remuneration at a glance

Components, alignment, application and changes

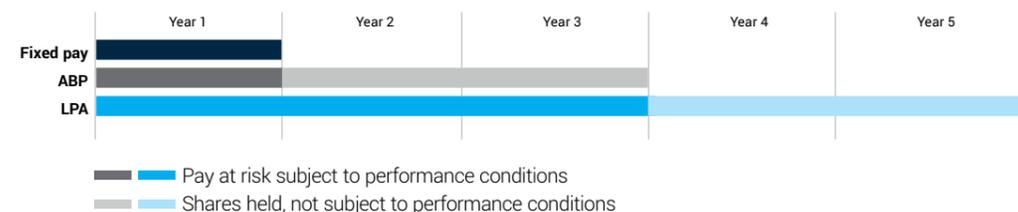
Annual fixed pay	Link to strategy	Application in FY25
<p><b>Salary</b> Executive Directors' base salaries are set on appointment and reviewed annually, or when there is a change in position or responsibility. Typically, base salaries will be increased by a similar percentage to the average pay increase for all employees of the Group.</p>	Fixed pay is set at a level that enables us to attract and retain high-quality Executive Directors, who are capable of successfully leading and executing our strategy and delivering long-term sustainable growth. Our Policy aims to ensure that fixed pay remains attractive and competitive.	No change in prior-year implementation of Policy.
<p><b>Benefits</b> Benefits include a car allowance, health insurance, life assurance, income protection and taxable expenses.</p>		No change in prior-year implementation of Policy.
<p><b>Pension</b> Executive Directors 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>		No change in prior-year implementation of Policy.

Annual Variable pay	Link to strategy	Application in FY25
<p>The Annual Bonus Plan (ABP) introduced for FY24 onwards is as follows:</p> <ul style="list-style-type: none"> <li>70% of any outcome is payable in cash at year end and 30% will be deferred into shares, which vest after two years</li> <li>The maximum incentive for Executive Directors is 200% of salary</li> <li>The performance measures used for the ABP are the same as those used in prior years. For FY25 these are orders, operating profit, cash flow, common goals (which include ESG metrics) and personal goals. As in FY24, a weighting of 70% financial and 30% non-financial metrics will be used for FY25</li> </ul>	<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 and 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 FY25 the Remuneration Committee revised the annual incentive financial target weightings (70% in aggregate) by reducing orders to 15% (FY24 20%) and increasing cash to 25% (FY24 20%), profit remains at a 30% weighting.</p> <p>The revised weightings reflect the need to drive profitable growth and strong cash management and are closely aligned to strategy.</p>

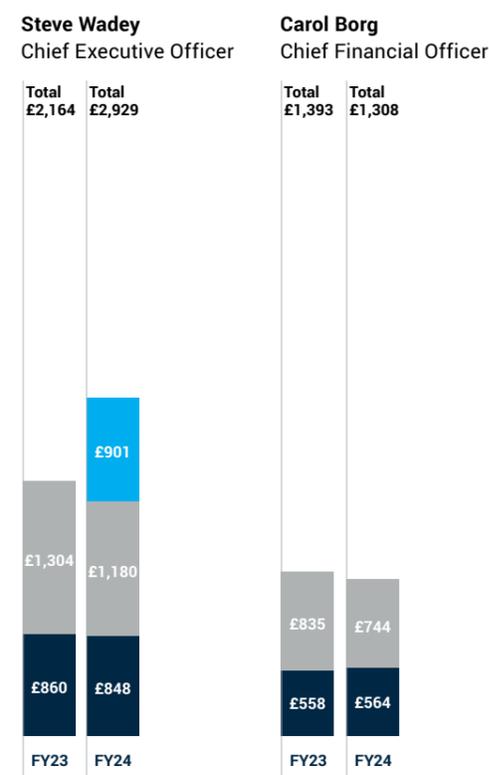
Long-term variable pay	Link to strategy	Application in FY25
<p>The Long-term Performance Award (LPA) introduced for FY24 onwards is as follows:</p> <ul style="list-style-type: none"> <li>Three-year performance test with any shares vesting subject to a further two-year holding period</li> <li>The maximum LPA award for Executive Directors is 250% of salary for the delivery of truly stretching financial targets</li> <li>The performance measures used for the LPA for FY25 will be earnings, ROCE and total revenue growth</li> <li>No more than 20% of each element of the award will vest at threshold levels of performance</li> </ul>	<p>The LPA has a clear link to strategy and incentivising growth:</p> <ul style="list-style-type: none"> <li>Cumulative earnings: To deliver consistent operational performance over the longer term. Understood, relevant and actionable for QinetiQ senior leaders</li> <li>Returns: To drive robust investment selection and delivery</li> <li>Total revenue growth: To drive value creation through collaboration and market leverage</li> </ul> <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>	No change in prior-year implementation of Policy and financial targets.

## 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.

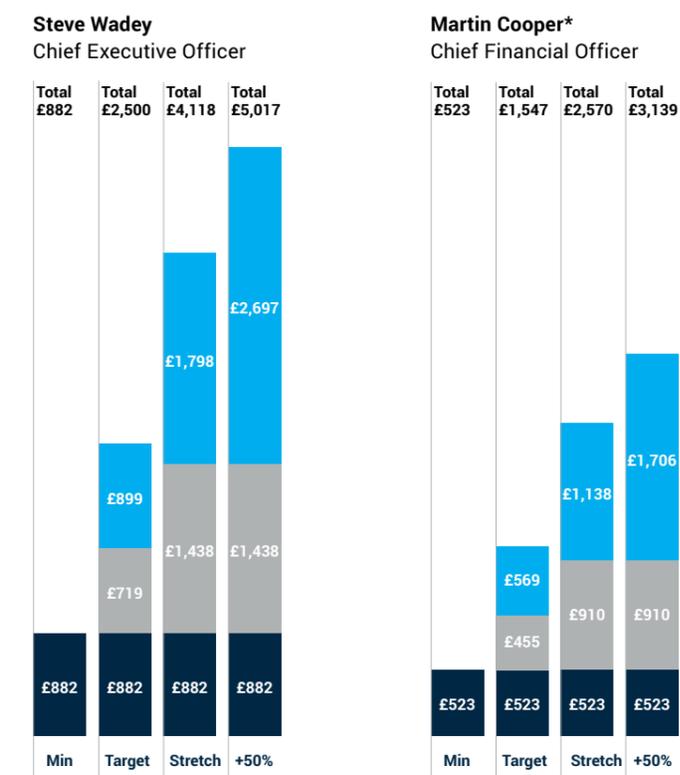


## Single Figure FY24 (£'000)



**Key**  
 ■ Fixed pay  
 ■ Annual variable pay  
 ■ Long-term variable pay

## Illustration of FY25 potential (£'000)



**Minimum** – Fixed pay (FY25 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)

**Key**  
 ■ Fixed pay  
 ■ Annual variable pay  
 ■ Long-term variable pay  
 \* Full year calculation shown

## Directors' Remuneration Policy Q&A

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

The principles of the Policy are:

- A clear approach with 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 performance period before any shares vest 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 and 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 is ESG reflected within the bonus plans?

ESG is measured through metrics such as route to Net-Zero, employee engagement and diversity and inclusion interventions. These have a 17.5% weighting in the current annual incentive plan, which we anticipate will continue for the ABP in FY25 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.

### 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 out-turn to ensure that rewards are appropriate. In addition, bonus deferral, holding periods and shareholding requirements ensure a focus on sustainable share price performance.

### Q How have you supported employees in FY24

Building on the cost-of-living measures we implemented in FY23, we have invested further in our overall employee offering in FY24. In the UK, in response to the continued high levels of inflation we have provided additional base salary increases to ensure our employees receive a fair market level of pay. We have also achieved Living Wage accreditation guaranteeing an above-statutory level of pay for our lowest paid UK employees and subcontractors and are working towards equivalent accreditation in other geographies (e.g. Canada). In the US we have concluded a benchmarking exercise helping us to better understand our market position and in the Australia sector we have commenced a benchmarking exercise and will be developing a sector-level reward strategy over FY25. Our Group Hardship Fund and Employee Assistance Programmes (EAP) continue to provide additional support to our employees who are experiencing challenging personal circumstances.

### 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 people through a quarterly survey using a market-leading dynamic tool (Peakon).

## Summary Directors' Remuneration Policy

### The Directors' Remuneration Policy was approved by shareholders at the AGM on 20 July 2023.

The full Policy is provided in the Corporate Governance section on the Company's website, and it will remain in effect until the 2026 AGM. When considering the review of the Policy, the Committee was mindful of UK Corporate Governance Code provisions which state that the Committee should address the issues as follows:

- Clarity is achieved by the simplification of the incentives and the better separation between the annual and long-term plans in the Policy

- Simplicity is delivered by a simple approach to incentives in the Policy, 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

A summary of the Policy is set out below:

Element	Purpose and link to strategy	Operation and performance measures	Maximum opportunity
<b>Base salary</b>	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"> <li>- general salary rises to employees;</li> <li>- remuneration practices within the Group;</li> <li>- any change in scope, role and responsibilities;</li> <li>- the general performance of the Group;</li> <li>- the experience of the relevant Director;</li> <li>- the economic environment; and</li> <li>- pay levels for similar roles among appropriate comparators.</li> </ul> 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 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"> <li>- an individual is below market-level and a decision is taken to increase base pay to reflect proven competence in the role; or</li> <li>- there is a material increase in scope or responsibility to the Executive Director's role.</li> </ul> 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.
<b>Pension allowance</b>	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 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).
<b>Benefits</b>	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.	Benefit values can vary year-on-year depending on premiums and the maximum is the cost of providing the relevant benefits.

Summary Directors' Remuneration Policy continued

Annual Incentive	Purpose and link to strategy	Operation and performance measures	Maximum opportunity
<b>Annual Bonus Plan (ABP)</b>	The ABP provides an incentive for the Executive Directors to achieve targets that are entirely aligned to the Company's strategy.	<ul style="list-style-type: none"> <li>The ABP is an annual incentive plan with a one year performance measurement period, with any award paid partly in deferred shares;</li> <li>A maximum award of 200% of salary is available each year;</li> <li>At the end of the first year 70% of the award is paid as a cash bonus;</li> <li>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; and</li> <li>Dividend equivalents will be paid on the deferred shares.</li> </ul>	Maximum = 200% of salary. Target = 100% of salary. Threshold = 0% of salary.

Long-term Incentive	Purpose and link to strategy	Operation and performance measures	Maximum opportunity
<b>Long-term Performance Award (LPA)</b>	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.  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.	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.  Malus and clawback provisions apply to the LPA.  The Committee will normally provide dividend equivalents on vested shares under the LPA.	Maximum = 250% of salary. Target = 125% of salary. Threshold = 50% of salary.  No more than 20% of each element of the LPA may vest at threshold levels of performance.

Element	Purpose and link to strategy	Operation and performance measures	Maximum opportunity
<b>Minimum shareholding requirements – during and after employment</b>	To align Executive Directors' interests with those of shareholders through the build-up and retention of a personal holding in QinetiQ shares.	Executives have five years to accumulate the required shareholding.  300% of base salary for the CEO.  200% of base salary for other Executive Directors.  Executive Directors will have a post-employment shareholding requirement of 100% of salary for the first year post cessation, then 50% of salary for the second year post cessation of employment.	The Committee reviews compliance on an annual basis and adherence to these guidelines is a condition of continued participation in the equity incentive arrangements.

Chairman and Non-executive Directors

<b>Fees</b>	To attract and retain Non-executive Directors of the calibre required to assist the Company in setting and delivering its strategy.	Fees are reviewed annually based on equivalent roles in the comparator group used to review salaries paid to the Executive Directors.	The fees for Non-executive Directors and the Group Chair are broadly set at a competitive level against the comparator group.
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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 2024.

Audited information

Executive Directors' single total figure of remuneration:

Executive Director	Year	Salary £'000	Benefits £'000	Pension £'000	Total fixed pay £'000	Annual Bonus Plan £'000	Deferred Share Plan £'000	Total variable pay £'000	Total remuneration £'000
Steve Wadey (CEO)	FY24	689	87	72	848	1,180	901	2,081	2,929
	FY23	664	79	117	860	1,304	–	1,304	2,164
Carol Borg (CFO)	FY24	448	69	47	564	744	–	744	1,308
	FY23	431	82	45	558	835	–	835	1,393

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. Where the company settles the director's tax, the value disclosed is not grossed up for tax.

Salary	Salary as 1 April 2023 £'000	Increase in the year	Salary as at 1 July 2023 £'000	FY24 salary actually paid £'000
Salaries are reviewed effective 1 July, which is the same timing as for the rest of the UK employee population.				
CEO	670	3.8%	696	689
CFO	435	3.9%	452	448

Benefits (audited)	Taxable expenses £'000	Travel & car allowance £'000	Insurance benefit £'000	Total benefits £'000
Benefits comprise a car allowance, travel allowance, private medical expenses insurance, life assurance, income protection and taxable expenses.				
CEO	43	19	25	87
CFO	1	63	5	69

Pensions (audited)	Cash in lieu of pension £'000	Total in lieu of pension £'000
The Executive Directors did not participate in the QinetiQ pension scheme for FY24. The pension figure is cash in lieu of pension equating to 10.5% of base salary. The FY23 figure for the CEO above has been restated for a pension allowance payroll error correction payment of £2,316.		
CEO	72	72
CFO	47	47

Annual Bonus Plan (audited)

The ABP is an annual incentive plan with a one-year performance measurement period, with any award paid partly in deferred shares. After the end of the first year, 70% of the award is paid as a cash bonus. The remaining 30% is made as a deferred share award that must be held for two years and is subject to continued employment. Malus and clawback apply for up to three years from the payment date.

	ABP award £'000	June 2024 payment in cash (70% value £'000)	Value of share payment (30% value £'000)	30-day average share price to 31 March 2024 (p)	Estimated Deferred shares awarded June 2024
CEO	1,180	826	354	364.9	97,028
CFO	744	521	223	364.9	61,202

Deferred Share Plan (audited)

The FY21 legacy DSP award achieved the performance underpin based on FY24 profit exceeding that in FY21 (£150.0m) and, therefore, the shares ceased to be contingent, will vest in June 2024 and are disclosed in the single figure for FY24. The 100% vesting refers to the shares which have passed the underpin of those initially granted based on FY21 performance, which was 100% of the maximum available. The share value used is the 30-day average to 31 March 2024 (364.9p) and the estimated value includes £51,902 as dividend equivalent payments.

	FY21 Shares awarded	Vesting %	Shares vesting	Estimated value £'000
CEO	232,746	100%	232,746	901

**Annual Report on Remuneration** continued

**Annual Bonus Plan** (audited)

For the year ended 31 March 2024 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 2024, 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.

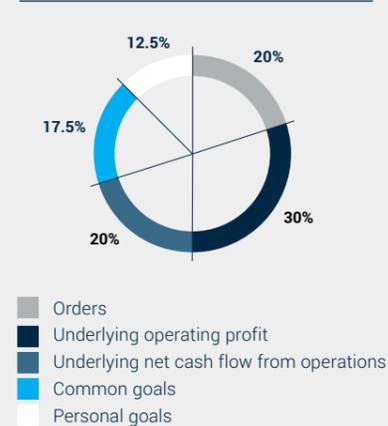
When setting performance targets the Remuneration Committee takes into account the budget and the Company's strategy set in relation to the ISBP, shareholder expectations and the external environment.

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.

**Audited information**

FY24 performance outcomes

**% of maximum**



	Threshold	Target	Stretch	Actual	% of maximum reward achieved	CEO contribution	CFO contribution
<b>CEO/CFO financial performance measures</b>							
Orders <sup>1</sup>	20%	£1,525.0m	£1,650.0m	£1,725.0m	£1,740.4m	100.0%	£275,664
Underlying operating profit <sup>1</sup>	30%	£194.0m	£205.0m	£217.0m	£215.2m	92.5%	£382,484
Underlying net cash flow from operations <sup>1</sup>	20%	£230.0m	£250.0m	£270.0m	£304.6m	100.0%	£275,664
<b>CEO/CFO common goals</b> (as detailed on page 119)							
- Performance against key stretching objectives <sup>2</sup>	17.5%	40%	50%	100%	55.7%	55.7%	£134,386
<b>CEO personal goals</b>							
- Performance against stretching objectives	12.5%	40%	50%	100%	80.0%	80.0%	£137,832
<b>CFO personal goals</b>							
- Performance against stretching objectives	12.5%	40%	50%	100%	60.0%	60.0%	£67,166
<b>CEO overall result<sup>2,3</sup></b>					<b>87.5%</b>	<b>£1,206,030</b>	
<b>CFO overall result<sup>2,3</sup></b>					<b>85.0%</b>		<b>£761,214</b>

<sup>1</sup> Definition of underlying measures and performance can be found in the glossary on page 200.

<sup>2</sup> Based on a recommendation by the CEO, the Committee agreed to exercise discretion to adjust downwards the ABP payment for FY24 in view of the tragic accident when two of our colleagues lost their lives in the German business. This downwards adjustment reduced the actual FY24 ABP payment by £25,844 and £16,791 for the CEO and former CFO respectively, resulting in actual payments of **CEO £1,180,186 (85.6% of the maximum)** and **former CFO £744,423 (83.1% of the maximum)**.

<sup>3</sup> The FY24 ABP payment will be made 70% in cash in June 2024 and 30% will be awarded as deferred shares in June 2024 which must be held for two years.

**Common goals (17.5% weighting)** (audited)

Measures	FY24 Performance	Out-turn (% maximum)
<b>Net-Zero</b> (5.0% weighting)	Make demonstrable progress towards the QinetiQ Net-Zero plan by reducing Scope 1, 2 and some elements of Scope 3 emissions.  The FY24 Net-Zero Threshold performance level was not achieved resulting in a zero payment for this element.	
<b>Engagement</b> (5.0% weighting)	Achieve Group Peakon (third-party employee engagement survey) improvement target above FY23 baseline.  FY24 employee engagement was above FY23 baseline performance and, at year end, was at an all-time highest level. FY24 performance was between Target and Threshold for this measure.	
<b>Safety</b> (7.5% weighting)	Drive the overall safety maturity of the Group as measured by an independent process. Make specific tangible safety interventions that improve underlying safety performance and controls.  Safety Maturity (3.75%) For FY24 the safety maturity score was above Stretch, marking strong progress against this independent process, and both Executive Directors delivered the Stretch requirement for tangible safety interventions.  Safety Interventions (3.75%)	
<b>Total</b>	Overall out-turn reduced by 1.875% (i.e. 50% of the 3.75% weighting aligned to safety maturity) as an exercise of discretion in relation to the two employee deaths in FY24. <b>The adjusted out-turn is 45.0%</b>	<b>55.7%</b>

**Personal goals (12.5% weighting)** (audited)

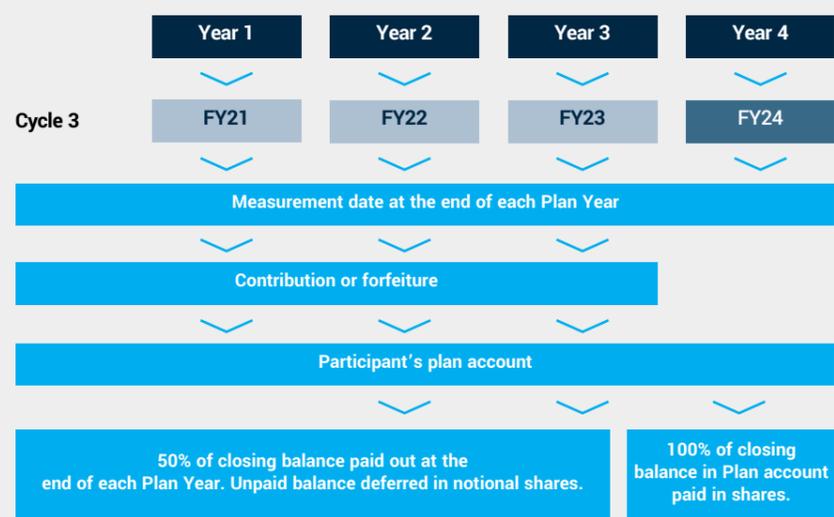
	FY24 Performance	Out-turn (% maximum)
<b>CEO</b>	Mature safety, security and organisational capability. Measures - demonstrable progress against improvement plans for safety, security and programme management.  Deliver consistent operational performance in FY24. Measures - demonstrable consistent performance throughout the year evidenced by KPIs, with minimal programme performance issues.  Develop culture that enables sustainable growth to realise 5-year ambition. Measures - launch a programme of work focused on enabling our leadership in support of our culture development programme.  Enable growth through customer focus and investment in capabilities consistent with AUKUS. Measures - strong customer feedback and delivery of AUKUS roadmap to shape our future strategy.	
<b>Total</b>		<b>80.0%</b>
<b>CFO</b>	Mature Finance & Governance Function consistent with 5-year ambition. Measures - demonstrable progress of functional development and capability enhancement with consistent positive feedback from key stakeholders.  Deliver consistent operational performance in FY24. Measures - demonstrable consistent performance throughout the year evidenced by KPIs, with minimal programme performance issues.  Embed Three Lines assurance model across company. Measures - evidenced progress of Three Lines assurance model embedding across the Company  Deliver year 2 of ESG plan. Measures - evidenced progress against Net-Zero plan in year with proactive leadership in support of the ESG development company wide.	
<b>Total</b>		<b>60.0%</b>

**Annual Report on Remuneration** continued

**How the legacy BBP operated**

- The Plan operated on a fixed three-year performance cycle with a four-year vesting cycle. FY24 represents Year 4 of Cycle 3.
- Performance targets were set at the beginning of each Plan year.
- At the end of each of the first three Plan years the performance against targets was assessed and the level of the incentive earned is determined and paid into the Plan account.
- Each year 50% of the account balance was 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 was paid in cash and the balance retained and held in the Plan as notional shares.
- At the end of Year 4 for Cycle 3, any remaining balance in the Plan account is paid out in shares and a cash dividend equivalent is paid.

**BBP payout mechanism**



**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 £173m for FY24. Group underlying operating profit for FY24 was £215.2m therefore no notional shares were forfeited and the closing balance will be paid out in shares following the end of FY24.

**Termination of the BBP**

Following the introduction of the ABP, the BBP has been terminated and no investment made in FY24. The notional shares on account as at the end of Plan Year 3 (as identified below) will be delivered to the CEO and former CFO as actual shares with a dividend equivalent payment in June 2024.

**Audited information**

Vesting of Cycle 3 closing account balance

	Notional shares on account at start of Plan Year 4 (1 April 2023)	30-day average share price to 31 March 2024 (p)	Share value as at measurement (£)	Bonus plan contribution date for Plan Year 4 (£)	Dividend equivalent payment (£)	Bonus pool total value as at measurement date (£)	Gross payment in cash for Plan Year 4 (£)	Bonus pool total value after cash payment (£)	Notional shares on account at end of Plan Year 4 (31 March 2024)
CEO	322,568	364.9	1,177,147	-	25,483	1,202,534	-	-	329,551
CFO	149,658	364.9	546,147	-	11,823	557,925	-	-	152,898

**Legacy Deferred Share Plan (DSP) (audited)**

**Termination of the DSP**

Further to shareholder approval of the new Directors' Remuneration Policy at the 2023 AGM, the DSP was terminated and no award was made in relation to FY24 performance. The FY23 DSP award was 100.0% of the maximum available (125% of salary for Executive Directors); it has been deferred for three years and remains subject to a performance underpin; any vested shares are then subject to a further two-year holding period.

Details of the final FY23 DSP award, which was made on 20 June 2023, were provided in the FY23 Report. Subsisting DSP awards as identified on page 123 will continue to be available to vest on the basis of the relevant performance underpin.

The FY21 DSP award achieved the performance underpin based on the FY24 profit exceeded that in FY21 (£150.0m) and, therefore, the shares ceased to be contingent and will be released on 25 June 2024. Had the FY24 profit not been greater than FY21, 50% of the DSP award would have lapsed. The net shares vesting from the FY21 DSP must be retained for a further two years. The value of this award is shown in the single figure table for the CEO (the former CFO did not receive an FY21 DSP award). The value of the 232,746 shares vesting is £849,290 based on the 30-day average to 31 March 2024 (364.9p). The estimated value includes £51,902 as dividend equivalent payments based on an aggregate dividend of 22.3p paid in FY22 to FY24 and a share price appreciation between grant and vesting of £100,081.

**Long-term Performance Award (LPA) (audited)**

**Performance targets for FY24**

The Committee 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.

The FY24 Target level of performance is not calculated on a linear basis and the Target is deemed commercially sensitive at this time as it is aligned to confidential Group strategy.

FY24 LPA conditional share awards were granted based on a maximum of 250.0% of base salary at a share price of 321.3p determined over a five-day period prior to grant. The three-year performance period for the FY24 award ends on 31 March 2026. Any shares which vest must then be held for a further two years.

## Annual Report on Remuneration continued

## 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 (beneficially owned) 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 shares equivalent to 335% of base salary using a share price of 354.7p (three-month average to 31 March 2024). On 27 July 2023 the CEO sold 300,000 QinetiQ shares which had vested as part of his participation in Company share incentive plans. After the share sale the CEO remained compliant with his shareholding requirement.

The former CFO was appointed during 2021 and had not achieved the minimum shareholding requirement at year-end, with a holding of shares equivalent to 0% of base salary. The post-cessation shareholding requirement will be applied to shares vesting after the termination of her employment as per Policy.

The Remuneration Committee continues to monitor compliance with the shareholding requirement.

	Shares beneficially owned	Shares subject to performance conditions	Shares not subject to performance conditions	Total share interests at 31 Mar 2024
Steve Wadey	657,308	1,164,740	544	1,822,592
Carol Borg	–	551,044	193,199	744,243
Michael Harper <sup>1</sup>	45,000	–	–	45,000
Shonaid Jemmett-Page	7,000	–	–	7,000
Neil Johnson	100,000	–	–	100,000
Dina Knight <sup>2</sup>	–	–	–	–
Ross McEwan <sup>2</sup>	–	–	–	–
General Sir Gordon Messenger	11,958	–	–	11,958
Steve Mogford	–	–	–	–
Lawrence Prior III <sup>3</sup>	–	–	–	–
Susan Searle	48,300	–	–	48,300

<sup>1</sup> Michael Harper – Resigned 20 July 2023

<sup>2</sup> Dina Knight and Ross McEwan – Appointed 1 March 2024

<sup>3</sup> Lawrence Prior III – Resigned 16 March 2024

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 9 April 2024 Steve Wadey purchased 56 shares, then on 9 May 2024 he purchased a further 56 shares, through his participation in the SIP. Shares subject to performance conditions comprise awards made under the Deferred Share Plan and Long term Performance Award which remain contingent subject to the relevant performance conditions as detailed on [page 123](#).

Carol Borg's share interests were adjusted on leaving the Company as detailed on [page 123](#).

There have been no other changes to the shares shown above between 31 March 2024 and 23 May 2024. Notional shares held by the CEO and former CFO in the BBP Cycle 3 do not appear in the table above as they are not actual shares at 23 May 2024. However, it is anticipated that the BBP Cycle 3 shares will vest as actual shares in June 2024.

## Audited information

## Total scheme interests summary

Total scheme interests, including those awarded during the financial year ended 31 March 2024, are as follows.

Plan name	Date of grant	Granted in year		Vested in year	Lapsed in year	Number 31 March 2024	Share price on date of grant	Vest date
		Number 1 April 2023	(maximum potential of awards)					
<b>Steve Wadey</b>								
DSP 2021	25 Jun 21	232,746	–	–	–	232,746	321.9	25 Jun 24
DSP 2022	14 Jun 22	159,198	–	–	–	159,198	302.1	14 Jun 25
DSP 2023 <sup>1</sup>	20 Jun 23	–	251,444	–	–	251,444	330.2	20 Jun 26
LPA 2024 <sup>2</sup>	28 Sep 23	–	521,352	–	–	521,352	321.3	28 Sep 26
		391,944	772,796	–	–	1,164,740		
<b>Carol Borg</b>								
Compensation								
Share Plan	5 Jan 22	193,199	–	–	–	193,199	258.8	5 Jan 25
DSP 2022	14 Jun 22	49,299	–	–	–	49,299	302.1	14 Jun 25
DSP 2023 <sup>1</sup>	20 Jun 23	–	163,256	–	–	163,256	330.2	20 Jun 26
LPA 2024 <sup>2</sup>	28 Sep 23	–	338,489	–	–	338,489	321.3	28 Sep 26
		242,498	501,745	–	–	744,243		

<sup>1</sup> The FY23 DSP contingent share award granted on 20 June 2023 at a share price of 330.2p (30-day average to 31 March 2023) is calculated on awards of 100.0% of the maximum (125.0% of salary) with a face value of £830,268 and £539,071 for the CEO and former CFO respectively. If the FY23 Group underlying organic profit (£169.5m) is not achieved in FY26, a minimum of 50% of the award will lapse.

<sup>2</sup> The FY24 LPA conditional shares granted on 28 September 2023 at a share price of 321.3p (5-day average prior to grant) are calculated on the basis of 250.0% of salary with a face value of £1,675,104 and £1,087,565 for the CEO and former CFO respectively. The performance period for the FY24 LPA ends on 31 March 2026 based on the achievement of earnings, ROCE and revenue targets. Any shares which vest must be retained for a further two years.

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. As part of her termination arrangements, these shares will vest in full on the normal vesting date.

Carol Borg's FY22 and FY23 DSP awards will be reduced for time pro-rating and remain subject to the relevant performance underpin being met. Any DSP shares which vest will remain subject to a two-year holding period. Her FY24 LPA award lapsed on leaving on 15 April 2024.

The FY24 ABP payment will be paid 30% in shares deferred for two years. It is anticipated that these shares will be awarded in June 2024.

There have been no other changes to the interests shown above between 31 March 2024 and 23 May 2024.

## Payments to past Directors and payment for loss of office (audited)

No payments were made to past Directors during the year and no payments were made for loss of office during the year.

As announced on 16 April 2024, Carol Borg stepped down from the role of Group CFO by mutual agreement and Martin Cooper will join QinetiQ to succeed Carol as Group CFO. Full details were disclosed in accordance with s.430(2B) of the Companies Act 2006 and in the FY25 Directors' Remuneration Report.

The Remuneration Committee exercised its discretion taking account of her contribution to determine that Carol should be treated as a Good Leaver in respect of a number of her incentive arrangements. The details of her remuneration following the cessation of her employment are as follows:

- Pay in lieu of her 12-month notice period. This will be paid in quarterly instalments and reduced if she secures employment.
- FY24 ABP payment based on actual results, 70% in cash and 30% in shares which will vest after two years from payment in June 2024.
- The conditional share award termed the Compensation Share Plan, awarded in part compensation for share awards which were forfeited on resigning from her former employer, will vest on the normal vesting date in accordance with the original terms of the award.
- FY22 and FY23 DSP awards, reduced for time pro-rating, subject to the relevant performance underpin being met. Vested shares will remain subject to a two-year holding period.
- No incentive payments will be paid in respect of her service in FY25 and the FY24 LPA will lapse.
- Shares vesting will be subject to the post-cessation share ownership requirement as per Policy.

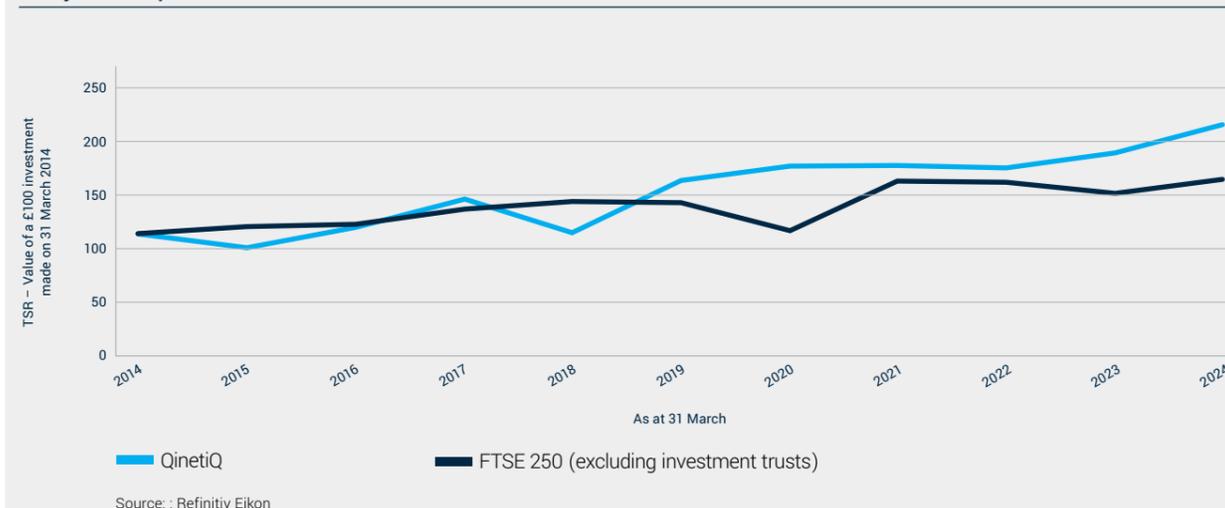
Annual Report on Remuneration continued

Performance review

The ten-year chart shows the Company's Total Shareholder Return over the period from 31 March 2014 to 31 March 2024 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



CEO remuneration

The table below shows the CEO's remuneration over the same performance period as the Total Shareholder Return chart (31 March 2014 to 31 March 2024):

Financial Year ended 31 March	CEO	Salary/fees	Single figure	Annual bonus (% of maximum)	Long-term incentives (% of maximum vesting)
FY24	Steve Wadey	689,160	2,928,669	85.6%	100.0%
FY23	Steve Wadey	664,126	2,164,306	98.2%	-
FY22	Steve Wadey	639,121	2,477,069	71.4%	100.0%
FY21	Steve Wadey	511,550	2,695,414	95.7%	100.0%
FY20	Steve Wadey	610,357	1,978,247	87.5%	38.4%
FY19	Steve Wadey	596,422	2,339,474	94.4%	31.7%
FY18	Steve Wadey	582,167	1,522,460	66.7%	-
FY17 (restated)	Steve Wadey	568,166	1,829,470	86.4%	-
FY16	Steve Wadey	520,219	1,654,546	85.4%	-
FY16	David Mellors	455,885	1,423,382	82.9%	-
FY15	David Mellors	501,227	1,725,960	88.6%	13.9%
FY15	Leo Quinn	469,776	673,979	-	-

CEO pay ratio

The calculation below is based on the FY24 single figure for the CEO of £2,928,669 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 2024.

Total remuneration

Ratio of the CEO's to the pay of UK employees

Year	25th percentile	Median	75th percentile
FY24	67: 1	50: 1	38: 1
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 increased between FY23 and FY24 as a result of 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 FY24 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	£43,906	£58,329	£76,690
Salary component <sup>1</sup>	£39,711	£39,922	£70,153

<sup>1</sup> 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.

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 LPA is available to Executive Directors, senior leaders and selected employees throughout the organisation.

The All Employee Incentive Scheme (AEIS) provides every eligible employee the opportunity to earn a cash bonus based on Company and personal performance. For FY24 the Company element of the AEIS was paid at an above target level of £1,138 as the profit target was exceeded. The AEIS will be operated again in FY25 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 FY24 the Company has agreed further significant investment in the employee offering across the Group including, in the UK, addressing market relativity through providing additional base salary increases to employees ensuring they receive a fair market level of pay.

The Group Chair, the Remuneration Committee Chair, the CEO and Chief People Officer have met with the Global Employee Voice several times during FY24. Amongst other things, these meetings have discussed how executive remuneration is aligned to the broader employee offering in support of Group strategy.

## Annual Report on Remuneration continued

## 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 2024 and the preceding year.

Non-executive Directors	Fees £'000		Benefits £'000		Single figure £'000	
	FY24	FY23	FY24	FY23	FY24	FY23
Michael Harper <sup>1</sup>	20	65	–	4	20	69
Shonaid Jemmett-Page <sup>2</sup>	73	67	–	4	73	71
Neil Johnson	270	259	–	7	270	266
Dina Knight <sup>3</sup>	5	–	–	–	5	–
Ross McEwan <sup>3</sup>	5	–	5	–	10	–
General Sir Gordon Messenger <sup>2</sup>	73	67	–	4	73	71
Steve Mogford	67	37	–	4	67	41
Lawrence Prior III <sup>4</sup>	67	65	13	16	80	81
Susan Searle <sup>2</sup>	73	67	–	4	73	71

1 Michael Harper – Resigned 20 July 2023

2 Fees include Committee Chair fees

3 Dina Knight and Ross McEwan – Appointed 1 March 2024

4 Lawrence Prior III – Resigned 16 March 2024

Benefits include travel and subsistence expenses (grossed-up for tax) incurred in relation to the execution of their duties with the Company that are considered by HMRC to be taxable.

Lawrence Prior is a US resident and received a \$4,000 fee for attending UK meetings until his resignation; as an Australian resident Ross McEwan receives a UK meeting fee of AU\$8,000. UK-based Non-executive Directors are entitled to receive a £2,500 fee for attending US meetings. The fees for Michael Harper include £12,000 as Senior Independent Director until his date of resignation, when Steve Mogford was elected to this role and received this fee. For Lawrence Prior and Ross McEwan, a payment of £10,000 was paid as senior US and Australia resident Non-executive Director respectively.

## 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 (4,371 employees) in the UK business in service between 1 April 2023 and 31 March 2024. The analysis only includes Directors who served for FY24 and includes the temporary salary/fee sacrifice in FY21.

	Fees £'000				Benefits £'000				Annual bonus £'000			
	FY24	FY23	FY22	FY21	FY24	FY23	FY22	FY21	FY24	FY23	FY22	FY21
<b>Executive Directors</b>												
Steve Wadey	3.8%	3.9%	24.9%	-16.2%	9.2%	21.5%	-4.3%	35.9%	-10.5%	43.0%	-22.7%	10.3%
Carol Borg	3.9%	–	–	–	1.8%	–	–	–	-10.9%	–	–	–
<b>Non-executive Directors</b>												
Michael Harper	-69.2%	1.6%	18.4%	-15.9%	-100%	0%	100%	–	–	–	–	–
Shonaid Jemmett-Page	8.2%	1.5%	–	–	-62.1%	0%	–	–	–	–	–	–
Neil Johnson	4.2%	3.6%	14.3%	17.1%	-77.2%	33.3%	100%	-100%	–	–	–	–
Dina Knight	100.0%	–	–	–	100.0%	–	–	–	100.0%	–	–	–
Ross McEwan	100.0%	–	–	–	100.0%	–	–	–	100.0%	–	–	–
General Sir Gordon Messenger	4.3%	–	–	–	-76.8%	–	–	–	–	–	–	–
Steve Mogford	82.4%	–	–	–	-52.7%	–	–	–	–	–	–	–
Lawrence Prior III	3.1%	–	–	–	-70.8%	–	–	–	–	–	–	–
Susan Searle	8.2%	1.5%	21.2%	-6.8%	74.8%	0%	100%	-100%	–	–	–	–
<b>Employees</b>												
Average UK employee <sup>1</sup>	7.8%	4.4%	2.9%	1.2%	-22.2%	5.7%	10.9%	-1.2%	3.0%	96.2%	-38.2%	62.2%

1 UK employees were chosen 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.

## 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.

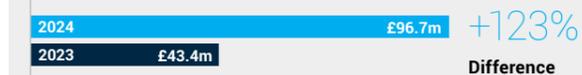
## Total employee remuneration

The increase in employee remuneration is due to a full year of the Avantus and Air Affairs acquisitions and the FY24 UK reward interventions.



## Share-based profit distribution

Dividend cash payment plus purchase of own shares (see CFO Review page 28).



## Other significant profit distribution

There were no other significant profit distributions in 2023 or 2024.

## 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 92).

Director	Date appointed	Arrangement	Notice period
Steve Wadey	27 April 2015	Service contract	12 months
Carol Borg	11 October 2021	Service contract	12 months
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.	–
Dina Knight	01 March 2024	Initial term of three years from date of appointment, subject to annual reappointment at the AGM.	–
Ross McEwan	01 March 2024	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.	–
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.	–

## Implementation of Policy for the year ended 31 March 2024

## Fees

Non-executive Directors' fees were reviewed effective 1 July 2023 were set as follows:

- Basic fee £60,000 (was £55,000)
- Committee Chair fee £14,000 (was £12,000)
- Senior Independent Director fee £12,000 (was £10,000)

The fee increase was based on a NED fee benchmarking report provided by Mercer, and having considered the workload and contribution of the NEDs, the increase in base fee is 9.1%, which is the first increase in two years since July 2021 and is less than the increases applied to the UK workforce over FY23 and FY24.

The Non-executive Group Chair receives a fee of £273,000 per annum which was increased by 4.0% effective 1 July 2023; the increase aligned to that applied to the UK workforce over FY24.

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.

Annual Report on Remuneration continued

	Fees effective 1 July 2023 £
Group Chairman	273,000
Basic fee for UK Non-executive Director	60,000
Additional fee for chairing a Committee	14,000
Additional fee to Deputy Chair/Senior Independent Non-executive Director	12,000
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
Additional fee for attendance at a Board meeting held in UK by Australia resident Non-executive Director	AUS\$8,000

Implementation of Policy for the year ending 31 March 2025

At the 15 May 2024 meeting of the Remuneration Committee, a base salary increase of 4.5% (to £727,000p.a.) was approved for the CEO, effective 1 July 2024. The CEO's salary review is below the Rewarding for Performance guidance used for all UK employees which included a 5.0% budget for the July 2024 salary review plus 0.5% for in-year salary progression.

New CFO Terms of Appointment

On joining QinetiQ as Group CFO, Martin Cooper will receive:

- A base salary of £455,000 p.a. subject to review in July 2025, benefits and pension allowance aligned to Policy.
- An ABP maximum annual payment of 200% of salary and an LPA maximum annual grant of 250% of salary, as per Policy.
- As part compensation for share awards lost on resignation from his former employer, some performance dependent and others lost on cessation of employment, two awards of restricted stock will be granted as soon as practicable after joining with a total value of £900,000. Tranche 1 with a value of £550,000 will vest in March 2026; Tranche 2 with a value of £350,000 will vest in March 2027. Both vesting dates are a one year extension on the awards surrendered and conditional on continued employment.
- In addition and in part compensation for the value of other awards forfeited at his current employer, his FY25 LPA will not be pro-rated to take account of the months between the grant of the FY25 awards to other employees and his start date.

Incentives for Executives

The table below shows the measures and relative weighting for the Annual Bonus Plan for the CEO and incoming CFO:

Annual Bonus Plan	Performance measure (excluding FY25 acquisitions)	Relative weighting(%)
	Orders	15.0%
Target performance 100% of base salary	Underlying operating profit	30.0%
Stretch performance 200% of base salary	Underlying net cash flow from operations	25.0%
	Common, ESG and Personal Goals	30.0%

For FY25 the Remuneration Committee agreed to re-balance the annual incentive weightings by reducing the orders metric to 15% (FY24 20%) and increasing the cash metric to 25% (FY24 20%); profit remains at 30% weighting. The revised financial weightings reflect the need to drive profitable growth and strong cash management. The focus on ESG goals as part of the non-financial metrics continues for FY25 with a 17.5% weighting.

For FY25, 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 ABP 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 FY25 the Committee has set performance measures and targets for the LPA 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 FY25 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%
FY27 Total revenue	Threshold £2.0bn	Stretch £3.0bn.

Remuneration Committee meetings, activities and decisions FY24

The following table provides a summary of all the key activities during the year. The attendance at each meeting is detailed on page 84.

The membership of the Remuneration Committee for the whole of FY24 was Susan Searle (Chair), Neil Johnson, General Sir Gordon Messenger, Shonaid Jemmett-Page and Steve Mogford. Michael Harper and Lawrence Prior resigned from the Committee on 20 July 2023 and 16 March 2024 respectively, Dina Knight and Ross McEwan both joined the Committee on 1 March 2024.

Date	Incentives	Share awards	Governance	Salaries and resourcing
May 2023	Review of FY23 company performance and final results for BBP and DSP	FY23 DSP awards	Approve FY24 Directors' Remuneration Report 2023 Directors' Remuneration Policy	QLT base salary reviews
July 2023			AGM preparation and feedback on 2023 Directors' Remuneration Policy	
November 2023	FY24 half-year forecast		Review of QLT shareholdings Review of all-employee remuneration to ensure, inter alia, alignment of incentives and reward with culture	
March 2024	FY24 provisional results FY25 target setting		Mercer review of independence	

Remuneration Committee effectiveness review

A performance evaluation of the Committee is conducted annually. This process is described further on page 97.

Remuneration consultants

In FY23 the Committee appointed Mercer 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 to Mercer during the year for services provided were £80,165 calculated on a time-spent basis at pre-agreed rates. Mercer provides the Company with consulting advice on conditions for employees in the US and manages the UK DC pension fund. The Committee reviews the nature of the advice received from Mercer on an annual basis to satisfy itself that the advice it receives is independent and objective.

Statement of voting

Directors' Remuneration Report – 2023	
Votes for	414,786,551 (86.0%)
Votes against	67,584,010 (14.0%)
Total votes cast	482,370,561 (83.4% of share capital)
Abstained	32,213

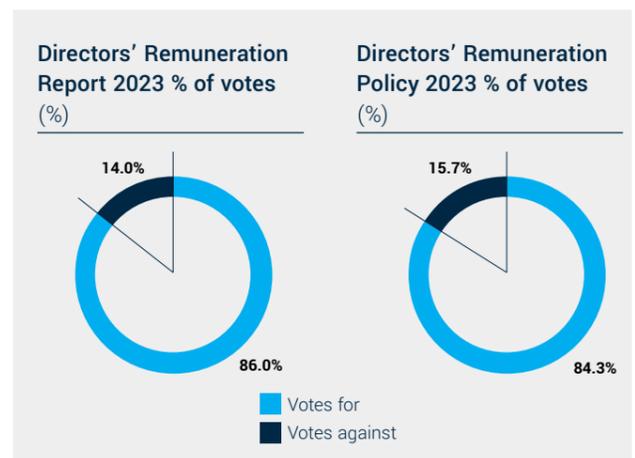
Directors' Remuneration Policy – 2023	
Votes for	406,828,507 (84.3%)
Votes against	75,547,245 (15.7%)
Total votes cast	482,375,752 (83.4% of share capital)
Abstained	26,105

Details on the voting on all resolutions at the 2024 AGM will be announced via the RNS and posted on the QinetiQ website after the AGM.

Susan Searle

Remuneration Committee Chair

23 May 2024



# Directors' report

## Directors' report

The Directors present their report together with the audited consolidated financial statements for the year ended 31 March 2024.

## 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	72
Directors' details	78 - 80
Directors' conflicts of interest	84
Directors' interests in shares	122
Dividends	31
Employees	48 - 53
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	165
Greenhouse gas emissions	36 - 47
Likely future developments in the business of the Company or its subsidiaries	1 - 69
Results	28 - 31
Disclosure specifically required pursuant to the Companies (Miscellaneous Reporting) Regulations 2018 can be found on the following pages:	
Stakeholder engagement statement	77
Statement in the Directors' report summarising how Directors have engaged with employees and taken account of their interests	72 - 74
Statement in the Directors' report about the corporate governance arrangements applied by the Company	
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	125
Illustration of the effect of future share price increases on executive pay outcomes in the Directors' Remuneration report	113

## Management report

The Strategic report on [pages 1 to 69](#) and the Directors' report, as detailed on [pages 130 to 133](#), 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 £328.2m (FY23: £313.8m) of total R&D-related expenditure, of which £315.4m (FY23: £299.2m) was customer-funded work and £12.8m (FY23: £14.6m) was internally funded. Additionally, £4.0m (FY23: £2.7m) of late-stage development costs were capitalised and £3.3m (FY23: £3.5m) of capitalised development costs were amortised in the year.

## Political donations

QinetiQ's policy is that it does not make what are commonly regarded as donations to any political party. QinetiQ does undertake legitimate interactions with MPs and others in the political world, to make them aware of key industry issues and matters that affect QinetiQ, and to 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 2024, the Company had an allotted and fully paid up share capital of 574,395,891 ordinary shares of 1p each with an aggregate nominal value of £5.7m and one Special Share with a nominal value of £1. The ordinary share total includes 869,661 shares held by employee share trusts.

Details of the shares in issue during the financial year are shown in [note 29 on page 176](#).

## Share buyback

Pursuant to the £100 million share buyback programme which was announced on 16 January 2024, and commenced on 7 February 2024, the Company has, as at 22 May 2024, bought back 8,234,261 Ordinary Shares of £0.01, representing 1.4% of the Company's issued share capital. These shares have subsequently been cancelled. Further details on the share buyback programme can be found on our website [www.qinetiq.com](http://www.qinetiq.com)

## Rights of ordinary shareholders

The holders of ordinary shares are entitled to receive the Company's Reports and Accounts, to attend and speak at general meetings of the Company, to exercise voting rights in person or by appointing a proxy, and to receive a dividend where declared or paid out of profits available for that purpose.

## Rights of special shareholder

The Special Share is held by HM Government through the Secretary of State for Defence (the Special Shareholder) and it may only be held by and transferred to HM Government. It confers certain rights to protect UK defence and security interests. These include:

- The promotion and reinforcement of the MOD compliance principles which require QinetiQ to be an impartial, ethical and responsible contractor by avoiding conflicts of interest in its dealings with the MOD
- The protection of defined strategic assets of the Group, such as certain testing facilities, by providing the Special Shareholder with an option to purchase those assets in certain circumstances
- The right to require certain persons with a material interest in QinetiQ to dispose of some or all of their ordinary shares on the grounds of national security or conflict of interest
- A 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 176](#).

## 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 2024, the Trust held 869,661 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	As at 31 March 2024 % of issued share capital*	As at 22 May 2024 % of issued share capital*
Klear Kite LLC	11.48%	11.48%
Schroders	9.98%	9.98%
Franklin Mutual Advisers LLC	5.04%	5.04%

\* 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 Target Services Limited by the MOD on 14 December 2006. The terms of this contract require the Company 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 the Company'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 1 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 by means of voting or other powers). If such approval is not obtained, the MOD reserves the right to terminate the agreement.
- The Engineering Delivery Partner Agreement placed with QinetiQ Limited by the MOD came into force on 5 October 2018 and has a 10-year duration. The contract contains a provision under which 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 by means of voting or other powers). The MOD is entitled to terminate the contract where a change of control has occurred without such approval having been obtained.
- The Group is party to funding agreements, provided by a consortium of banks: a £275m multi-currency revolving credit facility which was due to mature on 27 September 2025 has been replaced, as at 22 April 2024, with a £290m multi-currency revolving credit facility, which will mature on 22 April 2027; with two one-year options to extend the final maturity to 22 April 2029; a multi-currency floating rate term loan of £336m which matures on 27 September 2026, with a one-year option to extend the final maturity to 27 September 2027; and interest rate derivative contracts over three and five 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 112](#).

### 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 2023, the shareholders passed resolutions which authorised the Directors to allot relevant securities up to an aggregate nominal value of £1,928,997 (£3,857,994 pursuant only to a rights issue) and to disapply pre-emption rights (up to 5% of the issued ordinary share capital). The authorities will remain valid until the 2024 AGM.

The authority to purchase ordinary shares (up to 10% of the issued ordinary share capital) was granted at the Company's AGM in July 2023, however this was incorrectly expressed to expire at the annual general meeting in 2024 or on 20 October 2023, whichever is the earlier. At a general meeting on 6 February 2024, authority to purchase ordinary shares (up to 5% of the issued ordinary share capital) was granted in connection with the share Buyback programme announced by the Company on 16 January 2024. This authority will remain valid until the Annual General Meeting in 2024 or on 20 October 2024, whichever is the earlier.

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 2024 AGM.

### Annual General Meeting

The Company's AGM will be held on Thursday 18 July 2024 at 11:00 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.

### 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

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

Neil Johnson

Steve Wadey

Carol Borg (resigned 16 April 2024)

Steve Mogford

Shonaid Jemmett-Page

General Sir Gordon Messenger

Lawrence Prior (resigned 16 March 2024)

Susan Searle

Dina Knight (appointed 1 March 2024)

Ross McEwan (appointed 1 March 2024)

Each of the Directors 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 64](#) 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 2024.

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

23 May 2024

# 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 2024 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 2024 (the "Annual Report"), which comprise: the Consolidated and Company balance sheets as at 31 March 2024; 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, comprising material accounting policy information and other explanatory information.

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 United Kingdom over QinetiQ Limited, in the United States over QinetiQ Inc. (C5ISR) and Avantus Federal, and in Australia over QinetiQ Pty Ltd based on their size. 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 cash and cash equivalents, revenue and associated balances;
- We performed procedures over goodwill, intangible assets, share-based payments, the defined benefit pension scheme, IFRS 16 lease accounting, taxation, borrowings and testing of the consolidation at a group level.

#### Key audit matters

- Long-term contract accounting (group);
- Impairment of goodwill and acquired intangibles (group);
- Impairment of investments in subsidiary undertakings (parent).

#### Materiality

- Overall group materiality: £11,300,000 (2023: £7,950,000) based on 5% of underlying profit before tax;
- Overall company materiality: £5,300,000 (2023: £5,000,000) based on 1% of total assets;
- Performance materiality: £8,475,000 (2023: £6,000,000) (group) and £3,975,000 (2023: £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.

Acquisition accounting (Avantus Federal), which was a key audit matter last year, is no longer included because of no acquisitions being made during the year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
<p><b>Long-term contract accounting (group)</b> Refer to page 100 (Audit Committee report) and page 183 (note 36, material accounting policies - Revenue from contracts with customers) and page 146 (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. Long term contract accounting requires a number of judgements and management estimates to be made, particularly in calculating the forecast costs to complete the contract. These judgements drive revenue and profit recognition, and together with cash paid by the customer, impact the balance sheet position at the year end. Onerous contract provisions are recorded where there is an expectation that a contract will be loss-making, and judgement is applied to determine the magnitude of any provision. Particular focus is given to contracts which are technologically challenging.</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 challenging management to provide 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. 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. 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. No material exceptions were found.</p>
<p><b>Impairment of goodwill and acquired intangibles (group)</b> Refer to page 100 (Audit Committee report), page 187 (note 36, Material accounting policies - Impairment of goodwill and tangible, intangible and held for sale assets), page 154 (note 14, Goodwill) and page 156 (note 15, Intangible assets).</p> <p>The group has a material amount of goodwill and acquired intangible assets (£401.4m and £251.2m respectively at 31 March 2024). There is a risk of impairment where the performance of the cash generating unit is behind expectation and does not support the value held on the balance sheet. Management performed a discounted cash flow analysis based on the Board-approved five-year strategic plan to assess whether the goodwill and acquired intangible assets are supported by future cash flow projections. This annual impairment review was performed as at 31 January 2024. No triggering events have been identified in the period to 31 March 2024 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 Avantus, US C5ISR, US Technology Solutions and Germany cash-generating units (CGUs), being the CGUs with more significant assumptions 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.</p> <p>We concluded that the group's assumptions were materially appropriate. We confirmed that cash flows for the next 5 years, consistent with internal budgeting and strategic planning processes and the long term viability assessment, have been input to the model and that the underlying budgets and strategic plans have been approved by the Board.</p> <p>In respect of the heightened risk CGUs (Avantus, US C5ISR, US Technology Solutions and Germany CGUs), we challenged the cash flow projections (driven principally by revenue growth) used within the model by reference to current cash flows, analysis of management's historic growth rates, understanding future market growth and contract opportunities 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 to 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>

Key audit matter	How our audit addressed the key audit matter
<p><b>Impairment of investments in subsidiary undertakings (parent)</b></p> <p>Refer to page 195 (Accounting policies – Investments and note 2, Investments in subsidiary undertakings).</p> <p>The company has investments of £530.5m 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. 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"> <li>– Considering the market capitalisation of the group at year end and comparing this to the carrying value of the investment.</li> <li>– Assessing the overall financial performance of the group to identify any indicators of impairment as a result of poor financial performance.</li> <li>– Considering other information gathered during the course of our audits of components and assessing whether there are any other indicators of impairment.</li> <li>– Comparing the carrying value of the investment to the carrying value of the underlying net assets.</li> </ul> <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, Avantus 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 United Kingdom and the audit of C5ISR, Avantus and QinetiQ Pty Ltd are performed by our local PwC component teams based in the United States 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 United States 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 United States, which was performed by our local PwC component team.

In addition to the above, we performed analytical procedures on the remaining entities to understand key balances and transactions in the year and performed additional procedures on any unusual balances identified.

The audit procedures performed over the financial information of full scope components, QinetiQ Limited, C5ISR, Avantus Federal and QinetiQ Pty Ltd, accounted for 88% of consolidated group revenue and 89% 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 cash and cash equivalents, revenue and associated balance sheet accounts within Technology Solutions, resulted in coverage of 92% of consolidated group revenue and 87% 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 and borrowings 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 United States 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 concluded 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
<b>Overall materiality</b>	£11,300,000 (2023: £7,950,000).	£5,300,000 (2023: £5,000,000).
<b>How we determined it</b>	5% of underlying profit before tax	1% of total assets
<b>Rationale for benchmark applied</b>	Underlying profit before tax is one of the primary measures used by the shareholders in assessing the performance of the group, and is a generally accepted auditing benchmark. It is considered appropriate to exclude specific adjusting items due to the nature of these balances as disclosed in note 4 of the financial statements.	We believe that total assets is the primary measure used by shareholders in assessing the performance of this entity, and is a generally accepted auditing benchmark for a holding company. This materiality relates to the audit of the 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 £6,000,000 and £9,900,000. 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% (2023: 75%) of overall materiality, amounting to £8,475,000 (2023: £6,000,000) for the group financial statements and £3,975,000 (2023: £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 £525,000 (group audit) (2023: £400,000) and £265,000 (company audit) (2023: £250,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

### Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining management's Board-approved strategic plan. We held discussions with management to understand the budgeting process and the key assumptions made in the forecasting processes, over management's going concern assessment period;
- 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 liquidity and covenant 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 64, the Audit Committee report on page 100 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.

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 2024 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 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. 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, 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](http://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 7 years, covering the years ended 31 March 2018 to 31 March 2024.

##### Other matter

The company is required by the Financial Conduct Authority Disclosure Guidance and Transparency Rules to include these financial statements in an annual financial report prepared under the structured digital format required by DTR 4.1.15R - 4.1.18R and filed on the National Storage Mechanism of the Financial Conduct Authority. This auditors' report provides no assurance over whether the structured digital format annual financial report has been prepared in accordance with those requirements.

##### John Ellis

(Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Southampton  
23 May 2024

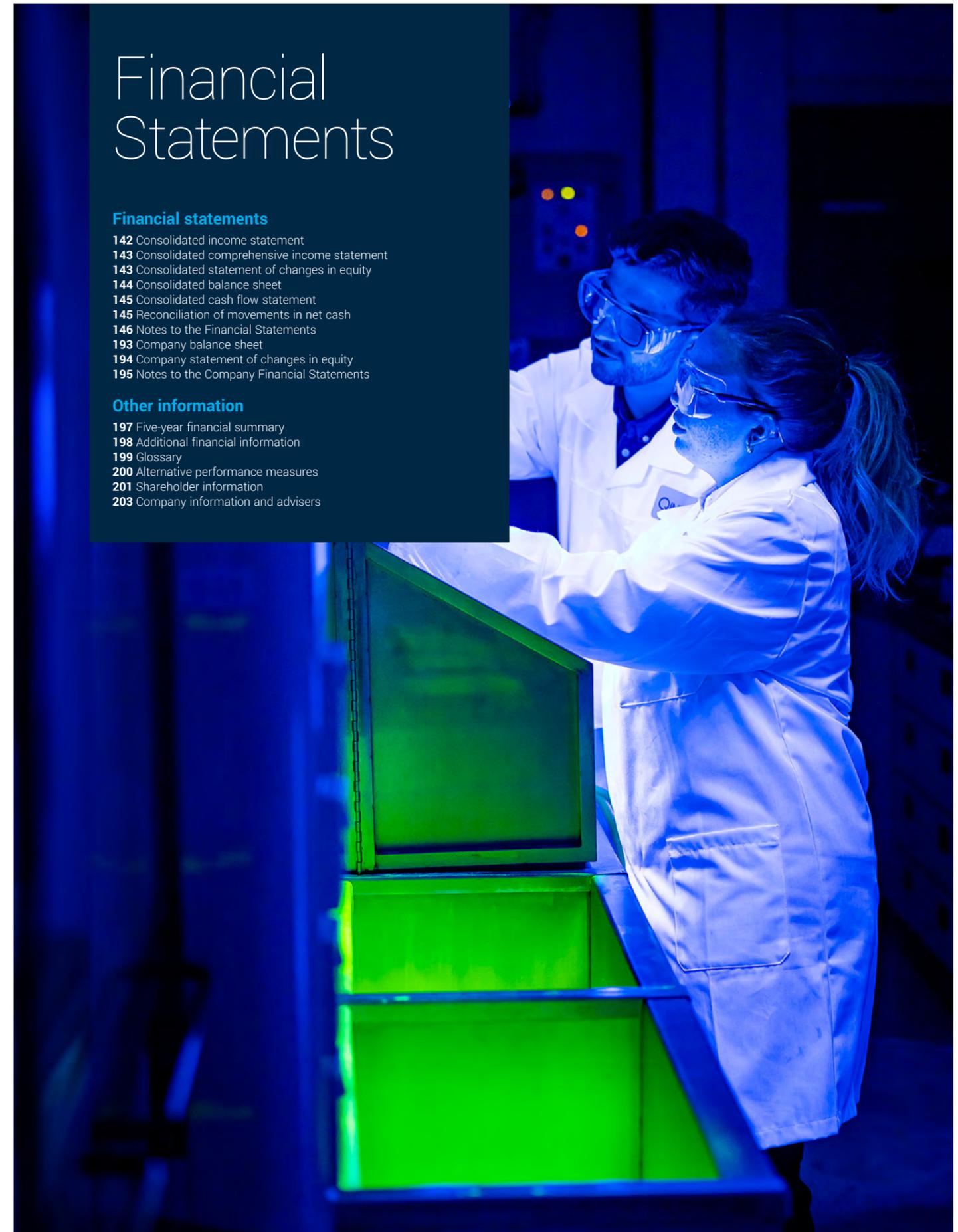
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## Consolidated income statement

For the year ended 31 March

All figures in £ million	Note	FY24			FY23		
		Underlying*	Specific adjusting Items*	Total	Underlying*	Specific adjusting Items*	Total
<b>Revenue</b>	2, 3	<b>1,912.1</b>	<b>–</b>	<b>1,912.1</b>	<b>1,580.7</b>	<b>–</b>	<b>1,580.7</b>
Operating costs excluding depreciation and amortisation		(1,644.3)	(26.1)	(1,670.4)	(1,353.4)	(29.5)	(1,382.9)
Other income	2	40.1	2.1	42.2	28.0	21.6	49.6
<b>EBITDA (earnings before interest, tax, depreciation and amortisation)</b>		<b>307.9</b>	<b>(24.0)</b>	<b>283.9</b>	<b>255.3</b>	<b>(7.9)</b>	<b>247.4</b>
Depreciation and impairment of property, plant and equipment	3, 16	(58.1)	(0.7)	(58.8)	(51.5)	–	(51.5)
Amortisation of intangible assets	3, 4, 15	(7.4)	(25.2)	(32.6)	(7.5)	(15.6)	(23.1)
<b>Operating profit/(loss)</b>	3	<b>242.4</b>	<b>(49.9)</b>	<b>192.5</b>	<b>196.3</b>	<b>(23.5)</b>	<b>172.8</b>
Gain on business divestments	4, 13	–	–	–	–	15.9	15.9
Finance income	7	5.3	5.6	10.9	6.8	9.9	16.7
Finance expense	7	(20.7)	–	(20.7)	(13.4)	–	(13.4)
<b>Profit/(loss) before tax</b>	8	<b>227.0</b>	<b>(44.3)</b>	<b>182.7</b>	<b>189.7</b>	<b>2.3</b>	<b>192.0</b>
Taxation (charge)/credit	9	(57.4)	14.3	(43.1)	(36.8)	(0.8)	(37.6)
<b>Profit/(loss) for the year</b>		<b>169.6</b>	<b>(30.0)</b>	<b>139.6</b>	<b>152.9</b>	<b>1.5</b>	<b>154.4</b>

## Earnings per share for profit attributable to the owners of the parent company

All figures in pence	Note	FY24		FY23	
		Underlying*	Total	Underlying*	Total
Basic	10	29.4	24.2	26.5	26.8
Diluted	10	29.0	23.8	26.3	26.5

\* 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 200. Also refer to note 4 for details of 'specific adjusting items'.

## Consolidated comprehensive income statement

For the year ended 31 March

All figures in £ million	Note	FY24	FY23
<b>Profit for the year</b>		<b>139.6</b>	<b>154.4</b>
<i>Items that will not be reclassified to profit or loss:</i>			
Actuarial loss recognised in defined benefit pension schemes	28	(108.9)	(253.9)
Tax on items that will not be reclassified to profit and loss	18	27.2	63.5
<b>Total items that will not be reclassified to profit or loss</b>		<b>(81.7)</b>	<b>(190.4)</b>
<i>Items that may be reclassified to profit or loss:</i>			
Foreign currency translation losses on foreign operations		(12.6)	(6.5)
Movement in deferred tax on foreign currency translation		0.1	(0.5)
Increase in the fair value of hedging derivatives		0.1	7.8
Movement in deferred tax on hedging derivatives		–	(1.6)
<b>Total items that may be reclassified to profit or loss</b>		<b>(12.4)</b>	<b>(0.8)</b>
<b>Other comprehensive expense for the year, net of tax</b>		<b>(94.1)</b>	<b>(191.2)</b>
<b>Total comprehensive income/(expense) for the year</b>		<b>45.5</b>	<b>(36.8)</b>

## 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								
<b>At 1 April 2023</b>	5.8	40.8	147.6	6.3	(4.2)	772.0	<b>968.3</b>	–	<b>968.3</b>
<i>Total comprehensive income/(expense)</i>									
Profit for the year	–	–	–	–	–	139.6	<b>139.6</b>	–	<b>139.6</b>
Other comprehensive income/(expense) for the year, net of tax	–	–	–	0.1	(12.5)	(81.7)	<b>(94.1)</b>	–	<b>(94.1)</b>
<b>Total comprehensive income/(expense) for the year</b>	–	–	–	0.1	(12.5)	57.9	<b>45.5</b>	–	<b>45.5</b>
Purchase of own shares	(0.1)	–	–	–	–	(51.0)	<b>(51.1)</b>	–	<b>(51.1)</b>
Share-based payment	–	–	–	–	–	8.8	<b>8.8</b>	–	<b>8.8</b>
Tax on share-based payments (note 9)	–	–	–	–	–	0.2	<b>0.2</b>	–	<b>0.2</b>
Dividends	–	–	–	–	–	(45.6)	<b>(45.6)</b>	–	<b>(45.6)</b>
<b>At 31 March 2024</b>	<b>5.7</b>	<b>40.8</b>	<b>147.6</b>	<b>6.4</b>	<b>(16.7)</b>	<b>742.3</b>	<b>926.1</b>	–	<b>926.1</b>
<b>At 1 April 2022</b>	5.8	40.8	147.6	0.1	1.9	845.0	<b>1,041.2</b>	0.2	<b>1,041.4</b>
<i>Total comprehensive income/(expense)</i>									
Profit for the year	–	–	–	–	–	154.4	<b>154.4</b>	–	<b>154.4</b>
Other comprehensive income/(expense) for the year, net of tax	–	–	–	6.2	(7.0)	(190.4)	<b>(191.2)</b>	–	<b>(191.2)</b>
<b>Total comprehensive income/(expense) for the year</b>	–	–	–	6.2	(7.0)	(36.0)	<b>(36.8)</b>	–	<b>(36.8)</b>
Purchase of own shares	–	–	–	–	–	(0.8)	<b>(0.8)</b>	–	<b>(0.8)</b>
Share-based payments	–	–	–	–	–	5.7	<b>5.7</b>	–	<b>5.7</b>
Tax on share-based payments (note 9)	–	–	–	–	–	0.7	<b>0.7</b>	–	<b>0.7</b>
Movements on business divestment	–	–	–	–	0.9	–	<b>0.9</b>	(0.2)	<b>0.7</b>
Dividends	–	–	–	–	–	(42.6)	<b>(42.6)</b>	–	<b>(42.6)</b>
<b>At 31 March 2023</b>	<b>5.8</b>	<b>40.8</b>	<b>147.6</b>	<b>6.3</b>	<b>(4.2)</b>	<b>772.0</b>	<b>968.3</b>	–	<b>968.3</b>

## Consolidated balance sheet

As at 31 March

All figures in £ million	Note	31 March 2024	31 March 2023
<b>Non-current assets</b>			
Goodwill	14	401.4	409.0
Intangible assets	15	321.8	343.0
Property, plant and equipment	16	531.8	477.8
Other financial assets	24	4.9	6.2
Equity accounted investments	17	2.2	1.4
Net pension asset	28	18.4	119.8
Deferred tax asset	18	36.7	32.6
		<b>1,317.2</b>	<b>1,389.8</b>
<b>Current assets</b>			
Inventories	20	89.2	68.8
Other financial assets	24	6.2	5.7
Trade and other receivables	21	456.8	452.6
Current tax asset	19	5.8	4.0
Cash and cash equivalents	24	231.0	151.2
		<b>789.0</b>	<b>682.3</b>
<b>Total assets</b>		<b>2,106.2</b>	<b>2,072.1</b>
<b>Current liabilities</b>			
Trade and other payables	22	(654.7)	(575.2)
Current tax payable	19	(6.6)	(4.6)
Provisions	23	(15.3)	(19.7)
Other financial liabilities	24	(9.2)	(8.2)
		<b>(685.8)</b>	<b>(607.7)</b>
<b>Non-current liabilities</b>			
Deferred tax liability	18	(94.4)	(112.0)
Provisions	23	(4.2)	(7.1)
Borrowings and other financial liabilities	24	(384.1)	(361.8)
Other payables	22	(11.6)	(15.2)
		<b>(494.3)</b>	<b>(496.1)</b>
<b>Total liabilities</b>		<b>(1,180.1)</b>	<b>(1,103.8)</b>
<b>Net assets</b>		<b>926.1</b>	<b>968.3</b>
<b>Equity</b>			
Ordinary shares	29	5.7	5.8
Capital redemption reserve		40.8	40.8
Share premium account		147.6	147.6
Hedging reserve		6.4	6.3
Translation reserve		(16.7)	(4.2)
Retained earnings		742.3	772.0
<b>Total equity</b>		<b>926.1</b>	<b>968.3</b>

The financial statements on pages 142 to 196 were approved by the Board of Directors and authorised for issue on 23 May 2024 and were signed on its behalf by:

**Steve Wadey**

Group Chief Executive Officer

## Consolidated cash flow statement

For the year ended 31 March

All figures in £ million	Note	FY24	FY23
<b>Underlying net cash inflow from operations</b>	25	<b>320.2</b>	<b>270.1</b>
Less: specific adjusting items	25	(26.1)	(29.5)
<b>Net cash inflow from operations</b>	25	<b>294.1</b>	<b>240.6</b>
Tax paid		(36.9)	(30.2)
Interest received		5.3	5.5
Interest paid		(19.4)	(9.9)
<b>Net cash inflow from operating activities</b>		<b>243.1</b>	<b>206.0</b>
Purchases of intangible assets	15	(10.9)	(13.8)
Purchases of property, plant and equipment	16	(85.4)	(95.2)
Proceeds from sale of property		2.1	2.4
Proceeds from sale of plant and equipment		0.2	-
Proceeds from disposal of business		-	28.1
Acquisition of businesses	12	(5.1)	(385.9)
<b>Net cash outflow from investing activities</b>		<b>(99.1)</b>	<b>(464.4)</b>
Purchase of own shares		(17.1)	(0.8)
Dividends paid to shareholders	11	(45.6)	(42.6)
Payment of bank facility arrangement fee		(0.5)	(2.7)
Capital element of lease payments		(6.8)	(7.4)
Drawdown of new borrowings		-	481.1
Repayment of borrowings		-	(140.0)
Repayment of acquired borrowings		-	(117.9)
Cash flow relating to intercompany loan hedges		6.8	(10.0)
<b>Net cash (outflow)/inflow from financing activities</b>		<b>(63.2)</b>	<b>159.7</b>
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>80.8</b>	<b>(98.7)</b>
Effect of foreign exchange changes on cash and cash equivalents		(1.0)	1.8
Cash and cash equivalents at beginning of the year		151.2	248.1
<b>Cash and cash equivalents at end of the year</b>	24	<b>231.0</b>	<b>151.2</b>

## Reconciliation of movement in net (debt)/cash for the year ended 31 March

All figures in £ million	Note	FY24	FY23
<b>Increase/(decrease) in cash and cash equivalents in the year</b>		<b>80.8</b>	<b>(98.7)</b>
Add back net cash flows not impacting net (debt)/cash		7.3	(331.0)
Movement in net (debt)/cash resulting from cash flows		88.1	(429.7)
Lease liabilities derecognised on disposal		-	1.4
Lease liabilities recognised on acquisition		-	(15.1)
Net increase in lease obligations		(31.2)	(1.6)
Net movement in derivative financial instruments		(0.5)	9.8
Other movements including foreign exchange		(0.7)	3.2
Movement in net (debt)/cash as defined by the Group		55.7	(432.0)
Net (debt)/cash as defined by Group at the beginning of the year		(206.9)	225.1
<b>Net debt as defined by the Group at the end of the year</b>	24	<b>(151.2)</b>	<b>(206.9)</b>
Less: borrowings	24	336.3	337.6
Less: total net derivative financial instruments, capitalised borrowing costs and lease liabilities	24	45.9	20.5
<b>Total cash and cash equivalents</b>	24	<b>231.0</b>	<b>151.2</b>

## 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:

- 1) A £331.4m increase in revenue due to the full year impact of acquisitions made in the prior year as well as organic growth (note 2)
- 2) A £101.4m reduction in the net surplus of the Group's defined benefit pension scheme (note 28)
- 3) A £79.8m increase in the balance of cash and cash equivalents following strong operating cash performance, offset by capex, tax, dividends and share buy back purchases.
- 4) A £51.1m reduction in equity due to the purchase and irrevocable commitment to acquire own shares as part of the share buy back programme

For a detailed discussion of the Group's performance and financial position refer to the Strategic Report on pages 1 to 69.

## 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	FY24	FY23
Services contracts with customers	1,811.2	1,481.4
Sale of goods contracts with customers	95.7	96.1
Royalties and licences	5.2	3.2
<b>Total revenue</b>	<b>1,912.1</b>	<b>1,580.7</b>
Less: adjust current year for acquired businesses <sup>1</sup>	(161.0)	-
Less: adjust prior year for disposed businesses <sup>1</sup>	-	(27.6)
Adjust to constant prior year exchange rates	20.9	-
<b>Total revenue on an organic, constant currency basis<sup>2</sup></b>	<b>1,772.0</b>	<b>1,553.1</b>
<b>Organic revenue growth at constant currency<sup>2</sup></b>	<b>14%</b>	<b>12%</b>

<sup>1</sup> 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.

<sup>2</sup> 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 200.

## Other income

All figures in £ million	FY24	FY23
Share of joint ventures' profit after tax	0.8	0.8
Research and development expenditure credits (RDEC)	27.2	17.4
Other income	12.1	9.8
<b>Underlying other income</b>	<b>40.1</b>	<b>28.0</b>
Specific adjusting item: gain on sale of property (note 4)	2.1	2.0
Specific adjusting item: release of RDEC MoD appropriation liability (note 4)	-	19.6
<b>Total other income</b>	<b>42.2</b>	<b>49.6</b>

Revenue and profit after tax of associates and joint ventures was £5.9m and £1.0m respectively (FY23: revenue of £11.3m and profit after tax of £1.0m). 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	FY24	FY23
United Kingdom (UK)	1,265.8	1,045.7
United States of America (US)	401.9	301.0
Australia	130.6	124.1
<b>Home countries</b>	<b>1,798.3</b>	<b>1,470.8</b>
Europe	52.8	69.4
Rest of world	61.0	40.5
<b>Total revenue</b>	<b>1,912.1</b>	<b>1,580.7</b>
<b>Home countries revenue %</b>	<b>94%</b>	<b>93%</b>
<b>International (non-UK) revenue %</b>	<b>34%</b>	<b>34%</b>

## Revenue by major customer type

All figures in £ million	FY24	FY23
UK government	1,184.9	969.4
US government	389.3	230.8
Other	337.9	380.5
<b>Total revenue</b>	<b>1,912.1</b>	<b>1,580.7</b>

'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	FY25	FY26	FY27	FY28+	Total
<b>Total forecast revenue allocated to unsatisfied performance obligations</b>	<b>1,304.6</b>	<b>621.0</b>	<b>401.9</b>	<b>545.5</b>	<b>2,873.0</b>

Management expects that 45% (£1,304.6m) of revenue allocated to un-satisfied contracts as of 31 March 2024 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	FY24	FY25	FY26	FY27+	Total
<b>Total forecast revenue allocated to unsatisfied performance obligations</b>	<b>1,124.6</b>	<b>601.3</b>	<b>467.9</b>	<b>876.5</b>	<b>3,070.3</b>

Revenue of £207.5m 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 Solutions combines all other business units not aggregated within EMEA Services, including the QinetiQ US sector and Other 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	FY24		FY23	
	Revenue from external customers	Underlying operating profit <sup>1,2</sup>	Revenue from external customers	Underlying operating profit <sup>1,2</sup>
EMEA Services	1,417.4	163.4	1,179.3	137.1
Global Solutions	494.7	51.8	401.4	41.8
<b>Revenue/Operating profit from segments<sup>1,2</sup></b>	<b>1,912.1</b>	<b>215.2</b>	<b>1,580.7</b>	<b>178.9</b>
Research and development expenditure credits (RDEC)		27.2		17.4
<b>Underlying operating profit<sup>2</sup></b>		<b>242.4</b>		<b>196.3</b>
<b>Operating profit margin from segments<sup>2</sup></b>		<b>11.3%</b>		<b>11.3%</b>

<sup>1</sup> 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.

<sup>2</sup> Definitions of the Group's 'Alternative performance measures' can be found on page 200.

## Notes to the Consolidated Financial Statements

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	FY24	FY23
<b>Operating profit from segments<sup>1,2</sup></b>		215.2	178.9
Research and development expenditure credits (RDEC)		27.2	17.4
<b>Underlying operating profit<sup>2</sup></b>		<b>242.4</b>	<b>196.3</b>
Specific adjusting items operating loss	4	(49.9)	(23.5)
<b>Operating profit</b>		<b>192.5</b>	<b>172.8</b>
Gain on business divestments	13	–	15.9
Net finance (expense)/income	7	(9.8)	3.3
<b>Profit before tax</b>		<b>182.7</b>	<b>192.0</b>
Taxation expense	9	(43.1)	(37.6)
<b>Profit for the year</b>		<b>139.6</b>	<b>154.4</b>

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 200.

## Non-current assets\* by geographic location

All figures in £ million	UK	US	Australia	Germany	Rest of world	Total
<b>As at year ended 31 March 2024</b>	<b>576.1</b>	<b>572.8</b>	<b>46.5</b>	<b>46.3</b>	<b>13.3</b>	<b>1255.0</b>
As at year ended 31 March 2023	519.3	598.8	45.4	52.8	13.5	1,229.8

\* Excluding deferred tax, financial instruments and net pension asset.

## Depreciation and amortisation by business segment – excluding specific adjusting items

For the year ended 31 March 2024

All figures in £ million	EMEA Services	Global Solutions	Total
Underlying depreciation of property, plant and equipment	50.8	7.3	58.1
Underlying amortisation of purchased or internally developed intangible assets	4.2	3.2	7.4
	<b>55.0</b>	<b>10.5</b>	<b>65.5</b>

For the year ended 31 March 2023

All figures in £ million	EMEA Services	Global Solutions	Total
Underlying depreciation of property, plant and equipment	44.7	6.8	51.5
Underlying amortisation of purchased or internally developed intangible assets	5.2	2.3	7.5
	<b>49.9</b>	<b>9.1</b>	<b>59.0</b>

## 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	FY24	FY23
Acquisition and disposal costs		(2.7)	(16.4)
Acquisition integration costs		(5.3)	(2.0)
Acquisition related remuneration costs		(1.2)	(0.3)
One-off period of digital investment		(16.9)	(5.8)
Restructuring costs		–	(5.0)
Release of RDEC MOD appropriation liability		–	19.6
Gain on sale of property		2.1	2.0
<b>Specific adjusting items loss before interest, tax, depreciation and amortisation</b>		<b>(24.0)</b>	<b>(7.9)</b>
Impairment of property		(0.7)	–
Amortisation of intangible assets arising from acquisitions		(25.2)	(15.6)
<b>Specific adjusting items operating loss</b>		<b>(49.9)</b>	<b>(23.5)</b>
Gain on disposal of businesses	13	–	15.9
Defined benefit pension scheme net finance income	28	5.6	9.9
<b>Specific adjusting items (loss)/gain before tax</b>		<b>(44.3)</b>	<b>2.3</b>
Tax impact of the above specific adjusting items	9	14.3	3.8
Deferred tax impact of change in future UK corporation tax rate	9	–	(4.6)
<b>Total specific adjusting items (loss)/gain after tax</b>		<b>(30.0)</b>	<b>1.5</b>

## Reconciliation of underlying profit for the year to total profit for the year

All figures in £ million	FY24	FY23
<b>Underlying profit after tax</b>	<b>169.6</b>	<b>152.9</b>
Total specific adjusting items (loss)/gain after tax	(30.0)	1.5
<b>Total profit for the year</b>	<b>139.6</b>	<b>154.4</b>

The total impact of specific adjusting items (which are excluded from underlying performance due to their distorting nature) on operating profit was a £49.9m cost (FY23: cost of £23.5m).

Acquisition and disposal costs of £2.7m (FY23: £16.4m) comprise costs associated with an aborted acquisition attempt during the year, as well as a number of ongoing disposal projects. Acquisition integration costs of £5.3m (FY23: £2.0m) comprise costs associated with the Avantus and Air Affairs acquisitions which were completed in H2 of FY23. Acquisition related remuneration relates to specific post-deal retention arrangements relating to Avantus employees.

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 FY24 the non-recurring cost of the digital investment programme is £16.9m (FY23: £5.8m).

FY23 included exceptional restructuring costs of £5.0m, as part of the significant Group-wide organisation redesign, and 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 remains that RDEC on single source contracts from 1 April 2019 onwards will not be paid on to the UK MoD, which was a change from the accounting judgement at the FY22 year end.

Also included within specific adjusting items are a gain on the sale of property of £2.1m (FY23: £2.0m), financing income from pensions of £5.6m (FY23: £9.9m), impairment of right of use lease assets in the US following space relocation of £0.7m, and amortisation of acquisition intangibles of £25.2m (FY23: £15.6m). Amortisation of acquisition intangibles has increased due to the amortisation of new intangible assets recognised on the FY23 acquisitions (primarily the Customer Relationships asset associated with Avantus). FY23 also included a gain of disposal of the Space NV business in Belgium of £15.9m.

## Notes to the Consolidated Financial Statements

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	
	2024 Number	2023 Number	FY24 Number	FY23 Number
EMEA Services	6,936	6,437	6,735	6,158
Global Solutions	1,652	1,831	1,724	1,275
<b>Total employees</b>	<b>8,588</b>	<b>8,268</b>	<b>8,459</b>	<b>7,433</b>

The aggregate payroll costs of these persons were as follows:

All figures in £ million	Note	FY24	FY23
Wages and salaries		562.1	456.9
Social security costs		55.7	47.3
Other pension costs		65.0	55.2
Share-based payments costs	30	10.2	7.9
<b>Total employee costs</b>		<b>693.0</b>	<b>567.3</b>

## 6. Key management personnel

The Key management personnel of the Group during the year to 31 March 2024 comprise the Board of Directors and the QinetiQ Leadership Team. Their remuneration and benefits are summarised below:

All figures in £ million	FY24	FY23
Short-term employee remuneration including benefits	9.1	9.5
Post-employment benefits	0.1	0.1
Share-based payments costs	2.1	1.9
<b>Total</b>	<b>11.3</b>	<b>11.5</b>

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 113 of the Directors' Remuneration Report.

## 7. Finance income and expense

All figures in £ million	FY24	FY23
Bank interest receivable	5.3	6.8
<b>Finance income before specific adjusting items</b>	<b>5.3</b>	<b>6.8</b>
Amortisation of deferred financing costs	(1.2)	(0.8)
Bank interest and commitment fees	(16.6)	(10.6)
Lease expense	(2.8)	(1.1)
Unwinding of discount on financial liabilities	(0.1)	(0.1)
Other interest	-	(0.8)
<b>Finance expense</b>	<b>(20.7)</b>	<b>(13.4)</b>
<b>Underlying net finance expense</b>	<b>(15.4)</b>	<b>(6.6)</b>
Plus: specific adjusting items – defined benefit pension scheme net finance income	5.6	9.9
<b>Net finance (expense)/income</b>	<b>(9.8)</b>	<b>3.3</b>

## 8. Profit before tax

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

All figures in £ million	FY24	FY23
<b>Fees payable to the auditors and its associates:</b>		
Audit of the Group's annual accounts	1.0	1.1
Audit of the accounts of subsidiaries of the Company	0.8	0.7
<b>Total audit fees</b>	<b>1.8</b>	<b>1.8</b>
Audit-related assurance services (Interim financial statements)	0.1	0.1
Other assurance services	0.1	0.1
<b>Total non-audit fees</b>	<b>0.2</b>	<b>0.2</b>
<b>Total auditors' remuneration</b>	<b>2.0</b>	<b>2.0</b>

The following items have also been charged in arriving at profit before tax:

All figures in £ million	FY24	FY23*
Cost of inventories expensed	59.4	55.2
Owned assets: depreciation	49.3	45.3
Leased assets: depreciation	8.8	6.2
Foreign exchange loss/(gain)	0.6	(0.6)
Research and development expenditure – customer funded contracts	315.4	299.2
Research and development expenditure – Group funded	12.8	14.6

\* The prior year number for research and development expenditure from customer funded contracts was incorrectly reported in the 2023 financial statements as £313.8m and has been restated to £299.2m

## 9. Taxation charge

All figures in £ million	FY24			FY23		
	Underlying	Specific adjusting items	Total	Underlying	Specific adjusting items	Total
<b>Analysis of charge</b>						
Current UK tax expense/(income)	41.9	(4.1)	37.8	23.8	(0.4)	23.4
Current UK tax in respect of prior years	(0.8)	(0.7)	(1.5)	0.4	-	0.4
<b>Overseas corporation tax</b>						
Current year	1.7	-	1.7	2.6	-	2.6
In respect of prior years	0.6	(0.6)	-	0.1	-	0.1
<b>Current tax expense/(income)</b>	<b>43.4</b>	<b>(5.4)</b>	<b>38.0</b>	<b>26.9</b>	<b>(0.4)</b>	<b>26.5</b>
Deferred tax expense/(income)	17.2	(7.6)	9.6	12.3	(3.4)	8.9
Deferred tax impact of change in rates	0.1	0.2	0.3	-	4.6	4.6
Deferred tax in respect of prior years	(3.3)	(1.5)	(4.8)	(2.4)	-	(2.4)
<b>Deferred tax expense/(income)</b>	<b>14.0</b>	<b>(8.9)</b>	<b>5.1</b>	<b>9.9</b>	<b>1.2</b>	<b>11.1</b>
<b>Taxation expense/(income)</b>	<b>57.4</b>	<b>(14.3)</b>	<b>43.1</b>	<b>36.8</b>	<b>0.8</b>	<b>37.6</b>
<b>Factors affecting tax expense in the year</b>						
Principal factors reducing the Group's current year tax charge below the UK statutory rate are explained below:						
Profit/(loss) before tax	227.0	(44.3)	182.7	189.7	2.3	192.0
<b>Tax on profit/(loss) before tax at 25% (FY23: 19%)</b>	<b>56.8</b>	<b>(11.1)</b>	<b>45.7</b>	<b>36.0</b>	<b>0.5</b>	<b>36.5</b>
Effect of:						
Expenses not deductible for tax purposes and non-taxable items	3.5	0.1	3.6	1.1	(1.8)	(0.7)
Tax in respect of prior years	(3.5)	(2.8)	(6.3)	(1.9)	-	(1.9)
Deferred tax impact of change in rates	0.1	0.2	0.3	-	4.6	4.6
Different tax rates in overseas jurisdictions	0.5	(0.7)	(0.2)	1.6	(2.5)	(0.9)
<b>Taxation expense/(income)</b>	<b>57.4</b>	<b>(14.3)</b>	<b>43.1</b>	<b>36.8</b>	<b>0.8</b>	<b>37.6</b>
<b>Effective tax rate</b>	<b>25.3%</b>		<b>23.6%</b>	<b>19.4%</b>		<b>19.6%</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 March

## 9. Taxation charge (continued)

The total tax charge was £43.1m (FY23: £37.6m). The underlying tax charge was £57.4m (FY23: £36.8m), on a higher underlying profit before tax, with an underlying effective tax rate of 25.3% for the year ending 31 March 2024 (FY23: 19.4%). The underlying effective tax rate is slightly above the UK statutory rate of 25% (FY23: 19%) primarily as a result of higher overseas tax rates and non-deductible overseas interest offset by prior year adjustments to returns.

## Tax on specific adjusting items

The total specific adjusting items tax credit £14.3m (FY23 charge: £0.8m). The tax credit primarily arises on intangible amortisation and tax deductible digital investment, acquisition and integration costs.

## 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	FY24	FY23
Current tax: share-based payments	(0.2)	(0.3)
Deferred tax: share-based payments	–	(0.4)
<b>Total: share-based payments</b>	<b>(0.2)</b>	<b>(0.7)</b>

## Factors affecting future tax charges

The underlying effective tax rate is expected to remain marginally above the UK statutory rate, subject to the impact of any tax legislation changes and the geographic mix of profits. The Group has engaged with advisers to assess any potential impact on the tax charge by the UK's enactment of the OECD's Global Anti-Base Erosion Model Rules (Pillar Two). The Group performed an assessment of the potential exposure to Pillar Two income taxes based on current period data. The Group believes it qualifies for one of the transitional safe harbours provided in the rules in all territories in which it operates. Therefore, the Group does not anticipate a material impact from Pillar II legislation in the near future. The Group has applied the temporary exemption issued by the International Accounting Standards Board from the accounting for deferred taxes under IAS12 and neither recognises nor discloses information about deferred taxes related to Pillar Two income taxes. The Group does not anticipate a material quantitative impact from Pillar Two legislation, however, there are expected to be significant compliance obligations.

## Tax risk management and tax cash

For details of the Group's approach to tax risk management and discussion of tax cash-flows 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

		FY24	FY23
<b>Weighted average number of shares</b>	<b>Million</b>	<b>577.0</b>	<b>575.9</b>
Effect of dilutive securities	Million	8.7	6.4
<b>Diluted number of shares</b>	<b>Million</b>	<b>585.7</b>	<b>582.3</b>

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

		FY24	FY23
Profit attributable to the owners of the Company	£ million	139.6	154.4
Remove loss/(profit) after tax in respect of specific adjusting items	£ million	30.0	(1.5)
<b>Underlying profit after taxation</b>	<b>£ million</b>	<b>169.6</b>	<b>152.9</b>
Weighted average number of shares	Million	577.0	575.9
<b>Underlying basic EPS</b>	<b>Pence</b>	<b>29.4</b>	<b>26.5</b>
Diluted number of shares	Million	585.7	582.3
<b>Underlying diluted EPS</b>	<b>Pence</b>	<b>29.0</b>	<b>26.3</b>

## Basic and diluted EPS

		FY24	FY23
Profit attributable to the owners of the Company	£ million	139.6	154.4
Weighted average number of shares	Million	577.0	575.9
<b>Basic EPS</b>	<b>Pence</b>	<b>24.2</b>	<b>26.8</b>
Diluted number of shares	Million	585.7	582.3
<b>Diluted EPS</b>	<b>Pence</b>	<b>23.8</b>	<b>26.5</b>

## 11. Dividends

An analysis of the dividends paid and proposed in respect of the years ended 31 March 2024 and 31 March 2023 is provided below:

	Pence per share	£m	Date paid/payable
Interim 2024	2.60	15.0	Feb 2024*
Final 2024 (proposed)	5.65	31.9	Aug 2024
<b>Total for the year ended 31 March 2024</b>	<b>8.25</b>	<b>46.9</b>	
Interim 2023	2.40	13.8	Feb 2023
Final 2023	5.30	30.6	Aug 2023*
<b>Total for the year ended 31 March 2023</b>	<b>7.70</b>	<b>44.4</b>	

\* Total cash paid in the year to 31 March 2024 was £45.6m (FY23: £42.6m).

The proposed final dividend in respect of the year ending 31 March 2024 will be paid on 22 August 2024. The ex-dividend date is 25 July 2024 and the record date is 26 July 2024.

## 12. Business combinations

## Acquisitions cash flow in the year to 31 March 2024

There were no acquisitions in the year ended 31 March 2024. However, £5.1m of deferred consideration payments were made in respect of the Air Affairs acquisition and legacy acquisitions within Avatus. The specific adjusting items operating result for the year includes various acquisition related items as set out in note 4.

## 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
Avatus 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
<b>Total</b>		<b>404.8</b>	<b>267.7</b>	<b>137.1</b>	<b>91.1</b>	<b>9.4</b>
Less: deferred consideration		(4.0)				
Less: cash acquired		(14.9)				
<b>Net cash outflow for the year</b>		<b>385.9</b>				

Total acquisition costs of £16.4m relating to the two acquisitions, as well as an aborted disposal, were 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 Avatus, were also included within operating profit as a specific adjusting item (see note 4).

## Avatus Federal LLC

On 23 November 2022, the Group acquired 100% of the issued share capital of Avatus for an enterprise value of \$590m, on a cash-free, debt-free valuation basis. Avatus 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.

## Air Affairs Australia

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 March

## 13. Gain on business divestments

During the year ended 31 March 2024, there were no business divestments. The gain on business divestments of £15.9m in year ended 31 March 2023 related 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 was settled entirely in cash.

## 14. Goodwill

All figures in £ million	31 March 2024	31 March 2023
<b>Cost</b>		
At 1 April	562.7	296.1
Acquisitions	–	267.7
Disposals	–	(5.6)
Foreign exchange	(11.0)	4.5
<b>At 31 March</b>	<b>551.7</b>	<b>562.7</b>
<b>Accumulated impairment</b>		
At 1 April	(153.7)	(146.7)
Foreign exchange	3.4	(7.0)
<b>At 31 March</b>	<b>(150.3)</b>	<b>(153.7)</b>
<b>Net book value at 31 March</b>	<b>401.4</b>	<b>409.0</b>

### 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 Solutions segment. The full list of CGUs that have goodwill allocated to them is as follows:

All figures in £ million	Primary reporting segments	31 March 2024	31 March 2023
US Technology Solutions	Global Solutions	43.1	44.1
US C5ISR	Global Solutions	36.0	36.8
US Avantus Federal	Global Solutions	252.5	257.8
Target Systems	Global Solutions	24.4	24.5
Germany	EMEA Services	2.7	2.7
Naimuri	EMEA Services	14.8	14.8
Inzpire	EMEA Services	11.7	11.7
QinetiQ Training & Simulation	EMEA Services	7.8	7.8
Australia	EMEA Services	5.6	5.8
Air Affairs Australia	EMEA Services	2.8	3.0
<b>Net book value at 31 March</b>		<b>401.4</b>	<b>409.0</b>

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. There are no likely variations in the key assumptions used for any of the CGUs 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 generally 'bottom-up' forecasts based on detailed analysis by contract for the revenue under contract and by opportunity for the pipeline, or with growth rates assumed based on market benchmarks. 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 2024: (2023)										
Terminal growth rate	2.3 (2.3)	2.2 (2.2)	2.3 (2.3)	2.3 (2.3)	2.2 (2.2)	2.4 (2.3)	2.4 (2.3)	2.2 (2.2)	2.2 (2.2)	2.2 (2.2)
Pre-tax discount rate	10.7 (11.1)	11.1 (10.9)	10.6 (11.2)	10.7 (11.2)	11.1 (12.0)	13.0 (12.9)	12.8 (12.9)	8.8 (8.9)	11.1 (10.9)	11.0 (11.8)

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.

### Results of impairment testing by CGU

#### US Technology Solutions

The carrying value of the goodwill for the US Technology Solutions CGU was £43.1m as at 31 March 2024 (2023: £44.1m). The recoverable amount of this CGU as at 31 March 2024, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £120.2m). 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.

#### US C5ISR

The carrying value of the goodwill for the US C5ISR CGU as at 31 March 2024 was £36.0m (2023: £36.8m). The recoverable amount of this CGU as at 31 March 2024, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £91.2m). 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.

#### Avantus

The carrying value of the goodwill for the Avantus CGU as at 31 March 2024 was £252.5m (2023: £257.8m). The recoverable amount of this CGU as at 31 March 2024, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of the net operating assets (of £411.7m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. The key assumption impacting those terminal year cash flows is the revenue growth rate applied over the period of the value in use calculation, which is based on market growth rates for the high growth segments in which the business operates in. A 400 basis point reduction in the compound annual revenue growth rate over the period, which is considered a reasonably possible change, would not cause the net operating assets to exceed their recoverable amount. 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 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 2024 was £24.4m (2023: £24.5m). The recoverable amount of this CGU as at 31 March 2024, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £92.0m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate of 1%, a decrease in the terminal growth rate of 1% or a decrease in the terminal year cash flows of £2.0m, 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 2024 was £2.7m (2023: £2.7m). The recoverable amount of this CGU as at 31 March 2024, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £52.6m). Confidence in the business prospects over the next five years has increased during the year, with a healthy pipeline of opportunities. The key sensitivity affecting 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. 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.

#### Naimuri

The carrying value of the goodwill for the Naimuri CGU as at 31 March 2024 was £14.8m (2023: £14.8m). The recoverable amount of this CGU as at 31 March 2024, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £23.6m). The key sensitivity affecting 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

For the year ended 31 March

## 14. Goodwill (continued)

## Inzpire

The carrying value of the goodwill for the Inzpire CGU as at 31 March 2024 was £11.7m (2023: £11.7m). The recoverable amount of this CGU as at 31 March 2024, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £20.8m). 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 £1.0m, all of which are reasonably possible changes, would not cause the net operating assets to exceed their recoverable amount.

## QinetiQ Training &amp; Simulation

The carrying value of the goodwill for the QinetiQ Training and Simulation CGU as at 31 March 2024 was £7.8m (2023: £7.8m). The recoverable amount of this CGU as at 31 March 2024, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £11.6m). 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 £1.0m, all of which are reasonably possible changes, would not cause the net operating assets to exceed their recoverable amount.

## Australia

The carrying value of the goodwill for the Australia CGU, as at 31 March 2024 was £5.6m (2023: £5.8m). The recoverable amount of this CGU as at 31 March 2024, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £15.5m). 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.

## Air Affairs Australia

The carrying value of the goodwill for the Air Affairs Australia CGU as at 31 March 2024 was £2.8m (2023: £3.0m). The recoverable amount of this CGU as at 31 March 2024, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £36.0m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate of 1% 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.

## 15. Intangible assets

For the year ended 31 March 2024

All figures in £ million	Acquired intangibles				Total
	Customer relationships	Other acquired	Development costs	Other internally generated <sup>1</sup>	
<b>Cost</b>					
At 1 April 2023	308.5	96.0	37.3	82.5	524.3
Reclassifications from PPE	-	-	7.4	(0.2)	7.2
Reclassifications between categories	-	-	1.5	(1.5)	-
Additions – internally developed <sup>2</sup>	-	-	6.1	1.1	7.2
Additions – purchased <sup>2</sup>	-	-	0.8	3.3	4.1
Disposals	-	-	(2.0)	(4.1)	(6.1)
Foreign exchange	(4.7)	(3.4)	-	(0.7)	(8.8)
<b>At 31 March 2024</b>	<b>303.8</b>	<b>92.6</b>	<b>51.1</b>	<b>80.4</b>	<b>527.9</b>
<b>Accumulated amortisation and impairment</b>					
At 1 April 2023	(59.4)	(63.1)	(22.3)	(36.5)	(181.3)
Amortisation charge for year	(19.0)	(6.2)	(3.5)	(3.9)	(32.6)
Reclassifications between categories	-	-	-	-	-
Disposals	-	-	1.7	3.5	5.2
Foreign exchange	(1.2)	3.7	-	0.1	2.6
<b>At 31 March 2024</b>	<b>(79.6)</b>	<b>(65.6)</b>	<b>(24.1)</b>	<b>(36.8)</b>	<b>(206.1)</b>
<b>Net book value at 31 March 2024</b>	<b>224.2</b>	<b>27.0</b>	<b>27.0</b>	<b>43.6</b>	<b>321.8</b>

<sup>1</sup> Includes Assets In Course Of Construction of closing net book value of £22.6m as at 31 March 2024 (2023: £20.9m).

<sup>2</sup> Additions per the table above are different to the capital expenditure included in the cash flow statement due to the relative timing of cash payments compared to the recognition of balance sheet assets.

'Other acquired' consists primarily of intellectual property and existing technology arising on acquisition of businesses. In the prior year, 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: £11.9m; £18.7m; £2.5m respectively) with remaining amortisation periods of approximately 6 years, 8 years and 8 years respectively, and acquired technology associated with US C5ISR, Germany, and QinetiQ Training & Simulation Limited (£10.2m; £3.2m; £1.5m respectively) all with remaining amortisation periods of approximately 6 years.

For the year ended 31 March 2023

All figures in £ million	Acquired intangibles				Total
	Customer relationships	Other acquired	Development costs	Other internally generated	
<b>Cost</b>					
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
<b>At 31 March 2023</b>	<b>308.5</b>	<b>96.0</b>	<b>37.3</b>	<b>82.5</b>	<b>524.3</b>
<b>Accumulated amortisation and impairment</b>					
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)
<b>At 31 March 2023</b>	<b>(59.4)</b>	<b>(63.1)</b>	<b>(22.3)</b>	<b>(36.5)</b>	<b>(181.3)</b>
<b>Net book value at 31 March 2023</b>	<b>249.1</b>	<b>32.9</b>	<b>15.0</b>	<b>46.0</b>	<b>343.0</b>

\* 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 2024

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	
<b>Cost</b>								
At 1 April 2023	365.7	309.3	124.3	115.5	68.7	6.5	0.4	990.4
Reclassifications to intangibles	-	-	0.2	(7.4)	-	-	-	(7.2)
Reclassifications/transfers	7.3	14.6	20.6	(42.5)	-	-	-	-
Additions – purchased*	4.2	3.8	6.5	79.5	31.4	-	-	125.4
Disposals	(1.3)	(1.2)	(10.4)	(2.4)	(5.6)	(3.1)	-	(24.0)
Foreign exchange	(0.2)	(2.1)	(0.3)	(0.4)	(2.1)	-	-	(5.1)
<b>At 31 March 2024</b>	<b>375.7</b>	<b>324.4</b>	<b>140.9</b>	<b>142.3</b>	<b>92.4</b>	<b>3.4</b>	<b>0.4</b>	<b>1,079.5</b>
<b>Accumulated depreciation and impairment</b>								
At 1 April 2023	(215.6)	(177.7)	(70.8)	-	(41.9)	(6.2)	(0.4)	(512.6)
Charge	(12.9)	(18.3)	(18.1)	-	(8.7)	(0.1)	-	(58.1)
Disposals	1.3	1.1	10.4	-	5.6	3.1	-	21.5
Impairment	-	-	-	-	(0.7)	-	-	(0.7)
Foreign exchange	0.2	0.6	0.1	-	1.3	-	-	2.2
<b>At 31 March 2024</b>	<b>(227.0)</b>	<b>(194.3)</b>	<b>(78.4)</b>	<b>-</b>	<b>(44.4)</b>	<b>(3.2)</b>	<b>(0.4)</b>	<b>(547.7)</b>
<b>Opening Net Book Value</b>	<b>150.1</b>	<b>131.6</b>	<b>53.5</b>	<b>115.5</b>	<b>26.8</b>	<b>0.3</b>	<b>-</b>	<b>477.8</b>
<b>Closing Net Book Value</b>	<b>148.7</b>	<b>130.1</b>	<b>62.5</b>	<b>142.3</b>	<b>48.0</b>	<b>0.2</b>	<b>-</b>	<b>531.8</b>

\* 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

For the year ended 31 March

## 16. Property, plant and equipment (continued)

During the year a £2.1m 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 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	
<b>Cost</b>								
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
<b>At 31 March 2023</b>	<b>365.7</b>	<b>309.3</b>	<b>124.3</b>	<b>115.5</b>	<b>68.7</b>	<b>6.5</b>	<b>0.4</b>	<b>990.4</b>
<b>Accumulated depreciation and impairment</b>								
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)
<b>At 31 March 2023</b>	<b>(215.6)</b>	<b>(177.7)</b>	<b>(70.8)</b>	<b>-</b>	<b>(41.9)</b>	<b>(6.2)</b>	<b>(0.4)</b>	<b>(512.6)</b>
<b>Net book value at 31 March 2023</b>	<b>150.1</b>	<b>131.6</b>	<b>53.5</b>	<b>115.5</b>	<b>26.8</b>	<b>0.3</b>	<b>-</b>	<b>477.8</b>

\* 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 2024		31 March 2023	
	Joint Ventures' financial results	Group net share of Joint Ventures	Joint Ventures' financial results	Group net share of Joint Ventures
Non-current assets	1.1	0.6	1.4	0.7
Current assets	5.9	3.7	5.8	3.6
	<b>7.0</b>	<b>4.3</b>	<b>7.2</b>	<b>4.3</b>
Current liabilities	(0.3)	(0.1)	(4.7)	(2.3)
Non-current liabilities	(4.1)	(2.0)	(1.2)	(0.6)
	<b>(4.4)</b>	<b>(2.1)</b>	<b>(5.9)</b>	<b>(2.9)</b>
<b>Net assets of joint ventures</b>	<b>2.6</b>	<b>2.2</b>	<b>1.3</b>	<b>1.4</b>

The profit from the Group's share of joint ventures for the year ended 31 March 2024 was £0.8m (FY23: £0.8m).

## 18. Deferred tax

For the year ended 31 March 2024

Deferred tax asset

All figures in £ million	Short-term timing differences	Carried forward interest expense	Lease liabilities	Tax losses	Total
At 1 April 2023	17.5	-	7.4	30.6	55.5
Credited to income statement	6.4	1.0	1.5	6.0	14.9
Charged to other comprehensive income	0.1	-	-	-	0.1
Reclassification to Right of use assets	(3.2)	-	-	-	(3.2)
Foreign exchange	(0.7)	-	-	(0.7)	(1.4)
<b>Gross deferred tax asset at 31 March 2024</b>	<b>20.1</b>	<b>1.0</b>	<b>8.9</b>	<b>35.9</b>	<b>65.9</b>
Less: liability available for offset	-	-	-	-	(29.2)
<b>Net deferred tax asset at 31 March 2024</b>					<b>36.7</b>

Deferred tax liability

All figures in £ million	Pension surplus	Owned property, plant & equipment	Right of use assets	Acquisition intangibles	Total
At 1 April 2023	(35.4)	(65.7)	(9.7)	(24.1)	(134.9)
Charged to income statement	(1.4)	(14.8)	(1.4)	(2.4)	(20.0)
Credited to other comprehensive income	27.2	-	-	-	27.2
Reclassification from Short-term timing differences	-	-	3.2	-	3.2
Foreign exchange	-	0.1	0.3	0.5	0.9
<b>Gross deferred tax liability at 31 March 2024</b>	<b>(9.6)</b>	<b>(80.4)</b>	<b>(7.6)</b>	<b>(26.0)</b>	<b>(123.6)</b>
Less: asset available for offset	-	-	-	-	29.2
<b>Net deferred tax liability at 31 March 2024</b>					<b>(94.4)</b>

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 2024 the Group had unused tax losses and carried forward interest expense of £212.3m (31 March 2023: £175.6m) which are available for offset against future taxable profits. Deferred tax assets are recognised on the balance sheet of £29.0m in respect of £109.8m of US net operating losses, £4.9m in respect of £20.9m of Canadian net operating losses and £2.0m in respect of £6.8m of German trade losses. A deferred tax asset of £1.0m is recognised in respect of £3.3m of German excess interest. No deferred tax asset is recognised in respect of the £71.5m 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 £19.3m.

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 2024 and recognition of deferred tax assets is dependent on future forecast taxable profits. The Group has reviewed the latest forecasts for these businesses which incorporate the unsystematic risks of operating in the defence business. In the period beyond the 5 year forecast we have reviewed the terminal period profits and based on these and our expectations for these businesses we believe it is probable the losses, with the exception of the interest deductions, will be fully utilised. Based on the current forecasts the losses will be fully utilised over the next 9-11 years. A 10% change in the forecast profits would alter the utilisation period by 3 years.

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 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
<b>Gross deferred tax asset at 31 March 2023</b>	<b>17.5</b>	<b>-</b>	<b>7.4</b>	<b>30.6</b>	<b>55.5</b>
Less: liability available for offset	-	-	-	-	(22.9)
<b>Net deferred tax asset at 31 March 2023</b>					<b>32.6</b>

## Notes to the Consolidated Financial Statements

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 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)
<b>Gross deferred tax liability at 31 March 2023</b>	<b>(35.4)</b>	<b>(65.7)</b>	<b>(9.7)</b>	<b>(24.1)</b>	<b>(134.9)</b>
Less: asset available for offset					22.9
<b>Net deferred tax liability at 31 March 2023</b>					<b>(112.0)</b>

## 19. Current tax

## As at 31 March

All figures in £ million	31 March 2024	31 March 2023
Current tax receivable	5.8	4.0
Current tax payable	(6.6)	(4.6)
<b>Net current tax payable</b>	<b>(0.8)</b>	<b>(0.6)</b>

## 20. Inventories

## As at 31 March

All figures in £ million	31 March 2024	31 March 2023
Raw materials	46.2	36.2
Work in progress	6.5	9.1
Finished goods	36.5	23.5
<b>Total inventories</b>	<b>89.2</b>	<b>68.8</b>

## 21. Trade and other receivables

## As at 31 March

All figures in £ million	31 March 2024	31 March 2023
Trade receivables	179.5	215.0
Contract assets	171.6	158.0
Other receivables	58.1	43.3
Prepayments	47.6	36.3
<b>Total trade and other receivables</b>	<b>456.8</b>	<b>452.6</b>

Trade and other receivables includes assets that are realised as part of the business's normal operating cycle, including amounts of £0.8m (2023: £4.0m) 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 2024 the Group carried a loss allowance in respect of expected credit risk of £1.7m (2023: £1.6m).

Contract assets increased during the year due to the growth in revenue. 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 2024

	Current	Up to 30 days past due	30-120 days past due	>120 days past due	Total
Gross carrying amount – trade receivables (£m)	141.9	24.8	9.6	4.9	181.2
Gross carrying amount – contract assets (£m)	171.6	–	–	–	171.6
Expected loss rate (%)	–	–	–	34.7%	0.5%
Loss allowance (£m)	–	–	–	1.7	1.7

## 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

## Movements in the provision for expected credit loss

All figures in £ million	FY24		FY23	
	Trade receivables	Contract assets	Trade receivables	Contract assets
At 1 April	1.6	–	2.7	–
Increase in loss allowance recognised in income statement	0.1	–	0.5	–
Unutilised amount reversed through income statement	–	–	(0.7)	–
Utilised (receivables written off)	–	–	(0.9)	–
<b>At 31 March</b>	<b>1.7</b>	<b>–</b>	<b>1.6</b>	<b>–</b>

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 2024	31 March 2023
Trade payables	175.9	135.9
Other tax and social security	50.4	55.7
Contract liabilities	212.6	216.9
Accrued expenses and other payables	215.8	166.7
<b>Total current trade and other payables</b>	<b>654.7</b>	<b>575.2</b>
Contract liabilities	10.2	14.0
Other payables	1.4	1.2
<b>Total non-current trade and other payables</b>	<b>11.6</b>	<b>15.2</b>
<b>Total trade and other payables</b>	<b>666.3</b>	<b>590.4</b>

Accrued expenses and other payables includes £34.0m at 31 March 2024 (31 March 2023: nil) relating to an irrevocable contract to purchase shares as part of the ongoing share buyback programme. This liability relates to financing activities and will result in a financing cash flow in FY25 as the share buyback programme progresses.

Contract liabilities, which are influenced by the timing of revenue recognition and invoicing on contracts, were consistent with the prior year.

## Notes to the Consolidated Financial Statements

For the year ended 31 March

**23. Provisions**

For the year ended 31 March 2024

All figures in £ million	Property	Other	Total
At 1 April 2023	6.6	20.2	26.8
Created in year	0.4	0.8	1.2
Released in year	(3.2)	(0.2)	(3.4)
Unwinding of discount	0.1	–	0.1
Reclassified	(0.9)	–	(0.9)
Utilised in year	(0.5)	(3.7)	(4.2)
Foreign exchange	–	(0.1)	(0.1)
<b>At 31 March 2024</b>	<b>2.5</b>	<b>17.0</b>	<b>19.5</b>
Current liability	–	15.3	15.3
Non-current liability	2.5	1.7	4.2
<b>At 31 March 2024</b>	<b>2.5</b>	<b>17.0</b>	<b>19.5</b>

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. Other provisions includes £12.8m (2023: £14.2m) 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 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)
<b>At 31 March 2023</b>	<b>6.6</b>	<b>20.2</b>	<b>26.8</b>
Current liability	3.2	16.5	19.7
Non-current liability	3.4	3.7	7.1
<b>At 31 March 2023</b>	<b>6.6</b>	<b>20.2</b>	<b>26.8</b>

**24. Net debt**

As at 31 March

All figures in £ million	31 March 2024			31 March 2023		
	Assets	Liabilities	Net	Assets	Liabilities	Net
<b>Current financial assets/(liabilities)</b>						
Deferred financing costs	1.0	–	1.0	1.3	–	1.3
Lease liabilities	–	(8.1)	(8.1)	–	(7.6)	(7.6)
Derivative financial instruments	5.2	(1.1)	4.1	4.4	(0.6)	3.8
<b>Total current financial assets/(liabilities)</b>	<b>6.2</b>	<b>(9.2)</b>	<b>(3.0)</b>	<b>5.7</b>	<b>(8.2)</b>	<b>(2.5)</b>
<b>Non-current assets/(liabilities)</b>						
Deferred financing costs	1.1	–	1.1	1.5	–	1.5
Borrowings – Term loan	–	(336.3)	(336.3)	–	(337.6)	(337.6)
Lease liabilities	–	(47.4)	(47.4)	–	(23.7)	(23.7)
Derivative financial instruments	3.8	(0.4)	3.4	4.7	(0.5)	4.2
<b>Total non-current financial assets/(liabilities)</b>	<b>4.9</b>	<b>(384.1)</b>	<b>(379.2)</b>	<b>6.2</b>	<b>(361.8)</b>	<b>(355.6)</b>
<b>Total financial assets/(liabilities)</b>	<b>11.1</b>	<b>(393.3)</b>	<b>(382.2)</b>	<b>11.9</b>	<b>(370.0)</b>	<b>(358.1)</b>
Cash	109.5	–	109.5	89.1	–	89.1
Cash equivalents	121.5	–	121.5	62.1	–	62.1
<b>Total cash and cash equivalents</b>	<b>231.0</b>	<b>–</b>	<b>231.0</b>	<b>151.2</b>	<b>–</b>	<b>151.2</b>
<b>Total net debt as defined by the Group</b>			<b>(151.2)</b>			<b>(206.9)</b>

At 31 March 2024 the Group held £1.5m (2023: £0.4m) 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	FY24	FY23
<b>Profit after tax for the year</b>	<b>139.6</b>	<b>154.4</b>
Adjustments for:		
Taxation expense	43.1	37.6
Net finance expense/(income)	9.8	(3.3)
Gain on disposal of businesses	–	(15.9)
Gain on sale of property	(2.1)	(2.0)
Loss on disposal of plant and equipment	–	0.2
Loss on disposal of intangibles	0.9	–
Impairment of property	0.7	–
Amortisation of purchased or internally developed intangible assets	7.4	7.5
Amortisation of intangible assets arising from acquisitions	25.2	15.6
Depreciation of property, plant and equipment	58.1	51.5
Share of post-tax profit of equity accounted entities	(0.8)	(0.8)
Share-based payments charge	9.4	6.1
Retirement benefit contributions in excess of income statement expense	(1.9)	(1.6)
Net movement in provisions	(5.1)	(1.0)
	<b>284.3</b>	<b>248.3</b>
Increase in inventories	(21.4)	(9.6)
Increase in receivables	(10.0)	(56.7)
Increase in payables	41.2	58.6
<b>Changes in working capital</b>	<b>9.8</b>	<b>(7.7)</b>
<b>Net cash inflow from operations</b>	<b>294.1</b>	<b>240.6</b>

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, the share buyback liability 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	FY24	FY23
<b>Net cash flow from operations</b>	<b>294.1</b>	<b>240.6</b>
Specific adjusting items:		
Add back specific adjusting item: digital investment	16.9	5.8
Add back specific adjusting item: restructuring costs	–	5.0
Add back specific adjusting item: acquisition integration and remuneration costs	6.5	2.3
Add back specific adjusting item: acquisition and disposal costs	2.7	16.4
Total specific adjusting items	26.1	29.5
<b>Underlying net cash flow from operations</b>	<b>320.2</b>	<b>270.1</b>
Less: tax and net interest payments	(51.0)	(34.6)
Less: net purchases of intangible assets and property plant and equipment	(96.1)	(109.0)
<b>Free cash flow</b>	<b>173.1</b>	<b>126.5</b>

**Underlying cash conversion ratio**

	FY24	FY23
Underlying EBITDA – £ million	307.9	255.3
Underlying net cash flow from operations – £ million	320.2	270.1
<b>Underlying cash conversion ratio – %</b>	<b>104%</b>	<b>106%</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 March

**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 2024	31 March 2023
Within one year	5.2	5.7
In the second to fifth years inclusive	6.6	7.7
Greater than five years	1.7	1.8
<b>Total future minimum lease payments</b>	<b>13.5</b>	<b>15.2</b>

**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 2024	31 March 2023
Land and buildings	48.0	26.8
Plant, machinery and vehicles	0.2	0.3
<b>Total right of use assets net book value</b>	<b>48.2</b>	<b>27.1</b>

**Lease liabilities (included within Net debt – see note 24)**

All figures in £ million	31 March 2024	31 March 2023
Current	8.1	7.6
Non-current	47.4	23.7
<b>Total lease liabilities</b>	<b>55.5</b>	<b>31.3</b>

Additions to the right-of-use assets during FY24 were £31.4m. The total cash outflow for leases in FY24 was £9.6m. 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	FY24	FY23
<b>Depreciation charge</b>		
Land and buildings	8.7	5.9
Plant, machinery and vehicles	0.1	0.3
<b>Total depreciation charge (see note 16)</b>	<b>8.8</b>	<b>6.2</b>
Interest expense (included in finance cost – see note 7)	2.8	1.1
Expense relating to short-term leases (included in operating costs)	0.6	1.6
Expense relating to low value leases (included in operating costs)	0.3	0.1
<b>Total lease expense charged to profit before tax</b>	<b>12.5</b>	<b>9.0</b>

**Minimum lease payment commitments**

The Group has the following total future minimum lease payment commitments:

All figures in £ million	31 March 2024	31 March 2023
Within one year	8.1	7.6
In the second to fifth years inclusive	25.4	19.6
Greater than five years	22.0	4.1
<b>Total future minimum lease payment commitments</b>	<b>55.5</b>	<b>31.3</b>

Lease payments represent capital and interest payable by the Group on certain property, plant and equipment. Principal leases are negotiated for a term of approximately 10 years.

**27. Financial risk management**

The Group's international operations expose it to financial risks that include the effects of changes in foreign exchange rates, interest rates, credit risks and liquidity risks.

Treasury and risk management policies, which are set by the Board, specify guidelines on financial risks and the use of financial instruments to manage risk. The instruments and techniques used to manage exposures include foreign currency 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 198.

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 2024, the ratio of Net Debt to EBITDA was 0.5:1 and the ratio of EBITDA to net finance charges was 23.1:1. The revolving credit facility is undrawn at the year end and post year end was refinanced to mature in 2027. The floating rate term loan is repayable in 2026 and has a one-year extension option.

**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 2024:

All figures in £ million	Note	Level 1	Level 2	Level 3	Total
<b>Assets</b>					
Current derivative financial instruments	24	–	5.2	–	5.2
Non-current derivative financial instruments	24	–	3.8	–	3.8
<b>Liabilities</b>					
Current derivative financial instruments	24	–	(1.1)	–	(1.1)
Non-current derivative financial instruments	24	–	(0.4)	–	(0.4)
<b>Total</b>		<b>–</b>	<b>7.5</b>	<b>–</b>	<b>7.5</b>

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
<b>Assets</b>					
Current derivative financial instruments	24	–	4.4	–	4.4
Non-current derivative financial instruments	24	–	4.7	–	4.7
<b>Liabilities</b>					
Current derivative financial instruments	24	–	(0.6)	–	(0.6)
Non-current derivative financial instruments	24	–	(0.5)	–	(0.5)
<b>Total</b>		<b>–</b>	<b>8.0</b>	<b>–</b>	<b>8.0</b>

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 2024 and 31 March 2023. Detailed analysis is provided in the following tables:

## Notes to the Consolidated Financial Statements

For the year ended 31 March

## 27. Financial risk management (continued)

As at 31 March 2024

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
<b>Financial assets</b>							
<b>Non-current</b>							
Derivative financial instruments	24	–	–	–	3.8	–	3.8
Deferred financing costs	24	–	1.1	–	–	–	1.1
<b>Current</b>							
Trade receivables and similar items		–	192.3	–	–	–	192.3
Derivative financial instruments	24	–	–	–	5.2	–	5.2
Deferred financing costs	24	–	1.0	–	–	–	1.0
Cash and cash equivalents	24	231.0	–	–	–	–	231.0
<b>Total financial assets</b>		<b>231.0</b>	<b>194.4</b>	<b>–</b>	<b>9.0</b>	<b>–</b>	<b>434.4</b>
<b>Financial liabilities</b>							
<b>Non-current</b>							
Bank borrowings	24	–	–	(336.3)	–	–	(336.3)
Derivative financial instruments	24	–	–	–	(0.4)	–	(0.4)
Lease liabilities	24	–	–	–	–	(47.4)	(47.4)
<b>Current</b>							
Trade payables and similar items		–	–	(322.5)	–	–	(322.5)
Irrevocable share buyback		–	–	(34.0)	–	–	(34.0)
Derivative financial instruments	24	–	–	–	(1.1)	–	(1.1)
Lease liabilities	24	–	–	–	–	(8.1)	(8.1)
<b>Total financial liabilities</b>		<b>–</b>	<b>–</b>	<b>(692.8)</b>	<b>(1.5)</b>	<b>(55.5)</b>	<b>(749.8)</b>
<b>Total</b>		<b>231.0</b>	<b>194.4</b>	<b>(692.8)</b>	<b>7.5</b>	<b>(55.5)</b>	<b>(315.4)</b>

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
<b>Financial assets</b>							
<b>Non-current</b>							
Derivative financial instruments	24	–	–	–	4.7	–	4.7
Deferred financing costs	24	–	1.5	–	–	–	1.5
<b>Current</b>							
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
<b>Total financial assets</b>		<b>151.2</b>	<b>232.0</b>	<b>–</b>	<b>9.1</b>	<b>–</b>	<b>392.3</b>
<b>Financial liabilities</b>							
<b>Non-current</b>							
Bank borrowings	24	–	–	(337.6)	–	–	(337.6)
Derivative financial instruments	24	–	–	–	(0.5)	–	(0.5)
Lease liabilities	24	–	–	–	–	(23.7)	(23.7)
<b>Current</b>							
Trade payables and similar items		–	–	(281.8)	–	–	(281.8)
Derivative financial instruments	24	–	–	–	(0.6)	–	(0.6)
Lease liabilities	24	–	–	–	–	(7.6)	(7.6)
<b>Total financial liabilities</b>		<b>–</b>	<b>–</b>	<b>(619.4)</b>	<b>(1.1)</b>	<b>(31.3)</b>	<b>(651.8)</b>
<b>Total</b>		<b>151.2</b>	<b>232.0</b>	<b>(619.4)</b>	<b>8.0</b>	<b>(31.3)</b>	<b>(259.5)</b>

## 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 2024, the Group had 80% (2023: 80%) of fixed rate debt and 20% (2023: 20%) of floating rate debt based on gross debt of £336.3m (2023: £337.6m) after including the impact of debt-related derivative financial assets (interest rate swaps).

## Financial assets/(liabilities)

As at 31 March 2024

All figures in £ million	Financial assets			Financial liabilities		
	Fixed or capped	Floating	Non-interest bearing	Fixed or capped	Floating	Non-interest bearing
Sterling	8.5	173.6	0.5	(24.0)	(273.3)	(35.5)
US dollar	–	37.4	–	(19.5)	(63.0)	–
Euro	–	1.3	–	–	–	–
Australian dollar	–	14.9	–	(11.6)	–	–
Other	–	3.8	–	(0.4)	–	–
<b>Total</b>	<b>8.5</b>	<b>231.0</b>	<b>0.5</b>	<b>(55.5)</b>	<b>(336.3)</b>	<b>(35.5)</b>

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)	–	–
<b>Total</b>	<b>8.1</b>	<b>151.2</b>	<b>1.0</b>	<b>(31.5)</b>	<b>(337.6)</b>	<b>(0.9)</b>

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 2024			31 March 2023		
	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
<b>Financial assets:</b>						
Sterling	8.5	3.1	2.2	8.1	3.1	3.2
<b>Financial liabilities:</b>						
Sterling	(24.0)	5.4	2.0	(4.8)	4.3	4.5
US dollar	(19.5)	5.9	11.4	(17.5)	4.5	5.5
Euro	–	–	–	–	–	–
Australian dollar	(11.6)	4.7	5.2	(9.0)	4.5	5.0
Other	(0.4)	4.8	2.8	(0.2)	3.7	4.4
<b>Total financial liabilities</b>	<b>(55.5)</b>	<b>4.9</b>	<b>6.2</b>	<b>(31.5)</b>	<b>4.4</b>	<b>5.2</b>

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 2024.

As at 31 March 2024, 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 2024 is £270m (31 March 2023: £270m). 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

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 currency and notional amount of the designated hedging instruments match the currency and principal amounts of the transactions being hedged, therefore the hedging instruments and hedged items have values which will generally move in opposite directions because of the same hedged risk. As the critical terms of the hedging instruments match those of the hedged items, an economic relationship can be demonstrated on an ongoing basis.

The hedge ratio is 1:1 on the basis that the notional amount of the designated hedging instruments matches the principal amount of the foreign currency sales/purchases designated as the hedged items. The Group does not designate groups of items with offsetting risk positions as hedged items.

The Group considers the potential sources of hedge ineffectiveness to be:

- valuation adjustments for credit risk made to derivative hedging instruments at each hedge effectiveness measurement date;
- changes to the timing and amount of transactions; and
- non-occurrence of the designated hedged items.

Ineffectiveness due to foreign currency basis was highly immaterial.

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
<b>31 March 2024 – Sterling</b>	<b>0.6</b>	<b>(0.3)</b>	<b>1.1</b>	<b>(0.5)</b>	<b>0.9</b>
31 March 2023 – Sterling	17.7	3.3	0.9	4.1	26.0

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 2024 against Sterling are net US dollars sold of £124.3m (USD 157.4m), net Euros sold £28.1m (EUR 34.6m), net Canadian dollars sold £13.6m (CAD 23.7m), net United Arab Emirate Dirhams sold £4.1m (AED 18.9m), net Swedish Krona sold of £2.3m (SEK 29.5m), and net Australian dollars sold £33.9m (AUD 65.6m).

## 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 and setting a utilisation credit limit based on the credit rating. The cash and cash equivalents of the Group are invested in non-speculative financial instruments which are usually highly liquid, such as short-term deposits. Therefore, the Group believes it has reduced its exposure to counterparty credit risk through this process.

The cash and cash equivalents balance is subject to review for impairment, and due to the high credit ratings of the counterparties set out below, no impairment has been recognised within the year:

Counterparty credit rating	31 March 2024	31 March 2023
AAA to AA-	69%	72%
A+ to A-	30%	28%
BBB+ to BBB-	1%	0%

The Group uses 3 year cumulative default rate metrics to determine the estimated credit-rated losses on our financial instruments. Based on the expected default rates, the financial instruments have an immaterial risk of credit impairment.

In the normal course of business the Group operates notional cash pooling systems and master netting agreements for derivatives, 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 £240.0m (31 March 2023: £160.3m). This balance includes cash and cash equivalents and derivative financial assets. The cash and cash equivalents of £231.0m at 31 March 2023 (2023: £151.2m) 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 £121.5m (31 March 2023: £62.1m) invested in AAA-rated money market funds. The Group's assessment is that credit risk is limited as a result of the high percentage of revenue derived from UK and US government agencies. Therefore the provision for expected credit losses is immaterial in respect of receivables from these customers.

## E) Liquidity risk

## Borrowing facilities

As at 31 March 2024 the Group had a revolving credit facility (RCF) of £275.0m (2023: £275.0m) and floating rate term loans of £336.3m (2023: £337.6m). The RCF, which is unutilised, was refinanced in April 2024 and will mature on 22 April 2027. The term loan had an initial term of 3 years and will mature on 27 September 2026, with a one-year extension option. 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
<b>As at 31 March 2024</b>				
Committed facilities – RCF	0.53%	275.0	–	275.0
Committed facilities – term loan	1.00%	336.3	336.3	–
Freely available cash and cash equivalents				229.5
<b>Available funds 31 March 2024</b>				<b>504.5</b>
<b>As at 31 March 2023</b>				
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
<b>Available funds 31 March 2023</b>				<b>424.6</b>

\* 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 undiscounted 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 £336.3m term loan is repayable on 27 September 2026, with a one-year extension option, 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 2024

All figures in £ million	Book value	Contractual cash flows	1 year or less	1–2 years	2–5 years	More than 5 years
<b>Non-derivative financial liabilities</b>						
Term loan	(336.3)	(356.8)	(7.4)	(8.8)	(340.6)	–
Revolving credit facility	–	–	–	–	–	–
Trade payables and similar items	(322.5)	(322.5)	(322.5)	–	–	–
Irrevocable share buyback	(34.0)	(34.0)	(34.0)	–	–	–
Leases	(55.5)	(70.4)	(10.8)	(9.7)	(23.0)	(26.9)
<b>Derivative financial liabilities</b>						
Forward foreign currency contracts – cash flow hedges	(1.5)	(1.5)	(1.1)	(0.1)	(0.3)	–
Interest rate swaps	–	–	–	–	–	–
<b>Total</b>	<b>(749.8)</b>	<b>(785.2)</b>	<b>(375.8)</b>	<b>(18.6)</b>	<b>(363.9)</b>	<b>(26.9)</b>

## 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
<b>Non-derivative financial liabilities</b>						
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)
<b>Derivative financial liabilities</b>						
Forward foreign currency contracts – cash flow hedges	(0.9)	(0.9)	(0.6)	(0.3)	–	–
Interest rate swaps	(0.2)	(0.2)	–	–	(0.2)	–
<b>Total</b>	<b>(651.8)</b>	<b>(690.7)</b>	<b>(306.0)</b>	<b>(23.2)</b>	<b>(356.7)</b>	<b>(4.8)</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 March

## 27. Financial risk management (continued)

## F) Derivative financial instruments

The Group has the following derivative financial instruments on the balance sheet, reported within the 'Other financial assets' line items.

All figures in £ million	31 March 2024			31 March 2023		
	Asset gains	Liability losses	Net	Asset gains	Liability losses	Net
Forward foreign currency contracts – cash flow hedges	0.5	(1.5)	(1.0)	1.0	(0.9)	0.1
Interest rate swaps	8.5	–	8.5	8.1	(0.2)	7.9
<b>Derivative assets/(liabilities) at the end of the year</b>	<b>9.0</b>	<b>(1.5)</b>	<b>7.5</b>	<b>9.1</b>	<b>(1.1)</b>	<b>8.0</b>

The maturity of these derivative financial instruments is as follows:

All figures in £ million	31 March 2024			31 March 2023		
	Asset gains	Liability losses	Net	Asset gains	Liability losses	Net
Expected to be recognised:						
In one year or less	5.2	(1.1)	4.1	4.4	(0.6)	3.8
Between one and two years	2.7	(0.1)	2.6	2.5	(0.3)	2.2
More than two years	1.1	(0.3)	0.8	2.2	(0.2)	2.0
<b>Derivative assets/(liabilities) at the end of the year</b>	<b>9.0</b>	<b>(1.5)</b>	<b>7.5</b>	<b>9.1</b>	<b>(1.1)</b>	<b>8.0</b>

The effects of these derivatives on the Group's financial position and performance are as follows:

All figures in £ million	31 March 2024			31 March 2023		
	Cash flow hedges	Interest rate swaps	Total	Cash flow hedges	Interest rate swaps	Total
Notional amount (gross)	410.3	270.0	680.3	327.7	270.0	597.7
Carrying value (current and non-current assets and (liabilities))	(1.0)	8.5	7.5	0.1	7.9	8.0
Maturity date	2024–2027	2025–2027	2024–2027	2023–2027	2025–2027	2023–2027
Hedge ratio	1:1	1:1	1:1	1:1	1:1	1:1
Change in fair value of outstanding hedging instruments in the year	(1.1)	0.6	(0.5)	1.9	7.9	9.8
Change in value of hedged item used to determine hedge effectiveness	(1.1)	0.6	(0.5)	1.9	7.9	9.8
Weighted average hedged rate for the year*	1.26	3.1%		1.23	3.1%	

\* 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 2024

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	356.5	–	1.1	8.1
Due in more than one year but not more than two years	–	–	0.1	7.4	7.5
Due in more than two years but not more than five years	–	336.3	0.3	18.0	354.6
Due in five years or more	–	–	–	22.0	22.0
<b>Total</b>	<b>356.5</b>	<b>336.3</b>	<b>1.5</b>	<b>55.5</b>	<b>749.8</b>

\* Trade payables and other similar items includes the £34.0 million irrevocable share buyback liability

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
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
<b>Total</b>	<b>281.8</b>	<b>337.6</b>	<b>1.1</b>	<b>31.3</b>	<b>651.8</b>

## 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 2024 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 2024

All figures in £ million	1% decrease in interest rates		10% weakening in Sterling	
	Equity*	Profit before tax	Equity	Profit before tax
Sterling	(0.1)	1.0	–	–
US dollar	–	0.3	1.6	0.4
Other	–	(0.2)	1.1	–

All figures in £ million	1% increase in interest rates		10% strengthening in Sterling	
	Equity*	Profit before tax	Equity	Profit before tax
Sterling	0.1	(1.0)	–	–
US dollar	–	(0.3)	(1.2)	(0.4)
Other	–	0.2	(1.0)	–

\* 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 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.

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 2024, 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 2024, 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 March

## 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 £65.0m (FY23: £55.2m). Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

### Defined benefit pension plan

In the UK the Group operates the QinetiQ Pension Scheme ('the Scheme') for approximately one 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 Scheme Trustee with consultation with the Company as needed. On 1 October 2023 the Scheme and Company changed the governance model from being governed by a board of trustees comprised of current/prior employees to a sole corporate trustee model of governance. Dalriada, one of the largest professional trustee firms in the UK, are now acting as Professional Corporate Sole Trustee (PCST) for the Scheme. Being governed by a PCST is better suited to an ever-changing and more highly regulated pension landscape.

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.

### Triennial funding valuation

The most recent completed full actuarial valuation of the Scheme was undertaken as at 30 June 2023 and resulted in an actuarially assessed surplus of £11.4m (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 2026. Under the new schedule of contributions agreed at the conclusion of the recent triennial valuation, and reflecting the Scheme being in surplus, there are no employer contributions required. Separately to the schedule of contributions the Company does have a cash commitment to the Scheme in respect of an asset-backed funding arrangement established in 2012, see QinetiQ Pension Funding Partnership 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 annual distributions from 2012. The annual distribution in the year to 31 March 2025 will be £3.5m, which will increase thereafter, indexed by reference to CPI, until 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 2024	31 March 2023
<b>Total market value of assets – see table below for analysis by category of asset</b>	<b>1,316.2</b>	<b>1,355.2</b>
Present value of Scheme liabilities	(1,297.8)	(1,235.4)
<b>Net pension asset before deferred tax</b>	<b>18.4</b>	<b>119.8</b>
Deferred tax liability	(9.6)	(35.4)
<b>Net pension asset after deferred tax</b>	<b>8.8</b>	<b>84.4</b>

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 times when markets are volatile. Sensitivities and risks are described on page 175.

The key driver for the decrease in the net pension asset since the March 2023 year end was an experience loss following recalibration to the recently completed 30 June 2023 triennial valuation.

### Total expense recognised in the income statement

All figures in £ million	FY24	FY23
Net finance income	5.6	9.9
Administrative expenses	(1.5)	(1.4)
<b>Total net income recognised in the income statement (excluding tax)</b>	<b>4.1</b>	<b>8.5</b>

### Movement in the net pension asset

The movement in the net pension asset (before deferred tax) is set out below:

All figures in £ million	FY24	FY23
Opening net pension asset	119.8	362.2
Net finance income	5.6	9.9
Net actuarial loss	(108.9)	(253.9)
Administrative expenses	(1.5)	(1.4)
Contributions by the employer	3.4	3.0
<b>Closing net pension asset</b>	<b>18.4</b>	<b>119.8</b>

### 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 2024			31 March 2023 <sup>a</sup>		
	Quoted	Not quoted in an active market	Total	Quoted	Not quoted in an active market	Total
Equities	–	21.8	21.8	–	32.9	32.9
Liability Driven Investment	414.9	–	414.9	399.2	–	399.2
Asset backed security investments	35.5	–	35.5	4.3	–	4.3
Alternative bonds <sup>1</sup>	–	253.8	253.8	–	256.4	256.4
Corporate bonds <sup>2</sup>	31.1	120.6	151.7	–	115.6	115.6
Cash and cash equivalents	–	36.5	36.5	–	17.2	17.2
Equity derivative financial instruments <sup>3</sup>	15.8	–	15.8	5.4	–	5.4
Corporate credit derivative financial instruments <sup>4</sup>	2.2	–	2.2	2.0	–	2.0
Other derivatives (forward FX contracts) <sup>5</sup>	1.6	–	1.6	6.7	–	6.7
Insurance buy-in policies	–	507.4	507.4	–	515.5	515.5
Borrowings	–	(125.0)	(125.0)	–	–	–
<b>Total market value of assets</b>	<b>501.1</b>	<b>815.1</b>	<b>1,316.2</b>	<b>417.6</b>	<b>937.6</b>	<b>1,355.2</b>

<sup>a</sup> Restated to reclassify equity and corporate credit derivatives based on fair values.

<sup>1</sup> Primarily private market debt investments.

<sup>2</sup> Includes unlisted corporate bonds with commercial property held as security.

<sup>3</sup> The fair value of equity derivative financial instruments is £15.8m. This reflects the marked to market valuation of all equity derivatives held by the Scheme. The exposure to equities is significantly greater than the fair value, with a notional value of the equity derivative financial instruments of £171.7m as at 31 March 2024 and a total economic exposure value of £187.5m.

<sup>4</sup> The fair value of corporate credit derivative financial instruments is £2.2m. This is in respect of various credit default swap financial instruments held by the Scheme. These provide significantly greater exposure to corporate bonds. The notional value of these financial instruments was £100.1m as at 31 March 2024, with a total economic exposure value of £102.3m.

<sup>5</sup> The fair value of other derivative financial instruments is £1.6m. This is in respect of various foreign exchange contracts held by the Scheme. The exposure to foreign exchange risk is significantly greater than the £1.6m marked to market value of the forward contracts. The notional value of these financial instruments was £210.0m as at 31 March 2024, with a total economic exposure value of £211.6m.

# Notes to the Consolidated Financial Statements

For the year ended 31 March

## 28. Post-retirement benefits (continued)

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. During the year the pension fund took out a loan of £125m to facilitate an increase in the level of hedging in place. The loan will be repaid in tranches by FY27 when the investments mature.

The insurance policies obtained by the pension scheme can only be used to pay or fund employee benefits under the Company's defined benefit plan. They are not available to the Company's own creditors and cannot be paid to another entity. These are the requirements of IAS 19 paragraph 7 and hence our determination is that the insurance policies are qualifying insurance policies and require classification as a plan asset. The policies were issued by insurers that are not a related party.

Per the Scheme rules the Company has an unconditional right to a refund of any surplus, assuming gradual settlement of all liabilities over time. Such surplus may arise on cessation of the Scheme in the context of IFRIC 14 paragraphs 11(b) and 12 and therefore the full net pension asset can be recognised on the Group's balance sheet and the Group's minimum funding commitments to the Scheme do not give rise to an additional balance sheet liability.

### Changes to the fair value of Scheme assets

All figures in £ million	FY24	FY23
Opening fair value of Scheme assets	1,355.2	2,065.7
Interest income on Scheme assets	62.6	55.8
Re-measurement loss on Scheme assets	(49.6)	(716.3)
Contributions by the employer	3.4	3.0
Net benefits paid out and transfers	(53.9)	(51.6)
Administrative expenses	(1.5)	(1.4)
<b>Closing fair value of Scheme assets</b>	<b>1,316.2</b>	<b>1,355.2</b>

### 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	FY24	FY23
Opening present value of Scheme liabilities	(1,235.4)	(1,703.5)
Interest cost	(57.0)	(45.9)
<i>Actuarial (loss)/gain on Scheme liabilities based on:</i>		
Change in demographic assumptions	(9.5)	45.8
Change in financial assumptions	28.1	588.0
Experience losses	(77.9)	(171.4)
Net benefits paid out and transfers	53.9	51.6
<b>Closing present value of Scheme liabilities</b>	<b>(1,297.8)</b>	<b>(1,235.4)</b>

The net actuarial loss is primarily due to the experience loss which includes an update to the data used in the June 2023 triennial valuation.

### Assumptions

The major assumptions used in the IAS 19 valuation of the Scheme's liabilities were:

All figures in £ million	31 March 2024		31 March 2023	
	Insured members	Uninsured members	Insured members	Uninsured members
Discount rate applied to Scheme liabilities	4.80%	4.80%	4.80%	4.65%
CPI inflation assumption	2.55%	2.60%	2.55%	2.70%
Net rate (discount rate less inflation)	2.25%	2.20%	2.25%	1.95%
Assumed life expectancies in years:				
At 60 for males currently aged 40	n/a	28.3	n/a	27.9
At 60 for females currently aged 40	n/a	30.7	n/a	30.3
At 60 for males currently aged 60	n/a	26.7	n/a	26.2
At 60 for females currently aged 60	n/a	29.1	n/a	28.2
At 65 for males currently aged 65	22.3	n/a	21.6	n/a
At 65 for females currently aged 65	24.8	n/a	23.3	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. Allowance was made for improvements in mortality in line with CML\_2022 core projections (31 March 2023: CML\_2021 projections) and a long-term rate of improvement of 1.25% per annum (31 March 2023: 1.25%).

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 Scheme 'duration', calculated using discounted future cash flows, is an indicator of the weighted-average time until benefits are paid and is approximately 15 years for non-insured liabilities and 10 years for insured liabilities. The average duration for the Scheme as a whole is 13 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
Decrease discount rate by 0.25%	Increase by £12.6m	Increase by £42.5m	Decrease by £29.9m
Increase rate of inflation by 0.25%	Increase by £12.3m	Increase by £41.6m	Decrease by £29.3m
Increase life expectancy by one year	Increase by £13.8m	Increase by £34.4m	Decrease by £20.6m

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 2023 this portfolio hedged against approximately 65% of the interest rate risk and also 80% of the inflation rate risk, as measured on the Trustees' gilt-funded basis. During the current financial year, the hedges have been increased to cover approximately 80% of the interest rate risk and 85% of the inflation rate risk as at 31 March 2024, 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 reduces 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 £253.8m; the unquoted corporate bonds of £120.6m and the unquoted equities of £21.8m are the assets with most uncertainty as to valuation as at 31 March 2024.

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.

## Notes to the Consolidated Financial Statements

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 2023	5,787,571	578,757,121	1	1	5,787,572	578,757,122
Cancellation of shares	(43,612)	(4,361,230)	–	–	(43,612)	(4,361,230)
<b>At 31 March 2024</b>	<b>5,743,959</b>	<b>574,395,891</b>	<b>1</b>	<b>1</b>	<b>5,743,960</b>	<b>574,395,892</b>

During the year, the Group announced a £100m share buyback programme. £16m was completed in cash in FY24, which is shown in the table above as the 4,361,230 cancelled shares. A further £34m has been committed to and is recognised as a liability.

	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	–	–	–	–	–	–
<b>At 31 March 2023</b>	<b>5,787,571</b>	<b>578,757,121</b>	<b>1</b>	<b>1</b>	<b>5,787,572</b>	<b>578,757,122</b>

Except as noted below all shares in issue at 31 March 2024 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:

- 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
- to refer matters to the Board for its consideration in relation to the application of the Compliance Principles
- to require the Board to obtain Special Shareholder's consent:
  - 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
  - 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
- 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
- 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. 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 2024 are 2,767,125 shares (2023: 4,208,899 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 £10.2m, all relating to equity-settled schemes (FY23: £7.9m, all relating to equity-settled schemes). The share-based payment charged to equity is £8.8m consisting of the £10.2m charge to the income statement offset by a £0.6m charge to equity in respect of dividends accruing on unvested awards and £0.8m of cash payments relating to the Bonus Banking Plan.

## 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.

## 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.

	FY24 Number of matching shares	FY23 Number of matching shares
Outstanding at start of the year	745,986	761,828
Awarded during the year	295,731	267,877
Exercised during the year	(243,681)	(220,369)
Forfeited during the year	(44,589)	(63,350)
<b>Outstanding at end of the year</b>	<b>753,447</b>	<b>745,986</b>

SIP matching shares are equity-settled awards; those outstanding at 31 March 2024 had an average remaining life of 1.5 years (2023: 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 (2023: nil).

## Bonus Banking Plan (BBP)

During the year the Group granted BBP awards to certain senior executives in the UK and US.

	FY24 Number of awards	FY23 Number of awards
Outstanding at start of the year	892,416	1,122,439
Granted during the year	–	602,408
Exercised during the year	–	(687,079)
Forfeited during the year	–	(145,352)
<b>Outstanding at end of the year</b>	<b>892,416</b>	<b>892,416</b>

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 2024 the awards had an average remaining life of 0.7 years (2023: 1.7 years). There is no exercise price for these awards. The fair value of the awards at 31 March 2024 was £3.67 (2023: £3.34) being the Group's 30 day average on 31 March. The weighted average share price at date of exercise was nil (2023: £3.68). Of the awards outstanding at the end of the year nil were exercisable.

## Deferred Share Plan (DSP)

During the year, the Group did not provisionally award any DSP awards as this share scheme has been replaced by the LTIP share scheme.

	FY24 Number of awards	FY23 Number of awards
Outstanding at start of the year	6,968,721	6,876,423
Difference between actual awards in year and amount provisionally awarded in prior year	–	26,046
Lapsed during the year	(142,194)	(599,763)
Exercised during the year	(551,909)	(2,368,264)
Provisionally awarded during the year	–	3,034,279
<b>Outstanding at end of the year</b>	<b>6,274,618</b>	<b>6,968,721</b>
Provisional awards outstanding	–	3,034,279
Awards outstanding	6,274,618	3,934,442
<b>Outstanding at end of the year</b>	<b>6,274,618</b>	<b>6,968,721</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 March

**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 2024 the awards had an average remaining life of 1.3 years (2023: 2.4 years). There is no exercise price for these awards. The weighted average share price at date of exercise was nil (2023: £3.64). Of the awards outstanding at the end of the year nil were exercisable.

**Long Term Incentive Plan (LTIP)**

During the year the Group granted LTIP awards to replace the DSP awards.

	FY24 Number of awards	FY23 Number of awards
Outstanding at start of the year	-	-
Granted during the year	7,556,268	-
Exercised during the year	-	-
Lapsed during the year	(250,096)	-
<b>Outstanding at end of the year</b>	<b>7,306,172</b>	<b>-</b>

At 31 March 2024 the awards had an average remaining life of 2.5 years. There is no exercise price for these awards. The weighted average fair value of grants made during the year was £3.22. The weighted average share price at date of exercise was nil. Of the options outstanding at the end of the year nil were exercisable.

**Restricted share plan (RSP)**

RSP is a share award made to senior executives on a discretionary basis. For example, to offset a new senior executive joiner on a loss of stock options from their previous employer and it is a fixed number of shares. During the year the Group granted RSP awards to certain senior executives in the UK and US.

	FY24 Number of awards	FY23 Number of awards
Outstanding at start of the year	941,348	560,002
Granted during the year	213,277	608,158
Exercised during the year	(135,292)	(221,998)
Lapsed during the year	(221,962)	(4,814)
<b>Outstanding at end of the year</b>	<b>797,371</b>	<b>941,348</b>

At 31 March 2024 the awards had an average remaining life of 1.3 years (2023: 1.4 years). There is no exercise price for these awards. The weighted average fair value of grants made during the year was £3.28 (2023: £3.41). The weighted average share price at date of exercise was £3.12 (2023: £3.17). Of the options outstanding at the end of the year nil were exercisable (2023: nil).

**Value Creation Plan (VCP)**

VCP is a share award made on a discretionary basis with unique performance conditions. In FY23, the Group granted awards under a Value Creation Plan to certain senior executives in the US. During the current year, all the awards were forfeited as the performance conditions were not met.

	FY24 Number of awards	FY23 Number of awards
Outstanding at start of the year	175,099	206,675
Forfeited during the year	(175,099)	(31,576)
<b>Outstanding at end of the year</b>	<b>-</b>	<b>175,099</b>

At 31 March 2024 the awards had an average remaining life of nil year (2023: 0.2 years). There is no exercise price for these awards. The weighted average fair value of grants made during the year was £nil (2023: nil).

**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 2024 the awards had an average remaining life of nil year (2023: 0.3 years). The weighted average share price at date of exercise was £3.54 (2023: nil).

	FY24 Number of awards	FY23 Number of awards
Outstanding at start of the year	1,323,331	1,336,372
Granted during the year	13,041	-
Exercised during the year	(1,336,372)	-
Lapsed during the year	-	(13,041)
<b>Outstanding at end of the year</b>	<b>-</b>	<b>1,323,331</b>

**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 108.

**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 2024 was £2.1m (2023: £3.0m).

**Long Term Partnering Agreement**

On 27 February 2003 QinetiQ Limited entered into a Long Term Partnering Agreement (LTPA) to provide test and evaluation (T&E) facilities and training support services to the MOD. This is a 25-year contract with a total revenue value of up to £5.6bn, dependent on the level of usage by the MOD, under which QinetiQ Limited is committed to providing T&E services with increasing efficiencies through cost saving and innovative service delivery. Following an amendment to the LTPA contract on 5 April 2019 this contract is no longer subject to re-pricing every five years and is now contracted at a fixed price to 31 March 2028.

**Other contracts with MOD**

The LTPA is the most significant contract QinetiQ has with the MOD. In total approximately 57% (FY23: 57%) of the Group's revenue comes directly from contracts with the MOD.

# Notes to the Consolidated Financial Statements

For the year ended 31 March

## 32. Contingent liabilities and assets

Subsidiary undertakings within the Group have given unsecured guarantees of £56.7m at 31 March 2024 (2023: £33.6m) in the ordinary course of business, typically in respect of performance bonds and rental guarantees.

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

## 33. Capital commitments

The Group had the following capital commitments for which no provision has been made:

All figures in £ million	31 March 2024	31 March 2023
<b>Total contracted</b>	<b>57.8</b>	<b>43.4</b>

Capital commitments at 31 March 2024 include £49.7m (2023: £21.2m) 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 2024 there were sales to joint ventures of £3.1m (FY23: £0.4m). At the year-end there were outstanding receivables from joint ventures of £2.8m (FY23: £0.5m).

## 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 2024 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
<b>Subsidiaries<sup>1,6</sup></b>		
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	1800 Tysons Blvd, Ste 750, McLean, VA 22102, USA
Avantus Federal Services LLC	USA	1800 Tysons Blvd, Ste 750, McLean, VA 22102, USA
Avantus National Security Solutions LLC	USA	1800 Tysons Blvd, Ste 750, McLean, VA 22102, USA
BJ Trustee Limited	England & Wales	C/O FRP Advisory Trading Limited Kings Orchard, 1 Queen Street, Bristol, BS2 0HQ
cueSim Limited	England & Wales	Farnborough <sup>3</sup>
Data Works LLC	USA	1800 Tysons Blvd, Ste 750, McLean, VA 22102, USA
E3 Federal Solutions PR Inc.	USA	1800 Tysons Blvd, Ste 750, McLean, VA 22102, USA
Erial LLC	USA	1800 Tysons Blvd, Ste 750, McLean, VA 22102, USA
Far Ridgeline Engagements LLC	USA	1800 Tysons Blvd, Ste 750, McLean, VA 22102, USA
Foster-Miller Canada Limited	Canada	318 Roxton Drive, Waterloo, Ontario, N2T 1R6, Canada
Foster-Miller Inc <sup>2</sup>	USA	350 2 <sup>nd</sup> Avenue, Waltham, Massachusetts, MA 02451, USA
Graphics Research Corporation Limited	England & Wales	C/O FRP Advisory Trading Limited Kings Orchard, 1 Queen Street, Bristol, BS2 0HQ
Gyldan 11 Limited	England & Wales	C/O FRP Advisory Trading Limited Kings Orchard, 1 Queen Street, Bristol, BS2 0HQ
Inzpire Group Limited	England & Wales	Farnborough <sup>3</sup>
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

Name of company	Country of incorporation	Registered office
Leading Technology Limited	England & Wales	C/O FRP Advisory Trading Limited Kings Orchard, 1 Queen Street, Bristol, BS2 0HQ
Lucid Perspectives LLC	USA	1800 Tysons Blvd, Ste 750, McLean, VA 22102, USA
MTEQ Precision Machining LLC	USA	1800 Tysons Blvd, Ste 750, McLean, VA 22102, USA
Metrix UK Limited	England & Wales	Farnborough <sup>3</sup>
Naimuri Limited	England & Wales	Farnborough <sup>3</sup>
Occam's Razor Technologies LLC	USA	1800 Tysons Blvd, Ste 750, McLean, VA 22102, USA
Operational Intelligence LLC	USA	1800 Tysons Blvd, Ste 750, McLean, VA 22102, USA
Precis (2187) Limited	England & Wales	Farnborough <sup>3</sup>
Precis (2188) Limited	England & Wales	C/O FRP Advisory Trading Limited Kings Orchard, 1 Queen Street, Bristol, BS2 0HQ
Qinetic Limited	England & Wales	Farnborough <sup>3</sup>
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 <sup>3</sup>
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. <sup>2</sup>	Canada	5300 Commerce Court West, 199 Bay Street, Toronto ON M5L 1A9, Canada
QinetiQ Group Holdings Limited	England & Wales	Farnborough <sup>3</sup>
QinetiQ Holdings Limited	England & Wales	Farnborough <sup>3</sup>
QinetiQ Inc <sup>2</sup>	USA	1800 Tysons Blvd, Ste 750, McLean, VA 22102, USA
QinetiQ Insurance PCC Limited	Guernsey	Mill Court, La Charroterie, St Peter Port, GY1 4ET Guernsey
QinetiQ Limited	England & Wales	Farnborough <sup>3</sup>
QinetiQ Novare Pty Ltd	Australia	Petrie House, level 6, 80 Petrie Terrace, Brisbane QLD 400, Australia
QinetiQ Overseas Holdings Limited	England & Wales	Farnborough <sup>3</sup>
QinetiQ Overseas Trading Limited	England & Wales	Farnborough <sup>3</sup>
QinetiQ Pension Scheme Trustee Limited	England & Wales	Farnborough <sup>3</sup>
QinetiQ PFP Limited Partnership <sup>4</sup>	Scotland	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, Scotland
QinetiQ Philippines Company, Inc	Philippines	22 <sup>nd</sup> 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 Solutions Sdn. Bhd.	Malaysia	Suite 6.01, 6 <sup>th</sup> Floor, Plaza See Hoy Chan, Jalan Raja Chulan 50200, Kuala Lumpur, W.P. Kuala Lumpur, Malaysia
QinetiQ Sweden AB	Sweden	Box 1541, 581 15, Linköping, Stockholm, Sweden
QinetiQ Target Services Limited	England & Wales	Farnborough <sup>3</sup>
QinetiQ Target Systems Limited	England & Wales	Farnborough <sup>3</sup>
QinetiQ Training and Simulation Limited	England & Wales	Farnborough <sup>3</sup>
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	C/O FRP Advisory Trading Limited Kings Orchard, 1 Queen Street, Bristol, BS2 0HQ
Sentinel OpCo LLC	USA	1800 Tysons Blvd, Ste 750, McLean, VA 22102, USA
TSG International LLC	USA	350 2 <sup>nd</sup> Avenue, Waltham, Massachusetts 02451, USA
<b>Joint ventures<sup>6</sup></b>		
Avantus CTA, LLC <sup>5</sup>	USA	8281 Greensboro Drive, Ste 400, McLean, VA 22102, USA
Federal Mission Solutions, LLC <sup>5</sup>	USA	8281 Greensboro Drive, Ste 400, McLean, VA 22102, USA
Hive Fed Solutions LLC <sup>5</sup>	USA	8281 Greensboro Drive, Ste 400, McLean, VA 22102, USA
Houbara Defence & Security LLC <sup>5,6</sup>	United Arab Emirates	Unit 3, Zone 4, Tawazun Industrial Park, Abu Dhabi, United Arab Emirates, PO Box 128220
QinetiQ Dar Massader QDM Limited <sup>5,6</sup>	Saudi Arabia	Al Nakhla Tower, 3026-Prince Saud Bin Mohamed Bin Muqin Road, PO Box 2985, Riyadh 13321, Kingdom of Saudi Arabia
Quick Services LLC <sup>5</sup>	USA	409 Chicago Drive Suite 103 in Fayetteville, NC 28306

<sup>1</sup> As at 31 March 2024 the Group owned 100% of the ordinary shares of all subsidiary undertakings.

<sup>2</sup> The class of shares is 'common share'.

<sup>3</sup> Cody Technology Park, Ively Road, Farnborough, Hampshire, GU14 0LX.

<sup>4</sup> Limited partnership. The partners are all wholly-owned Group companies.

<sup>5</sup> As at 31 March 2024 the Group owned 90% of Avantus CTA, LLC, 49% of Federal Mission Solutions, LLC, 49% of Hive Fed Solutions, LLC, 49% of Houbara Defence & Security LLC, 49% of QinetiQ Dar Massader QDM Limited, and 49% of Quick Services LLC.

<sup>6</sup> 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).

# Notes to the Consolidated Financial Statements

For the year ended 31 March

## 36. Basis of preparation and material 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 businesses, property and investments	✓	✓	✓
Transaction, integration and on-off remuneration costs in respect of business acquisitions and disposals	✓		✓
Impairment of property and goodwill	✓		
One-off period of 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.

### 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 64 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 193. The financial statements have been prepared under the historical cost convention, except for certain financial assets and liabilities (such as derivative financial instruments) measures at fair value. 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 2024. 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 88). 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. Joint ventures are accounted for using the equity method from the date of acquisition to the date of disposal. The Group's investments in 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 joint venture less any impairment to the recoverable amount. Where a 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 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 60 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, which includes refining our capability to quantify, forecast and model financial statement impacts due to climate change.

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 2024 are not considered to be material.

### Recent accounting developments

#### Developments adopted by the Group for the year ended 31 March 2024 with no material impact on the Group's financial statements

The following standards, interpretations and amendments to existing standards became effective on 1 January 2023 and have not had a material impact on the Group:

- Amendments to IAS 12 Taxation – International Tax Reform – Pillar Two Model Rules, effective from 1 January 2023;
- Amendments to IAS 12 Taxation relating to Deferred tax related to assets and liabilities arising from a single transaction (issued 7 May 2021), effective from 1 January 2023;
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Definition of Accounting policies (issued on 12 February 2021) effective from 1 January 2023; and
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021) effective from 1 January 2023.

#### 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 2023. 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:

- Amendments to IAS 1 Presentation of Financial Statements – Non-current Liabilities with Covenants and Deferral of Effective Date of the Amendment Classification of Liabilities as Current, effective from 1 January 2024; and
- Amendments to IFRS 16 Lessee Lease – Liability in a Sale and Leaseback, effective from 1 January 2024.

### Material 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 March

## 36. Basis of preparation and material accounting policies (continued)

The transaction price for a contract is determined at contract inception based on a fixed-margin applied to the total forecast costs to complete the deliverable. Some long-term contracts include an excess profit clause which is a variable consideration factor that could impact the transaction price. Excess profits are estimated at contract inception and at the end of each reporting period to ensure that the transaction price is not under or over stated. Any required adjustment will be made against the transaction price in the period in which it occurred. The Group does not offer any right of return or refunds which could impact transaction price at inception.

Certain contracts attract bonuses and/or penalties which are variable and will have an impact on transaction price at contract inception. The Group assesses variable consideration in relation to bonuses and penalties at contract inception using the most-likely method and this forms part of the transaction price and recognised over time as costs are incurred. The Group only includes bonuses and penalties into the transaction price to the extent that it is highly probable that a significant reversal of revenue will not occur in future periods. Historical evidence and experience shows that even where a reduction has been required, that reduction has been immaterial to the Group.

The transaction price is allocated between each distinct performance obligation identified in a contract based on the stand-alone selling price of each performance obligation. Each performance obligation will be costed and the transaction price will be cost plus margin. This amount would be the stand-alone selling price of each performance obligation if contracted with a customer separately.

Long-term service contracts allow for modifications to the original order. If a contract modification is determined to be distinct and the price of the contract increases by an amount of consideration that reflects the entity's stand-alone selling prices for the additional promised goods or services, the Group accounts for this as a separate contract. If a contract modification is not distinct, the Group accounts for this as if it were part of the existing contract. A cumulative catch-up adjustment to revenue is then recognised to disclose the effect that the contract modification has on the transaction price and the Group's measure of progress towards complete satisfaction of the performance obligation.

Long-term service contracts also sometimes allow for extensions to the original order. A contract extension is determined to include either additional goods or services or no additional goods or service. If a contract extension with additional goods or services is determined to be distinct and the price of the contract increases by an amount of consideration that reflects the entity's stand-alone selling prices for the additional promised goods or services, the Group accounts for this as a separate performance obligation.

If a contract extension with additional goods or services is not distinct, the Group accounts for this as if it were part of the existing contract. A cumulative catch-up adjustment to revenue is then recognised to disclose the effect that the contract extension has on the transaction price and the Group's measure of progress towards complete satisfaction of the performance obligation.

When the outcome of a distinct performance obligation in delivering services can be reliably estimated, revenue associated with the performance obligation is recognised over time using the input method. The input method recognises revenue over time on the basis of costs incurred to date to the satisfaction of a performance obligation relative to the total forecast costs to complete the performance obligation. The Group has determined the input method to be appropriate as it best depicts the Group's performance in transferring control of the service to the customer as it incurs costs on a particular contract.

No profit is recognised on contracts until the outcome of the contract can be reliably estimated. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately as an expense.

### Goods sold

The Group recognises revenue on the sale of products at a point in time once control has been transferred to the customer. Control is generally transferred to customers on delivery of products or when the customer has the significant risks and rewards of ownership of the product. Payment is typically due within 30 days of invoice (within the UK) and customers typically do not have a right of return or refund. The transaction price for sale of products is agreed at contract inception. When the Group develops a bespoke product for a customer with no alternative use to the Group, revenue is recognised over time using the input method.

### Licence revenue

Licence revenue is attributed to either 'right to use' or 'right to access' licences. 'Right to use' licence revenue is recognised at a point in time when the Group sells a licence to a customer and does not undertake significant further activities or involvement in developing the licence after the sale. 'Right to access' licence revenue is recognised over time when the Group maintains a significant level of involvement in developing and enhancing the licence after the sale. The level of involvement goes beyond general support, bug-fixing and upgrades which generally only maintain the current operating level. The transaction price for intellectual property is agreed at contract inception. The Group does not offer any right of return or refunds which could impact transaction price at inception.

The Group recognises licence revenue through the supply of a range of security, messaging and connectivity software products. A licence fee is paid for each computer that uses the software and the customer can also purchase a support service contract for a fixed period. The sale of these types of licences is recognised at a point in time as a distinct performance obligation because the Group does not undertake any further activities in developing the licence after the sale. The support service contract is recognised over time as a separate performance obligation as this is an optional extra and is not integral into the functionality of the licence. The support service contract offers general support and maintenance of the licence to the customer over a fixed period.

### Contract assets

Contract assets 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 March

## 36. Basis of preparation and material accounting policies (continued)

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.

The Group has applied the temporary exemption issued by the International Accounting Standards Board from the accounting for deferred taxes under IAS12 and neither recognises nor discloses information about deferred taxes related to OECD's Global Anti-Base Erosion Model Rules (Pillar Two) income taxes.

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 recognised within other operating income.

### 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 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 March

## 36. Basis of preparation and material accounting policies (continued)

Lease payments to be made under reasonably certain options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If the rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by QinetiQ Plc, which does not have recent third party financing, and
- makes adjustments specific to the lease, for example to term, country, currency and security.

The exposure by the Group 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 is not considered material. 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).

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 2024 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 (FY23: 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, using the first-in-first-out cost formula. 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 March

## 36. Basis of preparation and material accounting policies (continued)

### Derivative financial instruments

Derivative financial instruments are initially recognised and thereafter held at fair value, being the market value for quoted instruments or valuation based on models and discounted cash flow calculations for unlisted instruments.

### Fair value hedging

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group uses foreign exchange contracts and interest rate swap contracts to hedge these exposures. The use of financial derivatives is governed by the Group's Treasury Policies as approved by the Board of Directors, which provides written principles on the use of derivatives. The Group does not use derivative instruments for speculative purposes.

Certain derivative instruments do not qualify for hedge accounting. These are categorised as "fair value through profit or loss" and are stated at fair value, with any resultant gain or loss recognised in the income statement.

The Group designates certain hedging instruments in respect of foreign currency risk as cash flow hedges. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents, both at hedge inception and on an ongoing basis, whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

For the Group's cash flow hedges of highly probable forecast transactions in foreign currencies, the hedge ratio is 100%, subject to a £100k de Minimis threshold. If the underlying exposure changes over time, either due to commercial factors or timing differences, the hedging instruments will be rebalanced to ensure that the hedge ratio of 100% is maintained.

### Cash flow hedging

Changes in the fair value of derivatives designated as a cash flow hedge that are regarded as highly effective are recognised in equity. The ineffective portion is recognised immediately in the income statement. Where a hedged item results in an asset or a liability, gains and losses previously recognised in equity are included in the cost of the asset or liability. Gains and losses previously recognised in equity are removed and recognised in the income statement at the same time as the hedged transaction.

### Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at period-end rates. Any resulting exchange differences are taken to the income statement. Gains and losses on designated forward foreign exchange hedging contracts are matched against the foreign exchange movements on the underlying transaction.

The individual financial statements of each Group company are presented in its functional currency. On consolidation, assets and liabilities of overseas subsidiaries, associated undertakings and joint ventures, including any related goodwill, are translated to Sterling at the rate of exchange at the balance sheet date. The results and cash flows of overseas subsidiaries, associated undertakings and joint ventures are translated to Sterling using the average rates of exchange during the period. Exchange adjustments arising from the re-translation of the opening net investment and the results for the period to the period-end rate are taken directly to equity and reported in the statement of comprehensive income.

### Post-retirement benefits

The Group provides both defined contribution and defined benefit pension arrangements. The liabilities of the Group arising from defined benefit obligations are determined using the projected unit credit method. Valuations for accounting purposes are carried out bi-annually. Actuarial advice is provided by external consultants. For the funded defined benefit plans, the excess or deficit of the fair value of plan assets less the present value of the defined benefit obligation are recognised as an asset or a liability respectively.

Per the Scheme rules the Company has an unconditional right to a refund of any surplus that may arise on cessation of the Scheme in the context of IFRIC 14 paragraphs 11(b) and 12 and, therefore, the full net pension asset can be recognised on the Group's balance sheet and the Group's minimum funding commitments to the Scheme do not give rise to an additional balance sheet liability.

For defined benefit plans the cost charged to the income statement consists of administrative expenses and the net interest income. There is no service cost due to the fact the plans are closed to future accrual. The net interest income is reported within finance income and the administration cost element is charged as a component of operating costs in the income statement. Actuarial gains and losses and re-measurement gains and losses are recognised immediately in full through the statement of comprehensive income. Contributions to defined contribution plans are charged to the income statement as incurred.

### Share-based payments

The Group operates share-based payment arrangements with employees. The fair value of equity-settled awards for share-based payments is determined on grant and expensed straight line over the period from grant to end of the service period. 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. 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.

### 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 reduces 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 £253.8m; the unquoted corporate bonds of £120.6m and the unquoted equities of £21.8m are the assets with most uncertainty as to valuation as at 31 March 2024.

### Estimated value of tax assets

The Group has significant levels of unused 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. A range of scenarios are modelled to consider sensitivity to these and other relevant 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 up to £11m 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 various factors including 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 different than assumed in the year end contract forecasts, impacting both revenue and operating profit.

For firm price contracts the impact of actual costs being above or below estimated costs would generally impact the contract profitability and the timing of revenue recognition. Costs could increase or decrease based on the level of inflation and the outcome of assumed risk and identified savings positions. As an example, an increase in total forecast costs to complete of 1% in one of the Group's most significant contracts, would reduce profit by approximately £1m to £2m per annum, on average over the remaining contract duration. Depending on the timing of such cost increases there would be an adjustment to the timing of revenue recognition, which would have no impact on total contract revenue but could impact an individual years revenue by £2m to £3m. In many cases fixed price contracts include inflation uplift clauses, such that inflation of costs would create additional contract value and revenue, thus resulting in increased profit.

## Notes to the Consolidated Financial Statements

For the year ended 31 March

**37. Critical accounting estimates and judgments in applying accounting policies (continued)****Critical accounting judgements**

Specific, material judgements made by the Directors in applying the Group's accounting policies are set out below:

**Basis of consolidation**

The Group comprises certain entities that are operated within the terms of a Special Security Arrangement ('SSA'). Details of the SSA and QinetiQ's management of US subsidiaries are set out in the Corporate Governance section of this Annual Report. IFRS 10 is the accounting standard applicable in respect of consolidation of entities.

This does not specifically deal with SSA's. However, having considered the terms of the SSA, the Directors consider that the Group meets the requirements of IFRS 10 in respect of control over such affected entities and, therefore, consolidates these entities in the consolidated accounts. The impact of this specific judgement is full consolidation as opposed to treatment as a 100% associated undertaking. Treatment as a 100% associated undertaking would reduce Group revenue by a material amount (c.£400m 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'.

## Company balance sheet

For the year ended 31 March

All figures in £ million	Note	31 March 2024	31 March 2023
<b>Non-current assets</b>			
Investments in subsidiary undertakings	2	530.6	521.2
		<b>530.6</b>	<b>521.2</b>
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	3	(131.3)	(78.0)
<b>Net current liabilities</b>		<b>(131.3)</b>	<b>(78.0)</b>
<b>Total assets less current liabilities</b>		<b>399.3</b>	<b>443.2</b>
<b>Net assets</b>		<b>399.3</b>	<b>443.2</b>
<b>Equity</b>			
Share capital	4	5.7	5.8
Capital redemption reserve		40.8	40.8
Share premium		147.6	147.6
Retained earnings		205.2	249.0
<b>Total equity</b>		<b>399.3</b>	<b>443.2</b>

The profit for the year ended 31 March 2024 was £44.0m (FY23: profit of £41.3m).

The financial statements of QinetiQ Group plc (company number 4586941) on pages 193 to 196 were approved by the Board of Directors and authorised for issue on 23 May 2024 and signed on its behalf by:

**Steve Wadey**

Group Chief Executive 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
<b>At 1 April 2023</b>	5.8	40.8	147.6	249.0	443.2
Profit for the year	–	–	–	44.0	44.0
Purchase of own shares	(0.1)	–	–	(51.0)	(51.1)
Dividend paid	–	–	–	(45.6)	(45.6)
Share-based payments	–	–	–	8.8	8.8
<b>At 31 March 2024</b>	<b>5.7</b>	<b>40.8</b>	<b>147.6</b>	<b>205.2</b>	<b>399.3</b>
<b>At 1 April 2022</b>	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
<b>At 31 March 2023</b>	<b>5.8</b>	<b>40.8</b>	<b>147.6</b>	<b>249.0</b>	<b>443.2</b>

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 accounting policies below 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 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.

#### Current liabilities

Current liabilities include amounts due within the normal operating cycle of the Company. 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.

#### Share capital

Ordinary share capital of the Company is recorded as the proceeds received. 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.

### 2. Investments in subsidiary undertakings

All figures in £ million	31 March 2024	31 March 2023
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	92.7	83.3
Capital contributions arising from share-settled liabilities	13.6	13.6
<b>Total investment in subsidiary undertakings</b>	<b>530.6</b>	<b>521.2</b>

The increase in investments in subsidiary undertakings in FY24 mainly relates to 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.

## Notes to the Company Financial Statements

## 3. Creditors: amounts falling due within one year

All figures in £ million	31 March 2024	31 March 2023
Amounts owed to Group undertakings	97.3	78.0
Irrevocable share buyback liability	34.0	–
<b>Creditors: amounts falling due within one year</b>	<b>131.3</b>	<b>78.0</b>

Amounts owed to Group undertakings are unsecured, repayable on demand and bear no interest, with the exception of a £16.2m intercompany loan which bears interest at a margin of 1.10% over SONIA

## 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 2024 (2023: £21.0m) in the ordinary course of business. The company has also provided a guarantee of £336.3m as at 31 March 2024 (2023: £337.6m) in respect of the term loan.

## 7. Other information

Directors' emoluments, excluding Company pension contributions for the year to 31 March 2024 were £4.4m (FY23: £4.9m). These emoluments were all in relation to services provided on behalf of the QinetiQ Group with no amount specifically relating to their work for the Company. Details of the Directors' emoluments, share schemes and entitlements under money purchase pension schemes are disclosed on page 112 in the Directors' Remuneration Report.

The remuneration of the Company's auditors for the year to 31 March 2024 was £0.6m (FY23: £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 2024 was nil (FY23: nil).

## Five year record

For the years ended 31 March (unaudited)		FY24	FY23	FY22 <sup>2</sup>	FY21 <sup>3</sup>	FY20
EMEA Services	£m	1,417.4	1,179.3	1,059.2	939.9	797.4
Global Solutions	£m	494.7	401.4	261.2	338.3	275.5
<b>Revenue</b>	<b>£m</b>	<b>1,912.1</b>	<b>1,580.7</b>	<b>1,320.4</b>	<b>1,278.2</b>	<b>1,072.9</b>
EMEA Services	£m	163.4	137.1	135.6	118.6	100.6
Global Solutions	£m	51.8	41.8	1.8	33.2	32.6
<b>Operating profit from segments<sup>1</sup></b>	<b>£m</b>	<b>215.2</b>	<b>178.9</b>	<b>137.4</b>	<b>151.8</b>	<b>133.2</b>
<i>Operating profit margin from segments<sup>1</sup></i>	%	<i>11.3</i>	<i>11.3</i>	<i>10.4</i>	<i>11.9</i>	<i>12.4</i>
Statutory operating profit	£m	192.5	172.8	123.7	108.7	117.6
Underlying operating profit <sup>1</sup>	£m	242.4	196.3	143.6	151.8	133.2
Underlying profit before tax <sup>1</sup>	£m	227.0	189.7	142.2	149.9	132.2
Profit before tax	£m	182.7	192.0	125.9	142.6	123.1
Profit attributable to owners of the Company	£m	139.6	154.4	90.0	121.9	106.3
Underlying basic EPS <sup>1</sup>	Pence	29.4	26.5	20.6	22.1	20.0
Basic EPS	Pence	24.2	26.8	15.7	21.4	18.7
Diluted EPS	Pence	23.8	26.5	15.5	21.1	18.6
Dividend per share	Pence	8.25	7.7	7.3	6.9	6.6
Underlying net cash flow from operations <sup>1</sup>	£m	320.2	270.1	220.7	199.0	177.8
Net (debt)/cash <sup>1</sup>	£m	(151.2)	(206.9)	225.1	164.1	84.7
Average number of employees		8,459	7,443	6,911	6,874	6,267
Orders excluding LTPA amendments	£m	1,740.4	1,724.1	1,226.6	1,149.4	961.7

<sup>1</sup> Underlying measures are stated before specific adjusting items. Definitions of underlying measures of performance are provided on page 200. 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.

<sup>2</sup> FY22 was restated in FY23 due to a change in accounting policy for Research and Development Expenditure Credits (RDEC).

<sup>3</sup> FY21 was restated in FY22 due to a change in accounting policy in respect of software implementation costs.

## 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 2024	12 months to 31 March 2023
£/US\$ – opening	1.24	1.31
£/US\$ – average	1.26	1.21
£/US\$ – closing	1.26	1.24
£/A\$ – opening	1.85	1.75
£/A\$ – average	1.91	1.76
£/A\$ – closing	1.94	1.85

### 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 £336m which mature on 27 September 2025 and 27 September 2026 respectively. The term loan has a one-year extension option. The Group refinanced the revolving credit facility at £290m in April 2024 with a three year maturity and 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. QinetiQ has a low risk appetite for tax planning.

– 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 Group Director 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 2024 were £36.9m (2023: £30.2m).

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 £6.2m less than the total expense charged to the income statement.

## Glossary

<b>AAG</b>	Advanced Arresting Gear
<b>ABP</b>	Annual Bonus Plan
<b>ACE</b>	Accelerated Capability Environment
<b>ADPG</b>	Aerospace and Defence Procurement Group
<b>ADS</b>	Aerospace, Defence and Security
<b>AEIS</b>	All Employee Incentive Scheme
<b>AGM</b>	Annual General Meeting
<b>AUKUS</b>	A tri-lateral security agreement between Australia, United Kingdom and the United States
<b>BATCIS</b>	Battlefield and Tactical Communications & Information Systems
<b>BBP</b>	Bonus Banking Plan
<b>C51STAR</b>	Command, Control, Computers, Communications, Cyber, Intelligence, Surveillance and Reconnaissance
<b>CAGR</b>	Compound Annual Growth Rate
<b>CBP</b>	Customs and Border Protection
<b>CCSG</b>	Climate Change Steering Group
<b>CDDC</b>	Combat Capabilities Development Command's
<b>CDP</b>	Carbon Disclosure Project
<b>CGU</b>	Cash Generating Unit
<b>CHACR</b>	Centre for Historical Analysis and Conflict Research
<b>CMI</b>	Continuous Mortality Investigation
<b>CPI</b>	Consumer Price Index
<b>CR</b>	Corporate Responsibility
<b>CRS-I</b>	Common Robotic system – Individual
<b>DE&amp;S</b>	MOD's Defence, Equipment and Support organisation
<b>DHS</b>	U.S. Department of Homeland Security
<b>DIDS</b>	Defence Industry Development Strategy
<b>DSEI</b>	Defence and Security Equipment International
<b>DSF</b>	Defence Suppliers Forum
<b>DSP</b>	Deferred Share Plan
<b>DoD</b>	US Department of Defense
<b>DRDC</b>	Defence Research and Development Canada
<b>Dstl</b>	UK Defence Science and Technology Laboratories
<b>EAP</b>	Employee Assistance Programmes
<b>EBITDA</b>	Earnings before interest, tax, depreciation and amortisation
<b>ECL</b>	Expected credit loss
<b>ED&amp;I</b>	Equality, diversity and inclusion
<b>EDP</b>	Engineering Delivery Partner
<b>EMALS</b>	Electromagnetic Aircraft Launch System
<b>EMEA</b>	Europe, Middle East and Australasia
<b>EPCC</b>	Electromechanical Actuator Power Conditioner and Controller
<b>EPS</b>	Earnings per share
<b>ERG</b>	Employee Resource Groups
<b>ESG</b>	Environmental, Social, Governance
<b>FCA</b>	Financial Conduct Authority
<b>FCAS</b>	Future Combat Air system
<b>FRC</b>	Financial Reporting Council
<b>FY</b>	Financial year (ending 31 March)
<b>GEV</b>	Global Employee Voice
<b>GHG</b>	Greenhouse gas
<b>GII</b>	Global Interoperable Infrastructure
<b>GVSC</b>	Ground Vehicle Systems Centre
<b>HPSA</b>	High Performance Share Award
<b>HVO</b>	Hydrotreated Vegetable Oil
<b>IAS</b>	International Accounting Standards
<b>IFRIC</b>	International Financial Reporting Interpretations Committee
<b>IFRS</b>	International Financial Reporting Standards
<b>IRAD</b>	Internal research and development
<b>ISBP</b>	Integrated Strategic Business Plan

<b>JATTS</b>	Joint Adversarial Training and Testing Services
<b>JOSCAR</b>	Joint Supply Chain Accreditation Register
<b>KPI</b>	Key Performance Indicator
<b>LDEW</b>	Laser Directed Energy Weapons
<b>LPA</b>	Long-term Performance Award
<b>LTI</b>	Lost time incident
<b>LTPA</b>	Long Term Partnering Agreement – 25-year contract established in 2003 to manage the UK MOD's Test and Evaluation ranges
<b>M&amp;A</b>	Mergers and acquisitions
<b>MOD</b>	UK Ministry of Defence
<b>MSCA</b>	Maritime Strategic Capability Agreement
<b>NGABS</b>	Next Generation Advanced Bomb Suits
<b>NGCV CFT</b>	Next Generation Combat Vehicle Cross Functional Team
<b>NGERS</b>	National Greenhouse and Energy Reporting Scheme
<b>O&amp;M</b>	Operations & Maintenance
<b>OMFV</b>	Optionally Manned Fighting Vehicle
<b>PBT</b>	Profit before tax
<b>PV</b>	Photovoltaic
<b>PPE</b>	Property, plant and equipment
<b>PPS</b>	Prudential Platinum Scheme
<b>QAA</b>	QinetiQ Air Affairs
<b>QLT</b>	QinetiQ Leadership Team
<b>QTEC</b>	QinetiQ Technology and Engineering Centre
<b>QTS</b>	QinetiQ Target Systems
<b>R&amp;D</b>	Research and development
<b>RCV</b>	Robotic Combat Vehicle
<b>RDEC</b>	Research and development expenditure credit
<b>RDT&amp;E</b>	Research, Development, Test & Evaluation
<b>REPMUS</b>	Robotic Experimentation Prototyping Augmented by Maritime Unmanned Systems
<b>ROCE</b>	Return on Capital Employed
<b>RPI</b>	Retail price Index
<b>RSP</b>	Restricted Share Plan
<b>SAF</b>	Sustainable Aviation Fuel
<b>SBTi</b>	Science Based Targets initiative
<b>SECR</b>	Streamlined Energy and Carbon Reporting
<b>SIP</b>	Share Incentive Plan
<b>SME</b>	Small to medium sized enterprises
<b>SONIA</b>	Single Source Regulations Office
<b>SOFR</b>	Secured Overnight Financing Rate
<b>SSA</b>	Special Security Arrangement
<b>SSRO</b>	Single Source Regulations Office
<b>SSSI</b>	Site of Special Scientific Interest
<b>STEM</b>	Science, Technology, Engineering and Maths
<b>T&amp;E</b>	Test and Evaluation
<b>T3E</b>	Test, Trials, Training & Evaluation
<b>TARS</b>	Tethered Aerostat Radar System
<b>TECSA</b>	Test and Evaluation, Certification and Systems Assurance
<b>TCFD</b>	Taskforce on Climate-related Financial Disclosures
<b>TMR</b>	Training, Mission and Rehearsal
<b>TRIR</b>	Total Recordable Incident Rate
<b>TSR</b>	Total shareholder return
<b>VCP</b>	Value Creation Plan
<b>UK Corporate Governance Code</b>	Guidelines of the Financial Reporting Council to address the principal aspects of corporate governance in the UK
<b>UK GAAP</b>	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 segments which excludes 'specific adjusting items' and research and development expenditure credits ('RDEC')	Note 3
Underlying operating margin from operating segments	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 distort the ratio calculation	N/A
Underlying net cash flow from operations	Net cash flow from operations before cash flows of specific adjusting items	Note 25
Underlying operating cash conversion or cash conversion ratio	The ratio of underlying net cash from operations to underlying EBITDA.	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 disposals of plant and equipment	Note 25
Net cash/(debt)	Net (debt)/cash as defined by the Group combines cash and cash equivalents with borrowings, deferred financing costs, derivative financial instruments and lease liabilities. Net (debt)/cash does not include liabilities relating to irrevocable share buyback obligations.	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 and goodwill; gains/ losses on disposal of property, investments and businesses; net pension finance income; transaction, integration and acquisition-related remuneration costs in respect of business acquisitions and disposals; 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:

+44 0371 384 2021\*

\* Lines are open 8.30am to 5.30pm (UK time), Monday to Friday (excluding public holidays in England and Wales).

#### By email:

You can send an email enquiry securely from Equiniti's website, at help.shareview.co.uk

### Online:

Equiniti's website at help.shareview.co.uk (Shareview) includes answers to frequently asked questions and provides key forms for download. Shareview also offers online access to your shareholding where you can manage your account, register for electronic communications, see details of balance movements and complete certain amendments online, such as changes to dividend mandate instructions. You can register at www.shareview.co.uk, click on 'Register' and follow the steps.

### Electronic communications

The Company 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 2024 Annual General Meeting online quickly and easily using the Shareview service by visiting www.shareview.co.uk

### Donating shares to charity – ShareGift

Small parcels of shares, which may be uneconomic to sell on their own, can be donated to ShareGift, the share donation charity (registered charity no. 1052686). ShareGift transfers these holdings into their name, aggregates them, and uses the proceeds to support a wide range of UK charities based on donor suggestion. If you would like further details about ShareGift, please visit www.sharegift.org, email help@sharegift.org or telephone them on 020 7930 3737.

### Share price

Details of current and historical share prices can be found on the Company's website at www.QinetiQ.com/investors

### Analysis of share register at 31 March 2024

	Total number of holdings	Percentage of holders	Total number of shares	Percentage issued capital
<b>By type of holder</b>				
Individual	5,198	89.65%	4,783,042	0.83%
Institutions and others	600	10.35%	569,612,849	99.17%
<b>Total</b>	<b>5,798</b>	<b>100%</b>	<b>574,395,891</b>	<b>100%</b>
<b>By size of holding</b>				
1–500	3,865	66.66%	724,615	0.13%
501–1,000	460	7.93%	367,294	0.06%
1,001–2,500	544	9.38%	939,618	0.16%
2,501–5,000	306	5.28%	1,091,190	0.19%
5,001–10,000	167	2.88%	1,232,944	0.21%
10,001–100,000	199	3.43%	6,952,589	1.21%
Over 100,000	257	4.44%	563,087,641	98.03%
<b>Total</b>	<b>5,798</b>	<b>100%</b>	<b>574,395,891</b>	<b>100%</b>

## Shareholder information continued

**Share fraud reporting:** [www.fca.org.uk/scams](http://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](http://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](http://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](http://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**

18 July 2024	Trading update
18 July 2024	Annual General Meeting
30 September 2024	Half-year financial period-end
November 2024	Half-year results announcement
January 2025	Trading update
31 March 2025	Financial year-end
May 2025	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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