

[Click here to see PDF p. 94, the control of the [Special Share by the British Ministry of Defence](#)]

Rights of special shareholder

The Special Share is held by HM Government through the Secretary of State for Defence (the Special Shareholder) and it may only be held by and transferred to HM Government. It confers certain rights to protect UK defence and security interests. These include:

- The promotion and reinforcement of the MOD compliance principles which require QinetiQ to be an impartial, ethical and responsible contractor by avoiding conflicts of interest in its dealings with the MOD
- The protection of defined strategic assets of the Group, such as certain testing facilities, by providing the Special Shareholder with an option to purchase those assets in certain circumstances
- The right to require certain persons with a material interest in QinetiQ to dispose of some or all of their ordinary shares on the grounds of national security or conflict of interest
- A provisions whereby at least the Non-executive Chairman or Chief Executive Officer must be a British citizen

TUESDAY



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06/08/2019

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COMPANIES HOUSE

Invest
Deliver
Grow

Who we are

QinetiQ is a leading science and engineering company operating primarily in the defence, security and critical infrastructure markets. We are an information, knowledge and technology based company with the breadth and depth of more than 6,000 people, including more than 3,000 scientists and engineers.

What we offer

We apply our strengths through three core offerings to provide solutions to customers which are increasingly relevant in today's rapidly changing security and economic environment.

Technology

We specialise in the creation of technology that is disruptive to give decisive advantage.

Services and products

Bringing together our own and others' technology and know-how to provide distinctive specialist services and products.

Unique capability generation and assurance

We are integrated across the life cycle, undertaking creative research and development, enabling test and evaluation and delivering operational readiness through training and rehearsal. We play a central role in delivering capability generation and assurance for our customers.

What we deliver

Operational and competitive advantage

These three core offerings allow us to deliver operational advantage in the military context, or competitive advantage in the commercial context.

Cover photo

Emma Jones, a Trials Conduct Graduate and colleagues conducting an air target integration flight at the MOD Hebrides air range, operated by QinetiQ. Photograph taken by: Alex Holt, Naval Architect Graduate, QinetiQ.

This page

Our new civil certified PC-21 aircraft at the Empire Test Pilots' School.

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Our inherent strengths

- Deep domain knowledge and experience
- Close customer relationships
- Core science and engineering expertise
- Ability to develop and manage broad academic and industrial partnerships

Key to our success

Is to proactively understand our customers' current and future needs and to create and enable solutions at greater pace to meet current threats, adjacent threats and emergent threats.

In simple terms

Not only can we develop cutting-edge technology and turn it into capability, we can also tell you if that capability will work when it is critically needed, and ensure you are trained and operationally ready.



Visit the website at
www.QinetiQ.com

As a reminder

Throughout this report, year references (FY19, FY18, 2019, 2018) refer to QinetiQ's financial year ending 31 March.

At a glance

We offer our customers world-class expertise through our services and innovative technology-based products

We deploy our scientific and technological knowledge, proven research capabilities and unique, purpose-built facilities to provide both services and products that meet the needs of a wide range of global customers.

We operate primarily in the defence, security and critical infrastructure markets and our customers are predominantly government organisations, including defence departments, as well as a growing number of commercial customers.

The proportion of revenue from outside the UK has increased from 21% to 30% in three years.

Revenue by division (%) FY19

Revenue by destination country (%) FY19

EMEA Services

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

£687.7m

annual revenue
(FY18: £651.4m)

5,170

total employees
(FY18: 5,239)

Air & Space

What we do

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

Approximate revenue
£180m

Maritime, Land & Weapons

What we do

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

Approximate revenue
£310m

Cyber, Information & Training

What we do

Help government and commercial customers respond to evolving threats based on our expertise in training, secure communication networks and devices, intelligence gathering and surveillance sensors, and cyber security. Our strategic investment in Inzpire is reported through this business.

Approximate revenue
£120m

International

What we do

Our International business leverages our expertise and skills developed in the UK and applies them to opportunities in attractive markets globally. QinetiQ Germany (EIS acquisition) is reported as part of our International business.

Approximate revenue
£80m

Financial highlights

We delivered our third year of organic growth, turning around five years of decline. In FY19 we delivered an organic increase in operating profit.

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Chief Financial Officer's review

Orders

£776.4m
(FY18: £587.2m)

Statutory Operating Profit

£113.8m
(FY18: £141.0m)

Statutory Earnings per Share

20.1p
(FY18: 24.4p)

Revenue

£911.1m
(FY18: £833.0m)

Underlying Operating Profit

£123.9m
(FY18: £122.5m)

Underlying Earnings per Share


19.7p
(FY18: 19.3p)

Global Products

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

£223.4m
annual revenue
(FY18: £181.6m)

891
total employees
(FY18: 826)

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Operating review

QinetiQ North America

What we do
Develop and manufacture innovative defence products specialising in unmanned systems, survivability and maritime systems, along with products in related commercial markets.

Approximate revenue
£90m

Space Products

What we do
Provide small satellites, payload instruments, sub-systems and ground station services.

Approximate revenue
£20m

OptaSense

What we do
Provide innovative fibre sensing solutions to deliver decision-ready data in multiple vertical markets.

Approximate revenue
£30m

EMEA Products

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

Approximate revenue
£90m

Investment case

Creating enduring value for our customers and shareholders

Unique capabilities critical to national sovereignty

- Key partner to UK defence
- Leading expertise and facilities
- At the centre of creating, testing and training defence capability

Over

3,000

scientists and engineers globally

34

sites across the UK

16

sites under the Long Term Partnering Agreement

Increasing exposure to attractive international markets

- Significant presence in high-growth home countries – the US and Australia, as well as the UK
- Growing presence in the Middle East, Europe and Canada
- Ambition to increase international revenue to 50% of Group
- Addressable market of >£8bn

Group revenue (£m)

30%

international revenue
(FY18: 27%)

4

acquisitions since the launch of new strategy

41%

revenue increase for QinetiQ Target Systems in FY19

A clear growth strategy

- Lead and modernise UK test and evaluation
- Build an international company
- Innovating for our customers' advantage

£3.1bn^{*}

total order backlog
(FY18: £2.0bn)

£370m

investment into the Long Term Partnering Agreement

3

years of revenue growth

^{*} Includes LTPA amendment signed post year end on 5 April 2019.

Strong financial profile

- Long-term contracts
- Cash generative model
- Strong balance sheet
- Ability to self-fund organic and inorganic investment
- Clear capital allocation policy

74%

revenue cover
(FY18: 69%)

102%

cash conversion
(FY18: 103%)

£188.5m

of net cash
(FY18: £266.8m)

Increasing returns to our shareholders

- Three years of revenue growth following five years of decline
- Sustainable increase in key financial metrics
- Progressive dividend policy

9%

revenue growth
(FY18: 6%)


2%

underlying EPS growth
(FY18: 7%)

5%

increase in full year dividend
(FY18: 5%)

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Chairman's statement

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Chief Financial Officer's review

 **Page 24**
Strategic progress

Business model

A sustainable business model enhanced by our strategy

A sustainable business model

People and domain know-how

> 3,000

scientists, engineers and technicians

> 95%

of our UK employees have national security clearance

Technical expertise

> 1,200

granted patents

Distinctive facilities

1.1m km²

The unique air range in the Hebrides operated by QinetiQ can provide safe air and sea space twice the size of Spain for test, evaluation and training

Our unique position in the market

We combine the dedication and creativity of our people, our unique science and engineering expertise, and our distinctive modernised facilities to equip customers with solutions to their most pressing challenges, and the assurance that they will work when critically needed.

We are predominantly a services business, valued for our independence.

Sustaining our business model

As a company whose reputation and achievements are centred on our people, our future success is primarily dependent on our ability to recruit, develop, engage and retain exceptional employees. We are investing in our people to support their career development, wellbeing and engagement.

Our business model is robust and sustainable because our knowledge base is constantly refreshed as we learn from experience, understand emerging customer requirements and invest in our future.

This enables us to both sustain existing capabilities and create new ones to ensure we respond to customer requirements and stay ahead of the competition.

We are investing in our facilities to ensure they remain relevant to support our customers against current and future threats, ensuring longevity and sustainability in our business model.

How we generate revenue

Our customers are predominantly in defence, security, and critical infrastructure in our home countries of the UK, US and Australia, with a growing international and commercial presence.

We operate two divisions:

- **EMEA Services** generates revenue through the provision of advice and services, particularly test and evaluation. The division is underpinned by long-term contracts providing good visibility of revenue and cash flows.
- **Global Products** delivers products and solutions supported by research and development which is often funded by customers. The division is technology-based and has shorter order cycles so can have a more variable revenue profile.

How we deliver benefits to key stakeholders

Customers

- Deliver mission-critical solutions
- Responsive and agile with the ability to innovate at pace
- Ensure value for money

Shareholders

Inherent strong cash generation allows us to invest in our organic capabilities to deliver:

- Sustainable growth in revenue, operating profit and high quality earnings
- A progressive dividend

Employees

- Rewarding careers in highly skilled areas
- Utilise expertise across QinetiQ

Within our two divisions, our business units are aligned to customer domains and all deliver a combination of services and products.

A clear strategy for growth



UK

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



International

Build an international company that delivers additional value to our customers by developing our home countries (UK, US and Australia), creating new home countries (i.e. where we have our own indigenous industrial capabilities) and exporting



Innovation

Invest in and apply our inherent strengths for customer advantage in defence, security and critical infrastructure markets

How we create value

We deliver and assure more advanced capabilities at lower cost, operating across the domains of air, land, maritime, cyber, and space. We accelerate our customers' ability to transition from concept to capability, and provide ongoing assurance throughout the lifecycle of complex platforms, weapons and capabilities.

Our work helps our customers to achieve operational and competitive advantage, and by working closely with them to address their existing needs, we are able to understand future requirements for the next generation of capability.

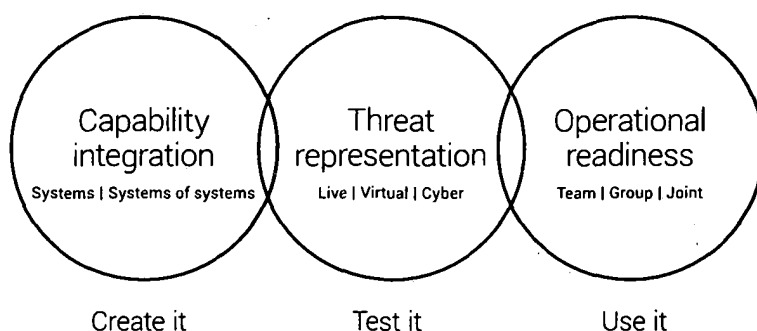
OUR UNIQUE INTEGRATED VALUE PROPOSITION:

Capability Generation & Assurance

We offer three services to assist our customers to generate and assure a capability:

1. Research & Experimentation
2. Test & Evaluation
3. Training & Rehearsal

We deliver to our clients:



Delivering operational advantage to defence, security and critical infrastructure customers and creating value for our stakeholders

OUR DISTINCTIVE OFFERINGS:

Services & Products

We offer a range of products to our customers and act as an independent 'customer friend' assisting clients with a range of engineering and advisory services.

e.g. advice, intelligence, information systems, protection, unmanned systems, space systems

OUR DISRUPTIVE EDGE:

Technology

We employ our distinctive technology to support our integrated offer, and it can also be purchased by our customers as a standalone offering.

e.g. advanced materials, sensing, communications, cyber, analytics, autonomy, directed energy

OUR INHERENT STRENGTHS

Academic & industrial partnerships

Domain knowledge & experience

Science & engineering expertise

Understanding future needs

Our business model in action

**Integrated capability
generation & assurance**

Formidable Shield, testing integrated defence capabilities

UK

Most complex exercise of its type
ever conducted in the UK

8

NATO countries

3,300

Personnel

12

Warships

The Formidable Shield series of military exercises, first delivered in 2017 and now taking place every two years, demonstrate our integrated value proposition. They are also an example of our strategy in action, enabled by investment in the UK and now attracting international customers to our world-leading UK facilities.

Formidable Shield '17 brought together eight NATO countries led by the US in the Outer Hebrides to test integrated air and missile defence capabilities through a series of live missile firings and demonstrations. The exercise culminated with the launch and intercept of a Terrier Oriole ballistic missile target to simulate a medium-range ballistic missile, marking the largest and highest object launched into space from UK soil, reaching an altitude of 320km. To enable this firing to be conducted safely, QinetiQ put in place an air exclusion zone of 1.1m sq km, approximately twice the size of Spain. The exercise was enabled by our investment to modernise the range, enhancing our data collection and interpretation abilities and air traffic control systems. The investment means the range is capable of facilitating large-scale exercises and rehearsals, and has secured this major event on a bi-annual basis until the end of the next decade.

▶ To watch the video, visit www.QinetiQ.com/FS17

A live firing taking place during Formidable Shield '17.

1.1m km² exclusion zone

An area twice the size of Spain



UK

With the advancement in defence capabilities and the sophistication of the threats our customers face, our modernisation ensures we continue to provide relevant test, training and rehearsal. Our investment into the Long Term Partnering Agreement (LTPA) will ensure we can support future UK programmes such as the Dreadnought submarine.



International

Our investment into air ranges is making them more attractive to international customers. We are capable of testing the most advanced defence systems, and our expertise and facilities are of increasing relevance to a wider range of nations. Recent large scale exercises, such as Formidable Shield, act as showcases to other international customers of our capabilities.



Innovation

Under the modernisation of the LTPA we are investing in new technologies and ways of working to deliver test and evaluation, and training and rehearsal in more cost effective and innovative ways. This involves combining live, virtual and constructive environments as well as facilitating improved data generation and analysis.

Our business model in action

Capability integration

- Large scale rehearsals, such as Formidable Shield, require the integration of multiple systems
- This tests the interoperability of multiple nations' systems to assure they work
- Our teams' understanding of these systems is critical in providing this assurance

Threat representation

- New threats, such as hypersonic weapons and the proliferation of ballistic missiles, require new ways of assuring capability
- Our facilities and expertise provide the ability to emulate these threats and the right environment to test responsiveness

Operational readiness

- Large scale capabilities, such as aircraft carrier task groups, require more integrated and complex ways to assure their operational readiness
- Our unique ability to leverage our multiple sites and facilities to effectively test these types of platforms and train their crews means our customers can be sure they work when critically needed

Our business model in action
Working across the capability lifecycle

Generating and assuring the capability of UK combat aircraft

1st

UK live firing of
F-35 weapons systems

>1,500

Supported over 1,500 hours
of Typhoon Operational
Evaluation flying activity

1 of 4

ETPS, our test aircrew training
school at MOD Boscombe Down is
one of only four globally recognised
military test pilot schools

At any moment in time, QinetiQ is working
on multiple generations of critical
defence platforms

QinetiQ's work is vital at every stage of the lifecycle of defence and security technologies. From first concept and design, to production and in-service operation, our value comes from creating and assuring customers' critical capabilities by combining research and development, test and evaluation, and training and rehearsal.

So not only do we develop new approaches and create new technologies, we combine them into complex defence and security capabilities, test them to prove they will work, and make sure the people who will use them are ready to do so.

An example of how this adds value is the essential role we play to continuously ensure the effectiveness of the UK's combat air fleet.

© To watch the video, visit www.QinetiQ.com/combataircraft

Feedback from customers allows us to understand their future needs

PREVIOUS GENERATION

Tornado

Over its life QinetiQ has worked to maintain and enhance Tornado's capabilities, making sure it could evolve to respond to the latest threats. We worked to extend the life of the Tornado prior to its retirement, maximising value for our customer.

CURRENT GENERATION

Typhoon

With Tornado retiring, we supported the RAF to transfer and enhance weapons capabilities across to Typhoon. By combining our understanding of these systems with our unique facilities we conducted a series of tests that provided our customer with assurance that these critical capabilities would work.

NEXT GENERATION

F-35

Our people understand the complexity of the F-35 and are making sure it can integrate effectively with the UK's other systems. As part of this, we have provided the environment to test the F-35's weapons systems. This culminated in the first live-firing of the F-35's weapons on UK soil at Aberporth, an MOD facility operated by QinetiQ.

GENERATION AFTER NEXT

Tempest

The Future Combat Air System, a stealth fighter that will replace current aircraft in 15-20 years, is in development and we are playing an essential role. Our knowledge and expertise supports our customer to understand and define the requirements for this cutting edge future aircraft so it is fit for purpose.



UK

Our investment into the LTPA is supporting our ability to provide critical research and experimentation, test and evaluation and training and rehearsal to our customers. The investment ensures that our capabilities remain relevant for current and future generations of technologies.



International

The credibility and experience we have developed in the UK through this work directly supports our ability to grow internationally.

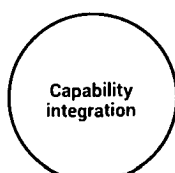


Innovation

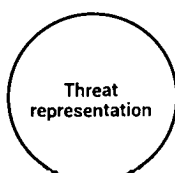
The investment into the LTPA will accelerate our ways of working and ensure we are at the leading edge of technology. This will create more valuable data for our customers, and provide the vital analysis needed to make critical decisions.

Our business model in action

Across the generation of these capabilities, we are helping to maintain, upgrade or bring new capabilities into service



- Our people's technical expertise is essential to integrate various systems to create real capabilities for our customers
- Our independence from the supply chain positions us as a trusted partner to our customers and other defence companies



- The threats these aircraft must be effective against continually change
- We put aircraft through their paces by effectively representing the latest and most advanced threats



- Our knowledge of the systems and the threat environment means we can create realistic training
- Our range of facilities enables realistic training and rehearsal to provide assurance to our customers that these capabilities are fit to fight

Applying our business model in new markets

>£8bn
addressable market

30%
of revenue now from international customers

50%
ambition to grow international revenue to 50%

Leveraging our Group-wide capabilities, customer focus and acquisitions to strengthen our presence in Canada

Canada is an example of where we are working with our customers to enhance their defence and security capabilities. Canada is an attractive market with increasing defence spending. The doubling of capital projects to C\$8bn by 2021, and the need to modernise air, land and sea ranges for fifth generation platforms are key priorities. QinetiQ's state-of-the-art target systems facility in Medicine Hat, Alberta and consulting presence in Ottawa, provide Canadian capabilities that allow us to offer our complete value chain of products to support the Canadian Department of National Defence. In FY19 we won a C\$51m contract to provide unmanned aerial systems that will provide enhanced situational awareness for the Royal Canadian Navy and Canadian Special Operations Forces. We secured this work by drawing on the full breadth of expertise and capability across the QinetiQ Group.

As we build our presence and strengthen our relationships in Canada we will be able to move up our value chain from discrete products and services to integrated capability generation and assurance.

▶ To watch the video, visit www.QinetiQ.com/internationalgrowth

As we build our presence in Canada we are able to move up our value chain

1. PRODUCTS

Seed presence overseas through export sales
By exporting our products and services, we build relationships, brand awareness, and our reputation as a technology innovator in new markets.

2. ADVISORY SERVICES

Build relationship as an advisor, leveraging unique UK experience
Once our capabilities are better understood, and customers understand how we can support them, we typically build a reputation as an independent engineering advisory services provider, or 'customer friend'.

3. TEST, EVALUATION & REHEARSAL

Use customer insight to offer further services
Our advisory services activities allow us to become intimate with our customers' concerns, challenges and future requirements. This allows us to offer further value added services, typically leveraging our Group-wide R&D and T&E capabilities.

4. INTEGRATED CAPABILITY GENERATION & ASSURANCE

Provide a fully integrated offer
Co-investing with our customer to create enhanced in-country capabilities positions QinetiQ as a long-term, fully integrated capability generation and assurance partner.



UK

Our work in the UK has created a strong reference point for our Canadian customer. Being able to leverage this experience into countries such as Canada is an intrinsic part of our UK investment strategy.



International

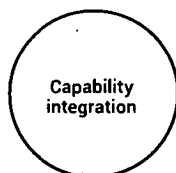
We have accelerated our progress in Canada through the 2016 acquisition of QinetiQ Target Systems, which brought customer relationships and an indigenous, state-of-the-art product design, prototype, testing and manufacturing facility into QinetiQ.



Innovation

Our understanding of autonomous systems and how to integrate sub-systems and sensors onto them was a key component of our offer. Our independence allowed us to partner with leading technology companies to meet our customers' requirements.

Our business model in action



- Our ability to integrate various systems and platforms was a key reason for the award of our largest contract to date in Canada
- Our advisory services business understands the complexity of defence systems and provides advice for making long-term procurement decisions



- QinetiQ Target Systems has an advanced product manufacturing facility in Medicine Hat, Alberta
- QTS is able to cost-effectively represent key threats to test and evaluate systems and provide realistic training



- Understanding the systems our customer uses, and an ability to cost-effectively emulate the threats they must respond to, are key aspects of creating operational readiness

Chairman's statement

A year of significant milestones

5%

increase in full year dividend
(FY18: 5%)

Full year dividend (p)

4.5p

Final dividend to be paid on
30 August 2019 (2018: 4.2p)

Progressive dividend policy

Since 2011, we have consistently grown our dividend in line with our progressive dividend policy.

Annual General Meeting 2019

11am on 24 July 2019, at the offices of Ashurst LLP, Fruit and Wool Exchange, 1 Duval Square, London E1 6PW.



We have seen encouraging signs of the necessary cultural changes required to deliver sustainable growth."

Mark Elliott

Non-executive Chairman

Significant financial and strategic progress

This year marked a number of significant milestones, most notably agreeing a ground-breaking amendment to reinvigorate the Long Term Partnering Agreement (LTPA). This secures £1.3bn of revenue, increasing our order backlog to over £3.1bn*, and also supports our further growth aspirations. Leading and modernising UK test and evaluation is a key component of our strategy and one that also opens up international opportunities. Internationally, we have made significant progress with major contract wins in the US for our robotics technology and in Canada building on our experience in unmanned systems. Overall, we have delivered a third year of organic revenue growth and an organic increase in operating profit.

We've continued to deploy our capital to support our growth. As a Board, we have been focused on ensuring we do so wisely, evaluating opportunities to make sure they deliver the right returns to our shareholders. During FY19, we invested nearly £100m into our Company, much in modernising our core contracts such as the LTPA. We also successfully completed two acquisitions that enhance our capabilities in training, both in the UK and internationally.

Delivering cultural change to sustain our strategy

Looking beyond the financial performance, as a Board we have seen encouraging signs of the necessary cultural and behavioural changes required to deliver sustainable growth. Across our organisation, initiatives are underway to embed real and positive change. We have defined Company behaviours as "listen, focus and keep our promises", attributes we think are critical to our success. Talented people are our greatest asset. To ensure we attract and retain the best talent we have a clear commitment to diversity. As an example, we have launched a new LGBTQ+ (Lesbian, Gay, Bisexual, Transgender, Questioning) employee network as part of our commitment to creating an inclusive workforce.

We've taken steps to ensure that all our employees share in the success of our performance. The introduction of our All Employee Incentive Scheme, which I am pleased to say paid out at the end of the period, helps to align interests and supports our ambition of having a high performance culture within QinetiQ.

My fellow Board members and I have been fortunate to spend time with many of our employees over the past year. We've enjoyed a number of site visits including to our facilities in Farnborough and Malvern. I am struck by both our people's abilities and their appetite for positive change. We still have a lot to do, and our employee engagement figures are not where we would like them to be. We recognise that our people are intrinsic to our long-term success and, working closely with our Employee Engagement Group (EEG), we are listening carefully to our employees to improve how it feels to work at QinetiQ.

* Includes LTPA amendment signed post year end on 5 April 2019.



QinetiQ has all of the attributes to delight its customers, provide fulfilling jobs for our people and to deliver long-term profitable growth for our owners."

As a Board, we continue to invest time in ensuring we understand the evolving nature of the markets in which we operate so we are better able to provide the right constructive challenge to our management team. During the course of the year, we have undertaken a number of 'deep dives' into different aspects of the Company and its strategy. Each October, we spend two days working with the executive team on the integrated strategic business plan. This allows us to constantly evaluate our progress and refine aspects of the strategy. We have also engaged with other stakeholders, including customers, providing us with the holistic view needed to make better decisions. Overall, this supports our understanding of the strategic risks we face and how better to mitigate and manage them, a key part of ensuring good governance.

Board succession

As announced on 21 March 2019, I will be retiring from QinetiQ at our AGM in July. I can't help but reflect on the past ten years as I prepare to step down. We began with an intense focus on repairing our balance sheet and the cultural transformation from civil service to a competitive commercial organisation. With a strong balance sheet we recruited Steve Wadey to lead our Company in investing for long-term profitable growth. With an ambitious but clear strategy to invest in our core markets and capabilities as well as the development of our international business we are beginning to see that growth. It is encouraging to see the increasing contribution that international revenue is making and to have delivered a third consecutive year of growth.

It has been a real honour and privilege to work with many wonderful people in QinetiQ and to have worked with a talented and dedicated Board of Directors. As we announced, we have recruited Neil Johnson who joined the Board in April with the intention that he replaces me at the AGM. Bringing a fresh perspective, and with significant experience of leading businesses in both executive and non-executive roles, as a Board we are confident he will make a huge contribution to the next stage of QinetiQ's growth.

With our expert people, unique capabilities, a strong management team, coupled with financial strength, and the support of our shareholders, QinetiQ has all of the attributes to delight its customers, provide fulfilling jobs for our people and to deliver long-term profitable growth for our owners.

Mark Elliott
Non-executive Chairman
23 May 2019

A clear and disciplined approach to capital allocation

1

Investing for growth
Organic investment complemented by bolt-on acquisitions where there is a strong strategic fit

2

Balance sheet
Maintaining the necessary level of balance sheet strength

3

Dividend
Maintaining our progressive dividend in line with policy

4

Shareholder distributions
Returning excess cash to shareholders

Chief Executive Officer's review

Our strategy is delivering – third year of growth



11

This year marked a number of significant strategic achievements that will underpin the continued, profitable growth of QinetiQ."

Steve Wadey
Chief Executive Officer

We are pleased to report another year of organic revenue growth and record order backlog. Three years since launching our vision-based strategy we have reversed five years of revenue decline and delivered three years of growth. In addition, we drove performance across the Group to successfully offset a ~£5-6m profit headwind from UK single source regulations in FY19 and delivered organic growth in operating profit. For FY20, we are maintaining expectations for Group performance, excluding non-recurring trading items, with revenue growth at stable margins resulting in continued operating profit progression.

This year marked a number of significant strategic achievements that will underpin sustainable profitable growth of QinetiQ in the years ahead.

Shortly after the period end we agreed a significant amendment to the Long Term Partnering Agreement (LTPA) for test, evaluation and training services, our largest single contract and the foundation for many of the capabilities we offer. This secures our market leading position in this critical UK capability, facilitates investment to enhance this capability at appropriate returns for our shareholders, and provides a platform for UK and international growth.

During the year we won five long-term, competitive programmes that mark a step change in our ability to understand our customer requirements, draw on resources across the whole of QinetiQ and identify key industry partners. In every case, these wins provide us with opportunities to enhance our expertise and the value we can derive from these capabilities in the future.

In the UK, we were selected with our partners to become the Engineering Delivery Partner (EDP) to the UK Ministry of Defence (MOD) procurement agency Defence Equipment & Support (DE&S), establishing the default contracting route for all engineering services. We also won the Battlefield Tactical Communication and Information Systems (BATCIS) contract, our largest competitive UK win, awarded by an area of the UK MOD we had not worked with regularly before. Winning these types of contract moves us up the value chain and deepens our relationship with key customers creating further opportunities.

We are applying the same approach in markets outside of the UK to deliver our ambition of 50% of revenues from international customers.



It has been an excellent year for QinetiQ, with strong operational performance and further evidence of our strategy delivering results."

In the US, we won two robotic programs of record: the Common Robotic System-Individual (CRS-I) program for small robots worth up to \$164m over seven years, and a \$12m order as part of the Route Clearance and Interrogation System (RCIS) program for route clearance vehicles which is worth up to \$44m. This positions us well for future growth in an attractive and dynamic market. Our focus on strategic business winning will deliver greater stability in the performance of our Global Products division, through expansion of the product portfolio and larger, longer-term programmes.

In Canada, we were awarded a C\$51m contract to provide Unmanned Aerial System (UAS) services to the Royal Canadian Navy and Canadian Special Operations Forces Command. We won this competition, our largest ever export order, by combining the strong relationship with the Canadian customer, expertise in unmanned systems and manufacturing facilities acquired through QinetiQ Target Systems, with broader defence capabilities from across the QinetiQ Group.

We completed one further acquisition and one strategic investment during the year that complement our capabilities and allow us to access attractive adjacent markets in UK and international training. With a strong balance sheet, we have the ability to continue to acquire attractive businesses that complement our strategy, enhance our capabilities and increase our international reach.

QinetiQ is a company built on the expertise of its people who are critical to our success. Our focus is on creating the right culture and ensuring everyone feels engaged in our strategy and driving growth. This year we launched a new All Employee Incentive Scheme, the first time QinetiQ has provided a Company-wide bonus. The scheme aligns our employees and shareholders by incentivising and rewarding growth and I am delighted that in its first year of introduction it will pay out £1,000 to every employee in the Company.

It has been an excellent year for QinetiQ, with strong operational performance and further evidence of our strategy delivering results. I would like to take this opportunity to thank the hard work of all our people who have been instrumental in delivering such significant change, and who will be critical to sustaining our strategy and delivering continued profitable growth in the years ahead.

Outlook – FY20

We enter FY20 with confidence having delivered a third successive year of organic revenue growth and an organic increase to operating profit.

- As we build on our record order backlog and benefit from the full year contribution from our recent acquisition of E.I.S. Aircraft Operations and strategic investment into Inzpire, we anticipate delivering mid-single-digit revenue growth including further organic revenue progression
- In EMEA Services, we expect divisional margins in FY20 to be consistent with FY19
- In Global Products, we also expect more stability in divisional margins due to the expansion of our product portfolio combined with our success in winning longer-term programmes
- We will continue to invest to drive future growth, including capex of £80-100m, the majority of which will be invested into the LTPA at an appropriate return. We expect working capital outflows of £20-30m and continued strong cash conversion pre-capex

Overall we are maintaining expectations for Group performance in FY20, excluding non-recurring trading items, with revenue growth at stable margins resulting in continued operating profit progression.

Outlook – longer term

We will continue to grow by implementing our strategy and investing in our people, technology, systems and infrastructure. By doing so, our objective is to deliver continued organic revenue growth, further supported by acquisitions, resulting in sustainable profitable growth at stable margins.

Steve Wadey
Chief Executive Officer
23 May 2019

Q&A

Answers to some of our investors' most frequently asked questions


Q Where are the growth opportunities within QinetiQ?

There are three main areas of growth opportunities for us. By leading and modernising UK test and evaluation we can grow our market share, win more work in adjacent sectors such as training, and attract a broader array of international customers. Internationally, we see strong growth opportunities for our services and products in attractive markets such as Australia, North America and the Middle East. We are well placed to help countries either develop their own indigenous defence capabilities, or modernise the capability that they have. Our focus on innovation and the products we have within our overall portfolio also offer the potential for growth.

 **Page 24**
Strategic progress


Q How is QinetiQ reacting to cost pressures at the UK MOD?

A large proportion of QinetiQ's revenue is generated under long-term contracts, such as the LTPA, which gives us good visibility. Much of the work we do is critical to maintaining the UK's defence capability. We are positioning ourselves as a long-term strategic partner to the Ministry of Defence (MOD), committed to helping them realise efficiencies. By constantly evaluating what we do, we can support the MOD in achieving value for money. We believe this active and forward thinking approach will create further opportunities to work with the MOD in the future. For example in October we were selected as the Engineering Delivery Partner to the MOD's procurement agency, DE&S. This is the contract through which DE&S will procure all its engineering services.

 **Page 22**
Trading environment


Q How do changes in the SSRO rate impact QinetiQ?

The Single Source Regulations Office (SSRO) aims to derive fair pricing for contracts, where there is only a single supplier. This is intended to ensure that the UK Government receives value for money, whilst the supplier receives a fair return. Given the specialised and critical nature of the work we do, much of our work falls under SSRO regulations. In line with our strategy, we have been mitigating our exposure to changes in the SSRO rate by pursuing longer-term contracts. This gives us long-term visibility of our contracted returns and enables us to better plan our investment, ensuring our facilities remain world class. With the steps we have taken, coupled with the increase in the Baseline Profit Rate (BPR), we expect the headwind to operating profit experienced in FY19 to abate in FY20 and beyond.

 **Page 44**
Operating review

Q How do you effectively manage the risks in your contracts?

We have been managing risk and delivering output based contracts successfully for many years, and have also moved a number of our 'cost plus' contracts to deliver outputs in support of our growth strategy. We believe this gives us greater flexibility to meet our customers' needs. It creates the opportunity for us to deliver higher returns, but can increase the risk that we take on. Over the last three years we have made significant investment in our Company, in particular up-skilling our managers and hiring industry-leading individuals. They bring with them significant commercial experience, particularly at delivering large, output based defence contracts. We spend extensive time understanding the risks associated with contracts so we can be confident in our ability to mitigate them. The recent amendment to the LTPA is such an example, where we spent 18 months working with our customer to fully understand requirements, the associated risks to delivery and how we effectively mitigate them. We then monitor our progress on an on-going basis, making adjustments as necessary.

 **Page 32**
Principal risks

Q What is the culture like at QinetiQ?

We recognise that the right culture is critical to delivering our strategy. We are fortunate that our employees have world-leading technical expertise. We are building on this foundation to create a performance culture that has safety at its core and where we all listen, focus and keep our promises, three behaviours that we think are critical to our future success. During the year we have undertaken several initiatives to drive higher employee engagement and further develop a positive culture that builds on our strong technical heritage.

 **Page 38**
Our people

Jennie Corne, a NATS Air Traffic Control Officer in 'Target Controller' position during an 'Air to Air' trial simulation at MOD Aberporth, UK.

Market themes

Three key themes in our markets

Across the markets and sectors we operate in there are three key themes. They are inherently long term in their nature and impact our customers in different ways. Our strategy was developed with these themes in mind.

Key themes



Increasing complexity

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



Partnering for innovation

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



Value for money

- Customers have finite resources, but increasing requirements
- In some regions, defence budgets are growing
- UK defence budgets under pressure
- Customers are looking to the private sector to drive efficiencies



Increasing complexity

The threats our customers must be confident in defeating are constantly evolving. With the advancements in technologies, the pace at which these threats evolve is accelerating. From low-cost consumer drones adapted to cause harm, to hypersonic missiles, the threat environment is growing more complex. In parallel to physical threats, cyber-based ones continue to increase in sophistication and can be deployed in conjunction with more conventional threat forms.

To defeat these threats, the capabilities our customers use are growing in complexity and frequently combine a multitude of systems.

Against this backdrop, the geopolitical environment is also becoming more uncertain. In addition to the proliferation of technology giving state and non-state actors capabilities that can undermine the technological superiority of western governments, the competition for resources, trade and investment is also raising tensions around the globe.

How we are responding

Our strategy and commitment to lead and modernise UK Defence Test & Evaluation (T&E) allows us to support our customers in their preparations against a range of increasingly complex threats. This is complemented by the investment we are making, such as into the Long Term Partnering Agreement, ensuring we have the right capabilities to generate and assure future systems. Our ability to emulate threats and test and evaluate the resilience of systems and capabilities provides assurance to our customers that they can effectively respond.

Our expertise in cyber security, and our understanding of how to evaluate and deploy innovative technologies, helps our customers to contend with imminent threats and prepare for the future.



Our strategy and commitment to lead and modernise UK Defence Test & Evaluation allows us to support our customers in their preparations against a range of increasingly complex threats."



A key market theme is the need for effective partnership to rapidly convert emerging technologies into assured deployable capability."



Partnering for innovation

The leading edge of technological advancement is often found in academia and commercial sectors. Our customers are keen to leverage this technology for defence and the protection of critical national infrastructure. Robotics, autonomy, sensing technology and advances in data processing, including machine learning, are all of significant value to our customers. A key market theme is the need for effective partnership to rapidly convert emerging technologies into assured deployable capability.

Partnerships with universities, small and medium size enterprises, and other defence companies are critical in doing this.

How we are responding

QinetiQ is a company that was founded upon innovation; research and development, and test and evaluation form the core of our business. The breadth and depth of our people's technology and domain expertise, and our investment in their continued development, enables QinetiQ to deliver valuable advice, innovative solutions and services. Furthermore, as a predominantly service-based business, we are not encumbered by large product portfolios, supply chains or conflicts of interests. QinetiQ is ideally placed to act as an innovation integrator, acting as a convening facilitator between government, academia and wider industry to rapidly develop and deploy innovative solutions. Our strategy is to further develop our own Research and Development (R&D) capabilities as well as creating valuable partnerships to deliver innovation effectively to our customers.



Value for money

Many developed nations are wrestling with multiple calls on their resources. Ageing populations, increasing social care costs and moderate economic growth put pressure on overall budgets. Against this backdrop, our customers must continue to meet commitments to defence spending and ensure they can protect their sovereign interests. In more developing markets, defence expenditure is increasing but the requirement to deliver value for money is common in both. Our customers are looking to the private sector to help them maintain or advance their capabilities while also delivering cost efficiencies.

How we are responding

We are taking a forward-leaning approach to understanding our customers' challenges and thinking innovatively to solve them. We believe our proactive approach can create opportunities for us to help enhance defence capabilities and deliver cost efficiencies. This approach can also support long-term sustainable growth in our business. Our focus on modernising the LTPA and creating innovative delivery models such as Engineering Delivery Partner, are recent examples of us putting this approach into action.

Trading environment

Significant growth potential

Our addressable market

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

>£8bn

per annum
addressable market

Services and products

(Defence, security and critical infrastructure)

Size £££bn pa
Growth +2-5% CAGR¹
Share <1% (£325m)

UK training

Size £1bn pa
Growth +1% CAGR
Share ~5% (£60m)

International training

Size ££bn pa
Growth +1-3% CAGR
Share <1% (£30m)

UK RDT&E²

Size £1.5bn pa
Growth +1% CAGR
Share ~30% (£455m)³

International RDT&E²

Size £6bn pa⁴
Growth +4% CAGR
Share <1% (£40m)

¹ CAGR = Compound Annual Growth Rate.

² RDT&E = Research & Development and Test & Evaluation.

³ ~£320m pa via Long Term Partnering Agreement (LTPA) with UK MOD.

⁴ Australia, Canada, New Zealand, France, Germany, Sweden, Saudi Arabia, UAE, Qatar, Turkey included. USA (\$79bn pa) excluded.

Source: Jane's Market Forecast, FY19 market sizing (USD/GBP exchange rate of 0.77), UK MOD. QinetiQ market share based on FY19 revenue.

Key

● Current market share ● Future market potential

The UK, US and Australia are our home countries where we have our own indigenous industrial capabilities.

UK

The UK's total defence spending of £42bn in 2019 makes it the largest among European nations. The Modernising Defence Programme (MDP) reported in December 2018 and recognised the need for driving innovation and generating new technologies. It placed an emphasis on the value of cutting edge technology in areas such as artificial intelligence, cyberspace and space; all areas in which QinetiQ holds significant expertise.

The MOD is focused on driving efficiencies to generate savings while also maintaining and enhancing its capability. As a result, QinetiQ remains a proactive strategic partner to the MOD, providing capability generation and assurance. The UK is expected to spend approximately £1.5bn on research & development and test & evaluation in 2019 and therefore remains a key market for QinetiQ where we can continue to support the MOD. The signing of the LTPA amendment will help to deliver efficiencies while also enhancing this critical capability.

While the UK's exit from the European Union could create short-term fiscal pressure for the Government, it is likely that the current geopolitical environment and the UK's commitment to NATO will offer support to overall defence spending.

By focusing on our core offerings and target markets, we have an addressable market of over £8bn per annum."



Growth in QinetiQ comes from increasing our share in existing markets and leveraging our strengths into attractive adjacent ones."

US

With a military budget of US\$725bn in 2019, the US defence budget continues to dwarf that of other nations and is more than the next ten largest military budgets combined. In addition, continued trade tension between the US and China, a more assertive Russia and a deteriorating environment in the Middle East, supported by a strong US economy, could drive further growth in US defence spending.

The 2019 budget was the first prepared since the publication of the National Defence Strategy (NDS) which cited the need for investment and modernisation of US defence capability. The NDS also highlighted the need to shift the focus from the global war on terror to state-on-state conflict and recognised the value of collaboration with the private sector.

QinetiQ remains at the forefront in supporting the US Department of Defense (DoD) in modernising its defence capability, evidenced by the award of two "programs of record" for robotics. Our expertise in robotics and autonomous systems is well aligned with the DoD's ambition to make greater use of this technology.

Australia

Modernising and enhancing defence capability remains a key priority for the Australian military. As a result, defence spending, which is expected to be US\$31.6bn in 2019, is forecast to grow at ~5% per annum to 2024. The core focus for Australian forces continues to be the Navy as the trend of the 'pivot to the Pacific' continues following tension in the South China Sea.

The 2018 Defence Industrial Capability Plan outlines ten areas of focus key to enhancing Australian sovereign industrial capability. These include advancing signal processing capability in electronic warfare, cyber and information security and conducting test, evaluation, certification and systems assurance. Australian research, development, test and evaluation spending is expected to exceed US\$1bn in 2019. We work closely with the Australian military providing test and evaluation and we see opportunities to continue developing our offering and expertise.

Broader international markets

Supported by our strategy, our aim is to grow international revenue to 50% of Group revenue. To achieve this we will need to grow revenue not just in our home countries, but also in broader international markets. We aim to leverage the skills and expertise developed in our home countries to support allies in high growth markets in developing their own indigenous capability.

In the Middle East, widespread unrest, including conflicts in Iraq, Syria and Yemen, as well as growing concern over a resurgent Iran, has driven defence spending higher. The nations driving this spending have predominantly focused procurement on new equipment and, as their sophistication grows, are more aware of the benefits of integrating and assuring this equipment to create military capabilities. Being independent from the supply chain, and leveraging our experience in the UK, we are well placed to help these countries assure their defence capabilities.

We continue to see good opportunities in Canada to support the modernisation of their domestic capability. Canadian defence spending is expected to be US\$16.4bn in 2019, with the drive to modernise their capability likely to result in continued growth in expenditure over the medium term.

Europe accounts for roughly 20% of global defence spending with many European forces currently in the process of renewing their ageing capability. The work we have done in the UK through the modernisation of the LTPA is an example of the value we can create for other countries in how to update their own test and evaluation capabilities. Germany is an attractive market for QinetiQ with defence spending expected to increase by 10% in 2019 and further increases expected in 2020 and 2021. Our acquisition of E.I.S. Aircraft Operations, now known as QinetiQ Germany, supports our future growth in training in Germany and other attractive international markets.

Strategic progress

The three pillars of our strategy are interlinked and mutually reinforcing

Vision

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

Strategy



UK

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

Highlights in FY19

Modernising UK MOD capabilities to meet future needs

- LTPA negotiations concluded in April 2019, securing revenue and investment until 2028
- Delivered new aircraft and syllabus for test aircrew training



International

Build an international company that delivers additional value to our customers by developing our home countries (UK, US and Australia), creating new home countries (i.e. where we have our own indigenous industrial capabilities) and exporting.

Highlights in FY19

Successfully accelerating international growth

- Grown international revenue from 27% to 30% over last year
- Good progress in US, Australia, and Middle East
- Exploiting synergies with strategic bolt-on acquisitions, such as E.I.S. Aircraft Operations (now QinetiQ Germany) to expand our international training offer



Innovation

Invest in and apply our inherent strengths for customer advantage in defence, security and critical infrastructure markets.

Highlights in FY19

Major competitive campaign wins

- Won two robotics "programs of record" in the US
- Won Engineering Delivery Partner for UK Defence Equipment & Support
- Won Battlefield & Tactical Communication Information Systems (BATCIS)

Transformation programme

To put in place the key changes we needed to deliver growth.

Strategy

Our strategy was developed in anticipation of the market conditions we see today and launched three years ago to deliver our vision of becoming the chosen partner around the world for mission-critical solutions, innovating for our customers' advantage.

We have been consistent in the application of our strategy over the past three years, and the improvements we are delivering in our financial performance, our ability to win new business and our increasing international footprint are the direct result of its implementation.

In 2016 we also launched a transformation programme to put in place the key changes that we needed to deliver growth. The programme has improved our customer focus and competitiveness by delivering key changes in leadership and organisation, operational excellence, and business winning, and ensuring a disciplined approach to investment in our future. To enable our ambition of generating 50% of revenue from outside the UK, the focus of the programme is now on the transformational change that is required for QinetiQ to become a high-performing, global, and digitally-enabled company.



UK Defence Test & Evaluation

QinetiQ has a unique role in UK defence. Defining and supporting this set of capabilities is the Long Term Partnering Agreement (LTPA), our largest contract, underpinning UK defence test and evaluation (T&E) capability.

Our strategy is to invest in and modernise this unique capability, enabling us to meet our customers' growing demand for more complex and integrated testing and training. This approach provides us with a strong foundation, securing UK customers and growing international users. Being a leader in UK T&E is also critical to supporting our international ambitions. Our ability to win work internationally is in part built upon our credibility within the UK. Our work within UK T&E enables us to grow into near adjacent markets such as cost-effective training.

In April 2019, we hosted a seminar explaining more about this element of our strategy.



www.QinetiQ.com/investors/investor-seminars

Highlights included:

- Agreeing, shortly after year end, a second amendment to the LTPA which secures £1.3bn of revenue until 2028 and allows us to invest £190m in modernising its capabilities. This transforms QinetiQ's ability to enable the delivery of the MOD's future programmes, such as the Queen Elizabeth Class aircraft carrier, Dreadnought submarine and future combat aircraft. Securing this amendment delivers significant benefits:
 - For our customers, it future-proofs our ability to help create and assure the next generation of defence capabilities, more efficiently and cost effectively;
 - For our people, it provides exciting career opportunities by introducing new ways of working and ensuring we continue to work on some of the most challenging issues our customers face; and
 - For our shareholders, it secures nine years of revenue and delivers appropriate returns which we can enhance further by delivering efficiencies, growing our UK market share, increasing the work we do with large defence prime contractors and attracting more international customers.
- Successfully delivering our new fleet of aircraft and syllabus for test aircrew training. The enhanced facilities, which were part of

our investment under the December 2016 LTPA amendment, are attracting international customers from Australia, the Netherlands, Switzerland and Singapore as well as the first students for the civil course.

- The modern fleet of aircraft is significantly more cost effective to run and is civil-, rather than military-certified, broadening their customer scope. With their modern "glass cockpits" that are representative of aircraft in customers' fleets, they provide highly relevant training to students.
- Investment in our air ranges is driving growth by supporting more complex and realistic exercises with increasing levels of threats. The US Navy has committed to running its large NATO ballistic missile training exercise, known as Formidable Shield, on a bi-annual basis at the Hebrides range we operate for the MOD. These exercises also demonstrate QinetiQ's expertise to the other nations participating, and have led to subsequent work with the Canadian and Polish navies.

Focus for FY20

Our primary focus will be to implement the first year of amended LTPA contract. This includes embedding new ways of working, investing in facilities and securing new opportunities for growth.

Rattler, our new supersonic target ready for launch during live trials.

Strategic progress *continued*



International

We have made significant progress to becoming a truly international company, increasing our international share of revenue from 21% to 30% over the last three years.

Our home countries are the UK, US and Australia and are defined by our significant in-country presence. We complement these home markets with export sales into selective international markets.

In September 2018, we hosted a seminar explaining more about this element of our strategy.



www.QinetiQ.com/investors/investor-seminars

Highlights during the year included:

- We won our largest ever export sales order, a C\$51m (c.£30m) contract to deliver unmanned aircraft systems (UAS) that will drive better situational awareness for the Canadian Armed Forces. This contract is an example of how QinetiQ can utilise its UK capabilities and acquisitions to grow internationally. The vertical take-off and landing unmanned air systems that we will provide under this contract will deliver enhanced Intelligence, Surveillance, Target Acquisition and Reconnaissance (ISTAR) services to Canadian military units at sea and on land, for both domestic and international operations.
- QinetiQ Target Systems continues to perform well. During the year we received our first order for Rattler, a supersonic target developed with investment and technical support from across the QinetiQ Group.
- We completed the acquisition of E.I.S. Aircraft Operations, now known as QinetiQ Germany, a business specialising in aerial training services. The acquisition delivers a number of strategic benefits to QinetiQ, providing us with a permanent presence in Germany and strengthening our capability integration, threat representation and operational readiness offering to our German customer.
- QinetiQ North America delivered a strong performance in FY19 and won two programs of record with the US Department of Defense:
 - We were awarded a \$12m order as part of the Route Clearance and Interrogation Systems (RCIS) Type 1 robotics program worth up to \$44m
 - We were also successful in the competition for the US Army's Common Robotic System-Individual (CRS(I)) program. This seven-year Indefinite Delivery Indefinite Quantity (IDIQ) contract, worth up to \$164m, includes a Low Rate Initial Production phase worth approximately \$20m over the next one-to-two years
- Our Australian business delivered record breaking orders of over A\$100m during FY19, further expanding its consulting and customer advice side business.
- We have established three joint ventures in countries in the Middle East, partnering with government and commercial companies, to accelerate the delivery of our products and services in the region, and opened an office in Kuala Lumpur, Malaysia.

Focus for FY20:

- Further expand our presence in the Canadian market, building on the work that we are delivering to our customers in Ottawa and the unmanned aircraft services that we are delivering from Medicine Hat, Alberta.
- Grow our recently acquired business in Germany by expanding our current aerial training and aircraft modification services.
- Mature our sales pipeline in the Middle East and Asia.



Innovation

We are a company which is founded on innovation. Our people, using their extensive technical and scientific expertise, innovate to overcome some of the most challenging problems our customers face. A core part of our strategy to grow QinetiQ is to build on this technical expertise with commercial innovation, and to apply this approach across all our activities and geographies, as a major source of competitive advantage.

Highlights during the year included:

- We were appointed with our partners Atkins and BMT, to become the Engineering Delivery Partner (EDP) for the UK MOD's procurement agency Defence Equipment & Support (DE&S). EDP will help the MOD to reduce the cost of engineering services, while ensuring the UK's Armed Forces receive the best equipment and support, using an innovative delivery model that QinetiQ first pioneered through the Strategic Enterprise contract for air engineering services. During the second half of FY19, we secured £69m of orders through EDP, the total programme value of which could be more than £1bn over the next ten years.
- We were awarded a three-year contract with options to extend for a further two years to support the MOD in delivering next generation Battlefield Tactical Communication and Information Systems (BATCIS). The initial order was £41m under a programme worth up to £95 million with an initial term of three years and options to extend by a further two years. To win the award, we combined our extensive technical capabilities with an innovative approach to satisfying customer requirements demonstrating our increasing customer focus and more strategic approach to business winning.
- Our ground-breaking Solar Electric Propulsion System, developed following significant investment and manufactured by an industrial consortium led by QinetiQ, provided the engine power behind the BepiColombo mission to Mercury which successfully launched in October 2018.

Focus for FY20:

- Learning from the successes and losses in FY19, we are maturing our approach to delivering commercial innovation through our business winning activities in three areas:
 - Foundation sales, which are shorter-term opportunities that are normally won and delivered in year
 - Strategic captures, which are medium-term opportunities that are specific and competitive in nature
 - Global campaigns, where we are evolving our campaign-based approach to create and pursue longer-term opportunities globally

Ruth Vaughan, a QinetiQ Systems Engineer is debriefed by users on the effectiveness of a drone during the Army Warfighting Experiment 2018.

Strategy in action

Crown Copyright 2018

Engineering Delivery Partner (EDP)

An example of our commercial innovation was the signing in early October of the Engineering Delivery Partner Agreement covering the provision of all engineering services to DE&S, the UK MOD's procurement and support agency.

Known as the 'Aurora Engineering Partnership', the team led by QinetiQ, with our partners Atkins and BMT, will lead the provision of engineering services with the aim of providing improved performance at reduced costs for the customer. The experience gained in delivering Strategic Enterprise for air engineering services in the air domain gives us a platform to build on to ensure the successful delivery of EDP, a service potentially worth up to £1bn over its ten year life.



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Risk management in action

Key performance indicators

Non-financial KPIs

Key performance indicators (KPIs)


The objective of our strategy is to grow QinetiQ, delivering a sustainable increase in quality earnings to our shareholders. Progress is measured through a range of financial and non-financial key performance indicators.

Building on our review of key performance indicators during FY18, we introduced new, more dynamic approaches to measuring customer satisfaction and employee engagement in FY19.

Measurements of customer satisfaction, health and safety and employee engagement underpin sustainability. Measures such as orders, organic revenue growth, profitability and cash flow track financial performance.

Similar indicators are used to review performance in each of the Group's businesses.

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Our people

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Corporate responsibility

Customer satisfaction (Net Promoter Score)

50
(FY18: 63)*

Description

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

The NPS score is calculated by deducting the percentage of customers who are detractors from the percentage who are promoters, and can therefore range from -100 to +100.

Rationale

Measuring customer satisfaction provides us with insight into our customers' views.

Complemented with qualitative surveys, this provides us with actionable insights that enable us to improve our customer experience.

Performance this year

*The introduction of a new market-leading customer engagement programme during FY19 resulted in a smaller sample size. While the new approach has improved customer insight, the smaller sample has marginally impacted this year's NPS. We expect the sample size to increase during FY20. Our NPS score is in the category of "excellent" with customer feedback remaining overwhelmingly positive.

Link to strategy

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

Health and safety (LTI)

4.4
(FY18: 4.0)

Description

The Lost Time Incident (LTI) rate is calculated using the total number of accidents resulting in at least one day taken off work, multiplied by 1,000 divided by the average number of employees in that year.

Rationale

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

Performance this year

Safety is a top priority and a number of initiatives were run in FY19 as part of the 'Safe For Life' programme. We have seen a small increase in the LTI rate compared with FY18.

Link to strategy

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

Apprentices and graduates (%)

4.0%
(FY18: 4.8%)

Description

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

Rationale

As a knowledge-based business it is critical to our long-term viability that we develop the next generation of employees. It is also a measure of our commitment to The 5% Club, an industry-led initiative of which we are a founding member, to provide opportunities for young people through our early careers schemes.

Performance this year

There was an anticipated decrease in our overall early careers population in line with our long-term skills requirement, however we continue to focus on early careers as a key driver of our talent programme.

Link to strategy

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

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

Employee engagement (Score out of 10)

6.3
(FY18: n/a)

Description

In FY19 we implemented Peakon, an employee engagement measurement tool. This new tool provides greater insights into what our employees are feeling, enabling us to identify issues and take steps to address them. This is done through regular employee surveys, conducted throughout the year.

Rationale

Employee engagement is a key part of sustaining our strategy. Having an engaged workforce delivers a number of benefits to us, such as increased productivity and higher staff retention. Improving employee engagement is aligned with our focus on creating a positive culture within QinetiQ.

Performance this year

Our employee engagement score is not where we would like it to be and we are working on several initiatives aimed at improving our employees' experiences. It is a key focus of our Board and management team and forms part of formal leadership objectives and business reviews. A subsequent survey conducted in April 2019 showed a small improvement with a score of 6.5.

Voluntary employee turnover (%)

11.5%
(FY18: 10.0%)

Description

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

Rationale

Provides a measure of the Group's ability to retain employees.

Performance this year

Overall employee turnover increased marginally during the year. This was largely driven by higher turnover in the US and Australia, where growth in defence spending has resulted in tightening labour markets. In the UK our employee turnover was broadly in line with last year, and overall our turnover is still below industry averages.

Key performance indicators

Financial KPIs

Orders
(£m)

£776.4m
(FY18: £587.2m)

Description

The level of new orders (and amendments to existing orders) booked in the year. Although new multi-year contracts can impact the reported orders number, the level of orders booked in the year is one indicator of future financial performance.

Rationale

This provides a measure of the Group's ability to sustain and grow QinetiQ.

Performance this year

Orders in the year excluding LTPA amendments totalled £776.4m (2018: £587.2m) and grew 28% in the year on an organic basis. This increase was driven by a strong performance in EMEA Services, following some notable multi-year contract wins and securing the EDP contract.

Link to strategy

Order intake is an important measure of progress of the implementation of our strategy, the objective of which is to grow the Group, and is used for the Bonus Banking Plan. For executive remuneration it is adjusted to exclude businesses acquired in the year.

International revenue
(£m)

£273.7m
(FY18: £226.0m)

Description

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

Rationale

International revenue demonstrates the Group's capability to win and deliver work outside of its traditional UK customer base and thus reduce its dependence upon wider UK economic conditions and Government spending patterns.

Performance this year

Non-UK revenue grew by 21% (£47.7m) compared to the prior year. Excluding the £9.8m contribution from the businesses acquired during the year, and including a £1.9m contribution from joint ventures, the organic growth was £39.8m.

Link to strategy

International revenue is an important measure of progress of the implementation of our strategy, a key element of which is accessing higher growth, international markets. It will be used again as a performance measure for the FY20 Deferred Share Plan.

Organic revenue
growth
(%)

8%
(FY18: 3%)

Description

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

Rationale

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

Performance this year

Revenue grew by 8% on an organic basis, with a 4% increase in EMEA Services and a 22% increase in Global Products driven by strong performance in QinetiQ North America and QinetiQ Target Systems.

Link to strategy

Organic revenue growth is an important measure of progress of the implementation of our strategy, the objective of which is to deliver sustainable growth.

Underlying operating
profit*
(£m)

£123.9m
(FY18: £122.5m)

Description

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

Rationale

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

Performance this year

Underlying operating profit grew by £1.4m (1%). The contribution from businesses acquired during the year was £1.3m and the impact of movements in exchange rates was an adverse £1.5m.

Link to strategy

This measure is a reflection of the productivity of the Group's activities and is used for both the Bonus Banking Plan and the Deferred Share Plan. For Executive remuneration it is adjusted to exclude businesses acquired in the year.



Page 48
Chief Financial Officer's review

Underlying earnings
per share (EPS)*
(p)

19.7p
(FY18: 19.3p)

Description

The underlying earnings, net of interest and tax, expressed in pence per share.

Rationale

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

Performance this year

Underlying earnings per share grew by 0.4p (2%). This included a 0.2p contribution from businesses acquired during the year.

Link to strategy

This is a measure of growth in quality earnings for our shareholders. It was used for the Performance Share Plan incentive scheme, adjusted to exclude the impact of acquisitions.

Underlying net cash
flow from operations*
(£m)

£126.3m
(FY18: £126.5m)

Description

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

Rationale

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

Performance this year

Underlying net cash from operations reduced marginally to £126.3m from £126.5m in the prior year. The contribution from the businesses acquired during the year was £2.3m.

Link to strategy

This is a measure of the cash-generative characteristics of the Group and is used for executive remuneration (adjusted to exclude businesses acquired in the year).

* Definitions of the Group's alternative performance measures can be found in the glossary on page 159.

Principal risks

How we protect our business

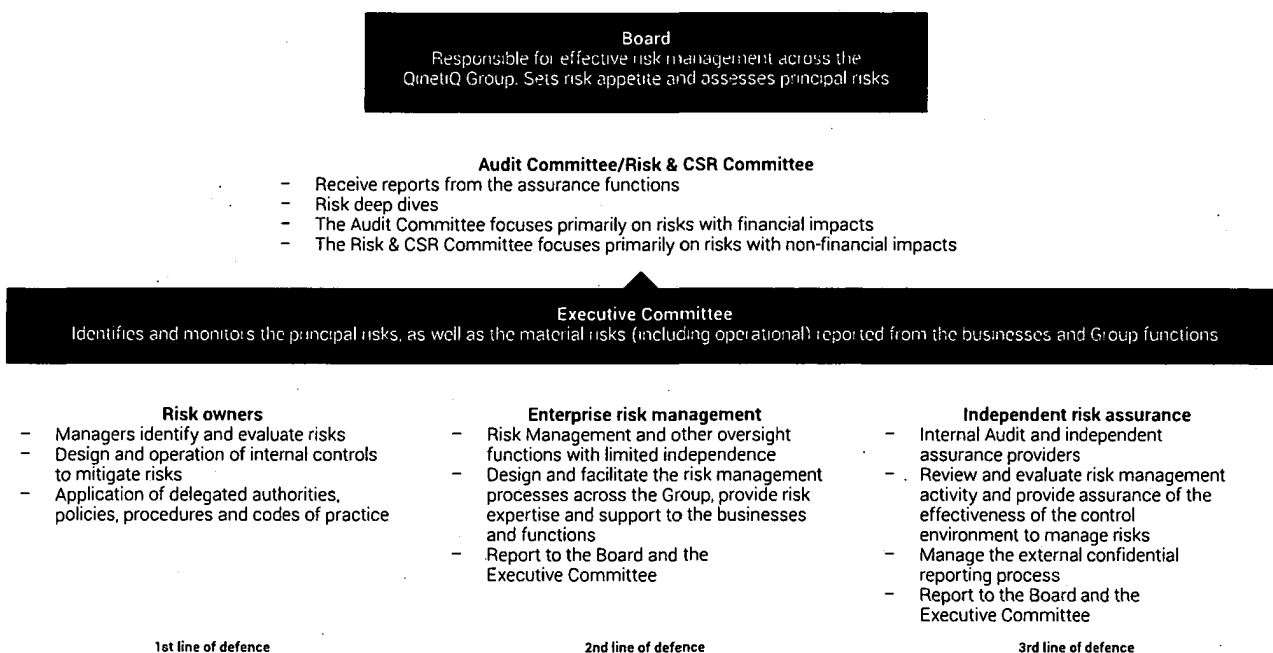
Effective risk management plays an integral role in everything we do: ensuring we utilise the Group-wide risk management framework to inform our decision-making, supporting the successful delivery of our objectives and increasing our operational efficiency. Our Group Head of Enterprise Risk Management is responsible for designing and facilitating the risk management processes across the organisation, provides risk expertise and support to the businesses and reports risk information across the Group including to the Executive Committee, Audit and Risk & CSR Committees and the Board.

Our focus on commercial innovation and changes in our customers' approach to risk are business drivers shaping our application of risk management. We develop innovative business models and are taking more outputs-based approaches to contracts; taking on more risk to pursue opportunities and deliver results, whilst simultaneously innovating for our customers' advantage.

Risk management and assurance activity

Three lines of defence model

Our risk management and assurance activity is formed of three lines of defence, each reporting to the Executive Committee, to the Board's Audit Committee in respect of financial risks, and the Board's Risk & CSR Committee in respect of non-financial risks. The first line of defence is performed by the businesses, through managing activities in accordance with established operating principles; the second line is performed by the oversight functions, including the enterprise risk management and safety and governance teams; and the third line is performed by the internal audit team and external providers.



QinetiQ risk appetite

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

Cautious

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

Balanced

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

Eager

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

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



We deploy appropriate management to risks and utilise lessons learned processes across the organisation to continuously strive for improvement."

Key

Proximity

0-1 years

1-2 years

2+ years

Velocity

↓ Low

→ Medium

↑ High

The Group Risk Register consists of material risks relating to effective delivery of our strategy. The Board and Executive Committee look to assess these principal risks from a number of different perspectives, including both individually and collectively. The Board recognises that some risks may be affected by factors outside the control of the Company and also recognises that however robust the risk management processes are they cannot provide absolute assurance and unknown risks may manifest without warning. The Company has processes in place to deploy appropriate management to such risks and utilise lessons learned processes across the organisation such that we continuously strive for improvement.

Strategic risks

UK defence test and evaluation strategy

Risk

UK Government budget constraints lead to reduced spending in the core markets in which we operate. This, and modernising ways of evaluating capability, results in a risk that our approaches/offerings may not remain relevant. EU exit causes a loss of market confidence and reduction in collaborative EU funding.

Impact

A reduction in revenue and associated profitability from the Group's government and defence contracts.

Mitigation

Our strategy is focused on leading and modernising UK test and evaluation in support of our customers' objectives.

Proactive engagement with our major customers enables us to support their objectives.

Our investments into contracts enhance our offerings that support our customers with their efficiency challenges as well as ensuring that we provide the right services as the threat environment continues to evolve. We are delivering new types of evaluation and increasingly moving towards modelling and synthetics.

We continue to grow our access to international growth from test and evaluation and post Brexit will maintain relationships with the UK Government to support bilateral relationships within Europe.

Page 24
Strategic progress – UK T&E

Metrics

- Customer satisfaction
- All financial KPIs

Responsibility

Group Director Business Development

Risk appetite

Eager

Likelihood/Impact

Medium/ High

Proximity/Velocity



International strategy

Risk

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

Impact

Unable to realise expected growth in the planned timeframes.

Mitigation

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

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

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

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

Page 24
Strategic progress – International strategy

Metrics

- All financial KPIs
- International revenue as % of total revenue

Responsibility

Managing Director International

Risk appetite

Balanced to Eager

Likelihood/Impact

Medium/ High

Proximity/Velocity



Principal risks *continued*

Strategic risks

Innovation strategy

Risk

Failure to create a culture of innovation or to invest adequately in, or create value from, our innovation investment. As well as the risks arising from the introduction of disruptive technologies/alternative business models.

Impact

Negative impact on the Group's market position, competitiveness, future growth and failure to deliver a return on investment in our Internal Research and Development (IRAD) fund.

Mitigation

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

We have evolved our approach to investment to place a greater focus on routes to market in order to drive a profitable return. We have also further evolved our partner eco-system to support indirect routes to market.

Our operating model, based on matrix working, helps to ensure that any internal barriers to collaboration and knowledge sharing are removed.



Page 24

Strategic progress – Innovation

Metrics

- Customer satisfaction
- Employee engagement

Responsibility

Group Director Business Development
Group Director Strategy & Planning

Risk appetite
Balanced

Likelihood/Impact
Medium/ High

Proximity/Velocity



A material element of the Group's revenue is dependent on a number of UK Government contracts

Risk

A significant part of the Group's revenue is derived from UK Government contracts, the Long Term Partnering Agreement (LTPA) being an example of this. Government budget constraints could impact our ability to grow.

Impact

Contracts we have with the UK Government contribute a material proportion of the Group's revenue and earnings.

Mitigation

Our aim is to provide our customer with the capabilities they need to test and train against current and future threats in a cost effective manner, leading and modernising UK test and evaluation.

As part of this strategy, we are putting more of our work onto longer-term contracts. This provides higher visibility for us. For example, the recent amendments we have made to the LTPA secure nine years of revenue, and significantly increase Group revenue visibility.

Our investment into key contracts and innovative delivery approaches continues to ensure we meet the UK Government customer's expectations and remain cost effective and relevant in an evolving threat environment.

Metrics

- All financial KPIs except orders
- Customer satisfaction

Responsibility

Group Director Business Development
Managing Director Maritime, Land & Weapons

Risk appetite
Balanced

Likelihood/Impact
Medium/ Low

Proximity/Velocity



Single source contract regulations

Risk

Group performance is affected by application of the regulations from the Single Source Regulations Office (SSRO).

Impact

The regulations could have an impact on the Group's financial performance.

Mitigation

Our strategy to lead and modernise UK test and evaluation and invest in our core contracts allows us to put a greater volume of our work onto longer-term contracts, reducing the proportion of our revenues exposed to changes in the SSRO rate.

Our growing international business provides the opportunity for us to win competitive work which helps mitigate SSRO margin pressure within the UK.

We continue to support a joint industry position in refining the SSRO framework and its practical application.

Metrics

- Customer satisfaction
- All financial KPIs

Responsibility

Chief Financial Officer

Risk appetite
Cautious

Likelihood/Impact
High/Medium

Proximity/Velocity



Operational risks

Recruitment and retention

Risk

We operate in many specialised engineering, technical and scientific domains where key capabilities and competencies may be lost through failure to recruit, develop and retain our employees.

Impact

Delivery of business strategies, plans and projects would be adversely impacted.

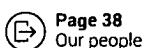
Mitigation

We have created a five-year skills forecast and built it into our overall strategic workforce plan.

Attraction through diverse and inclusive campaigns to ensure we meet the changing needs of the business but reflect the talent pools we hire from.

Ensuring we have access to talent now and in the future such as STEM outreach and Early Careers development.

Supporting our people to recognise, develop and fulfil their potential via the QinetiQ Talent approach, career frameworks, Academy & Training.



Page 38
Our people

Metrics

- Strategic workforce planning
- Apprentices, graduates and sponsored students
- Voluntary employee turnover against planned requirements

Responsibility

Group Director Human Resources

Risk appetite
Balanced

Likelihood/Impact
Low/Medium

Proximity/Velocity



Significant breach of relevant laws and regulations

Risk

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

Impact

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

Mitigation

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

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

Key areas of focus include the following:

Safety of product and services, health, safety & environment, international trade controls and bribery and ethics, where the company adopts a zero tolerance approach to bribery and corruption.

Metrics

- Health & safety
- Mandatory training compliance
- Commercial intermediary monitoring

Responsibility

Company Secretary/Group General Counsel

Risk appetite
Cautious

Likelihood/Impact
Medium/High

Proximity/Velocity



Security and IT systems

Risk

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

Impact

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

Mitigation

Data security is assured through a multi-layered approach that provides a hardened environment, including robust physical security arrangements and data resilience strategies.

Information systems are designed with consideration to single points of failure and comply with relevant accreditation standards.

Mandatory security awareness training for all employees.

Continuously reviewing the threats and adapting our security strategy and mitigations accordingly.

Metrics

- Cyber dashboard
- Security dashboard

Responsibility

Chief Financial Officer

Risk appetite
Cautious

Likelihood/Impact
Medium/ High

Proximity/Velocity



Principal risks *continued*

Risk management in action

A balanced risk approach to implementing output-based, multi-year engineering services

Engineering services were historically procured by MOD Defence Equipment & Support (DE&S) through a variety of contractual approaches delivered by over 150 providers. This was inefficient for the MOD, had the potential to delay programmes and created considerable risk to managing within budget.

We have an eager commercial risk appetite for opportunities relating to increased market share where we have proven delivery, therefore will consider all delivery options, and are eager to be innovative despite greater inherent risk. With this in mind, through our Strategic Enterprise contract (SE) with DE&S in the air environment, we developed and successfully implemented a balanced risk method for packaging engineering outputs into multi-year programmes of work.

Focusing heavily on robust but proportionate project and programme risk management, our approach ensures right first time requirements, lean delivery using standardised outputs and a proprietary output acceptance, performance and contract system. Building on this success, this approach is now being implemented on the Engineering Delivery Partner (EDP) programme to bring together previously disparate tasks into a manageable delivery service. Our implementation plan is building an effective partnership supported by our joint risk management approach with the MOD, our top-tier partners, Atkins and BMT, and our provider network of 122 engineering specialist companies. This ensures the full breadth of capability and capacity to deliver is available to MOD, minimising the supply chain risk exposure, increasing delivery standards and achieving cost efficiencies.



Page 27
Engineering Delivery Partner case study

Longer-term viability assessment

Assessing the prospects of the Group

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

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

The corporate planning process is underpinned by assessing scenarios and risks that encompass a wide spectrum of potential outcomes, both favourable and adverse. The downside risk scenarios are designed to explore the resilience of the Group to the potential impact of all the significant risks set out on pages 33 to 35, or a combination of those risks.

The scenarios are designed to be severe but plausible, and take full account of the availability and likely effectiveness of the mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks, and that realistically would be open to them in the circumstances. In considering the likely effectiveness of

such actions, the conclusions of the Board's regular monitoring and review of risk and internal control systems, as discussed on page 64 to 65, 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 Executive Committee 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 2024. This is the period covered by our strategic planning process and is subject to stress-testing and scenario planning around potential risks. It has been selected because it presents the Board and readers of the Annual Report with a reasonable degree of confidence whilst still providing an appropriate longer-term outlook.

Confirmation of longer-term viability

As noted on page 95, 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 2024.

Going concern statement

The Group's activities, combined with the factors that are likely to affect its future development and performance, are set out on pages 28 to 37. The CFO's review on pages 48 to 51 set out details of the financial position of the Group, the cash flows, committed borrowing facilities, liquidity, and the Group's policies and processes for managing its capital and financial risks. Note 25 on page 134 to the financial statements also provides details of the Group's hedging activities, financial instruments, and its exposure to liquidity and credit risk.

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

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

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

Our people

Engaged in high-performing teams

We are committed to a safe, inclusive, secure and ethical working environment where all our people have the opportunity to contribute to our success. Our approach, focusing on development and behaviours, is enabling talented teams to feel engaged and recognised in delivering our mission across the world, for all of our customers.

Focused on safety, health and wellbeing for our people

Our safety focus this year has been our 'Safe for Life' programme. We have undertaken safety culture surveys across our sites to listen to how our people feel about and perceive safety. This feedback is driving local plans, identifying a range of commitments to improve safety and health. Leadership is integral to strengthening our safety culture and one-day 'Leaders Talk Safety' events were held to support our leaders to think about how they contribute towards our safety culture (our leaders also have a collective safety objective each year). We have created a 'Learning Together' framework for managers to use with their teams to support employee engagement and safety performance. The Company was served with an Improvement Notice by the Health and Safety Executive during FY19 regarding risk assessment deficiencies. Remedial action has been implemented accordingly. The FY19 Lost Time Incident (LTI) rate for QinetiQ Group was 4.4 compared with 4.0 in FY18.

Safety metrics

	FY19	FY18	FY17
Lost time incident (LTI) rate ¹	4.4	4.0	5.7

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

We have introduced a new wellbeing framework as part of Safe for Life, and our goal is to help all of our people reach their potential by enabling them to have a healthy physical and mental balance at work. Whilst we provide access to services, information and training, we also ran campaigns on mental health and 'wellbeing breakfasts', to signpost the importance of good mental and physical health and the support available. We recently appointed 65 mental health first aiders with the support of an expert provider and will be training our first cohort in early FY20.

Creating our high performance culture

We are committed to developing the right environment where all our people can perform at their best and feel motivated, recognised and proud of what they do. Our performance culture enables all of our people to do the right thing, deliver on commitments and be inspired to deliver innovative solutions, contributing to overall Company performance, with personal accountability. In FY19, using feedback from our people and building on our values of integrity, collaboration

and performance, we developed new cultural behaviours: listen, focus and keep my promises, to support customer focus and high performing teams. The behaviours have been embedded via culture workshops, in our leadership and management development programmes, corporate on-boarding and in all communications activity. Our values and cultural behaviours underpin who we are and how we do things in QinetiQ.

Employee engagement: listening to our people

We regularly communicate with our people, through townhalls, our intranet campaigns and bi-annual Employee Roadshows (delivered by our Executive Committee), so we can ensure that our people across the Group understand our strategic priorities, know how they can contribute and are supported to deliver our goals. Feedback from the Roadshows has shown that employees are significantly more positive about the future and understand how they can personally contribute.

Feedback from Employee Roadshows

Employee engagement forms an integral part of our strategy and is a key non-financial KPI. In FY19 we invested in Peakon, an innovative new employee engagement platform, to enable us to build high performance and a better understanding of how to ensure that QinetiQ is a great place to work. The tool is designed to capture feedback throughout the year, providing information directly to a dashboard for each manager, so that they know what is working well and what can be improved. All employees (excluding QinetiQ North America, who use an alternative survey) have had the opportunity to provide feedback and we have an organisation level 'Engagement in Action' plan to address Company-wide themes, with action also being taken at a local level. We plan to roll out Peakon to QNA in FY20. It is early days, but employees have already participated in two surveys, resulting in scores of 6.3 and then 6.5 (out of 10) with a participation rate in the second survey of 81%. There is more work to be done to

Wellbeing breakfasts

Between January and March 2019, wellbeing breakfasts were held across the Company to encourage our people to take an hour or two out of their busy day to think about how to make positive lifestyle choices for both physical and mental wellbeing. There was an opportunity to talk, build friendships and support networks, and to find out about the support and tools available through QinetiQ as well as local services. 18 sites participated with 1,192 attendees and we had really positive feedback.



Where to find more information

Page 28
Non-financial KPIs

Page 35
Principal risks and uncertainties:
recruitment and retention



www.QinetiQ.com/about-us/corporate-responsibility

Our unique learning environment – inspiring innovation and wellbeing

Our exciting learning environment, opened in FY19, creates new ways of collaborating, testing preconceived perceptions. It showcases what different 'spaces' can provide to stimulate enhanced learning, performance, innovation and wellbeing. We are working with areas of the business such as test aircrew training, to connect resources and provide a place for fresh thinking to drive innovation, deliver exceptional results for our customers and grow our business. Creative environments can also inspire people to collaborate; traditional resources such as blackboards are blended with more creative tools such as craft areas and puzzles, to support challenge based thinking. The facility also has areas for quiet reflection, recognising different learning styles and supporting our drive for greater inclusion and wellbeing. The facility uses virtual reality to provide enhanced learning experiences and enabling collaboration internationally.

increase engagement and Peakon will give us feedback in real time to target areas to improve. We also monitor voluntary employee turnover and, in the 12 months to March 2019, this figure stood at 11.5 % (compared with 10.0% in FY18).

A Head of Employee Relations has been appointed, who is working in partnership with the Chair of the UK Employee Engagement Group (EEG) to ensure that the voice of our people is heard and they are involved in decisions that affect them. The EEG meets regularly with the Board, CEO and members of the Executive Committee and EEG representatives have been actively involved in our continuous improvement projects. The EEG Chair and Deputy Chair have been made members of our Leadership Community, ensuring they are engaged in the key strategic aspects of QinetiQ.

Creating a diverse and inclusive environment for innovation

A diverse and inclusive culture supports our people to be their best and is key enabler for innovation, core to our business strategy. In FY19 we have made progress with our diversity and inclusion (D&I) programme, and have now developed our 'Inclusion 2025' strategy, which will support and drive sustainable change. Highlights during the year include:

- In Australia we were granted the Employer of Choice for Gender Equality citation by the Workplace Gender Equality Agency.
- Launch of mandatory training for all our people, targeted training for key roles (for example a D&I workshop for our marketing and communications function) and a new library of resources on our online learning zone.
- Company-wide awareness campaigns, e.g. mental health and International Women in Engineering Day (INWED) and sponsorship of the 'Innovation' category of the Women in Defence Awards. We have also run awareness sessions for our Leadership teams, and international 'lunch and learn' sessions.
- Launch of new networks for our people, including Neurodiversity and a new LGBTQ+ (Lesbian, Gay, Bisexual, Trans and Questioning) network launched during LGBT history month.
- Our first year participating in the Social Mobility Employer Index, which has enabled us to understand where we could improve inclusion from all social backgrounds.
- Developing a new 'reverse mentoring' programme which we plan to launch in FY20.

Reviewing best practice, and our existing employee support networks (e.g. the EEG), we have created 'Ethics Champions' (see page 41) which include key aspects of the role of a 'fair treatment advisor', which have a broader remit. We have benefitted from sharing best practice via our global membership of The Employers Network for Equality and Inclusion and engaging with like-minded businesses.

The table below shows the gender split for different level of seniority in our business. We have participated in the annual Hampton-Alexander programme, and have published our second gender pay gap report (which can be found on our website).

Gender diversity

	Female	Male
Board Directors¹	2 (20%)	8 (80%)
Senior managers²	52 (17% ³)	248 (83%)
All employees⁴	1,207 (21%)	4,552 (79%)

¹ For more information on Board diversity see page 73.

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

³ Up from 15% in FY18.

⁴ Excluding senior managers.

Developing our people: learning and talent management

We invest in our people, from our early careers programme to senior managers looking to develop their skills and further their careers, and we continue to focus on our performance management approach.

In FY19 we developed new overarching career frameworks which comprise three elements: a competency framework, a career framework and career pathways. A dedicated Talent team was formed at the end of FY19 to increase our focus. We also collaborate with the UK Defence Growth Partnership (DGP) and Defence Suppliers Forum, developing apprenticeships and addressing attraction.

Our talent approach reviews and identifies talent across the company and our Academy provides technical, business and leadership development to ensure our people are able to develop throughout their career. More generally all of our employees receive training on safety, security, ethics, D&I and environment, including newly created digital content. During FY19 we focused on succession planning for senior leadership to ensure a robust internal talent pipeline.

Our people *continued*

//

Our new All Employee Incentive Scheme rewards employee contribution and enables everyone to share the benefit of Company success".

We continue to invest significantly in our leaders and managers, through coaching and mentoring and development programmes. In FY19 we also launched 'Enabling Managers', to provide 300 key managers and leaders with the knowledge, tools, skills and confidence to lead high performing teams through immersive, experiential and virtual learning.

We also continue to develop our early careers pipeline. We are a founding member of The 5% Club, and commit to publishing the number of employees on apprenticeships, graduate programmes and sponsored students (see table below and also page 29). As well as providing apprenticeships for employees early in their career, we are also actively supporting 23 colleagues at later stages of their careers to undertake apprenticeships, including those on the new (FY19) Defence Enterprise Export Programme, a Level 7 apprenticeship, which was developed as part of the Defence Growth Partnership.

	FY19	FY18	FY17
Apprentices¹	101	129	146
Graduates	90	109	106
Sponsored students	8	11	10
% UK workforce	4.0%	4.8%	4.9%

¹ Early careers apprentices only.

Rewarding and recognising our people

We hosted our second gala dinner to recognise and reward outstanding performance in our business. This year's 45 winners showcased the breadth and depth of what we do across the whole of the Company.

In FY19 we launched a new recognition platform 'Thank Q'. Anyone can nominate individuals or teams who make a difference, focusing on those capabilities and behaviours that are vital to our future success.

Our new All Employee Incentive Scheme rewards employee contribution and enables everyone to share the benefit of Company success through a bonus based on Company performance and an additional potential payment based on personal contribution. All employees are eligible to receive a bonus of between £500 and £1,000 depending on Group operating profit for the year falling within a pre-defined performance band. In the first year of operation, the scheme will pay out £1,000 to every employee in QinetiQ. As part of our employee engagement the Chair of the Remuneration Committee met with the EEG to ensure that link with employees.

To meet UK legislation, companies with more than 250 UK employees are required to publish their gender pay gap annually. In our second report, published in FY19, our mean gender pay gap was 16.6% and is due to the proportion of men who have senior roles. We recognise it will take time to make change but we are committed to doing so. In addition we now also report the CEO pay ratio (page 88).

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I feel honoured to be part of the Enabling Managers programme, to hear the key messages from the CEO and all of us having a clear plan on the way forward, while being supported along the way."

Corporate responsibility

Trusted to deliver sustained success for all of our stakeholders; our values are at the heart of how we deliver a responsible and sustainable business. We know that we can contribute to our future success and provide wider value to society through focusing on the skills of our people and the next generation, supporting our customers' sustainability agendas, our commitment to environmental stewardship and having a positive impact in the communities where we work.

Strategy, materiality and governance

Our corporate responsibility and sustainability strategy reflects the material issues for our business – defined by our overall business strategy and taking into account stakeholder priorities and best practice. There are some elements which will always be business priorities, such as the safety of our people and our approach to governance. However, we also recognise that we need to anticipate and understand emerging issues and trends; for example, how the Sustainable Development Goals can inform our priorities. The skills agenda, diversity reporting requirements and emerging modern slavery legislation across the world all need to be considered. Addressing them is integrated into our programmes, ensuring our approach to responsible and sustainable business does not stand still and fully supports the success of our business. Key to our materiality assessment is understanding the priorities of our stakeholders – primarily customers, investors and our people. This is achieved through regular dialogue such as investor meetings, involvement in the MOD-Industry Sustainable Procurement Working Group and our employee engagement programmes (see page 38). We are actively engaged with industry and trade body working groups on topics such as skills, environment and ethics.

We have Board and executive level commitment to corporate responsibility through the Group Risk & CSR Committee and this ensures successful delivery of responsible business practice, driven by strong leadership and governance. The Committee receives reports and briefings on all material corporate responsibility issues including business ethics, health and safety, environment, reputational risk and human rights (see page 74). Further Executive chaired committees include the Business Ethics Committee and the Health, Safety and Environment (HS&E) Committee. The Group's policies and management systems underpin our corporate responsibility programmes.

Business ethics – doing business the right way

Our Code of Conduct lays out our ethical standards, providing our people with clear direction and guidance on how we do business across the company. There are details on ethical decision-making and also how to seek help. We review our Code of Conduct annually to reflect the needs of our business, regulations and best practice.

Our annual business ethics training is mandatory and supports our people in understanding and using the Code of Conduct. The training is also undertaken by our Board and is available for our suppliers and customers. We provide a number of challenging scenarios to help our people know what to do if they were to come across issues such as bribery, fraud, harassment, conflict of interest and modern slavery.

We strive to create an environment in which our people feel included and confident to 'speak up' and so provide a number of routes for them to seek help or raise concerns. They are encouraged to talk to a manager, use our ethics email advice services and our independently run, 24/7 confidential reporting line. We have provided help and advice in response to all queries received via our ethics email advice services and all communication through the confidential reporting line is appropriately investigated (page 71). We provide guidance for

managers on their role in creating an open and inclusive environment where our people feel confident to raise concerns, and how to listen to and support anyone who may come to them with an issue.

In FY19 we launched a new global network of Ethics Champions, who are available for advice, provide guidance on our ethical decision-making tools, and help escalate concerns as required. They communicate about ethical issues, and provide feedback to continuously improve our ethics programme.

Our ethics programme is overseen by our Business Ethics Committee, chaired by our Chief Ethics Officer (the Company Secretary). We are active participants in the ethics forum hosted by our trade association ADS, where members can share best practice on ethics, human rights and anti-bribery.

Anti-bribery and corruption

Bribery is a serious issue and we recognise its potential risk to our business. We have a zero-tolerance approach to bribery and corruption, with robust policy and procedures in place, overseen by our Chief Ethics Officer. These are regularly reviewed against changing regulations and industry guidance. These procedures are also embedded into our international business risk management process with specific focus on risks associated with partner relationships. This includes commercial intermediaries, who are subject to comprehensive risk-based due diligence, using both in-house expertise and recognised specialist third party due diligence providers. Anti-bribery training forms part of our mandatory business ethics training for all of our people, and, additionally, we provide face-to-face training for our people in roles with a higher potential exposure to bribery and corruption risks with bi-annual refresher training.

Human rights

We seek to anticipate, prevent and mitigate potential negative human rights impacts through our policy and processes, which underpin our commitment to responsible business practices. For example, we address salient human rights issues through our Code of Conduct, trading policy, international business risk management process and export controls process. We monitor the application of these policies and procedures through our business assurance processes. We believe that this integrated approach is effective in ensuring our business acts responsibly and respects all human rights. As part of our ongoing programme to address modern slavery, we continue to provide training to our people, and to review our approach to risk in the supply chain. Our Supplier Code of Conduct helps to ensure our suppliers have clarity of their responsibilities on human rights. Our modern slavery and human trafficking statement is published on our website.

Environmental stewardship and use of resources

As part of our HS&E Strategy, we are working to deliver for our customers while protecting and sustaining our environment. Underpinning our approach is our ISO 14001 certification in the UK. Environmental issues are reviewed by the HS&E Committee and the Risk & CSR Committee.

As the costs of raw materials and waste disposal rise, adopting best practice in waste management makes good business sense and meets stakeholder expectations. A review of waste management across QinetiQ Group was undertaken to inform a new environmental corporate target which aligns with our strategy: to achieve a year on year increase in the annual proportion (%) of waste re-used and recycled from our underlying waste production from FY18-20. Due to the variety of our operations, infrastructure, facilities and geographical

Corporate responsibility *continued*

locations, there is no single solution to meet this target. To address this, we have implemented Waste Management Action Plans at our significant waste producing sites which account for 95% of waste produced. The new target was achieved with 81.6% of underlying waste reused or recycled, a small increase (0.3%) compared to the previous year.

During the year we have communicated regularly with our people on environmental issues – promoting the work we do and encouraging participation. A particular focus was World Environment Day, which in 2019 had the theme of 'Beating Plastic Pollution'. We have also been piloting an approach to environmental volunteering which we plan to launch in FY20.

The Task Force on Climate-related Financial Disclosures (TCFD) is a global initiative which has created a framework for companies to demonstrate climate change resilience to stakeholders. Unlike most environmental reporting, TCFD isn't about our impact on the environment; it is about the environment's impact on QinetiQ. Our approach to all aspects of environment and risk are overseen by our board (Risk & CSR Committee) and our HS&E Committee, with a high level risk review undertaken quarterly as part of the enterprise risk management process. Since 2011, we have undertaken climate change risk assessments on priority sites which we manage on behalf of the MOD, to understand what the key issues might be. In FY19 we undertook a series of new assessments based on recent climate projection data, working in partnership with the MOD. The key findings of the assessments will ensure we understand any vulnerability to climate change and can prioritise mitigations.

Sustainable solutions

Responsible and sustainable business practice is not just part of our operations but embraces the full value chain. QinetiQ is the industry chair of the MOD-industry sustainable procurement working group, where members collaborate and share best practice on a range of topics including risk, plastics and the Sustainable Development Goals.

Delivering products and services safely fundamentally underpins our offering to customers. Using our knowledge of sustainability has enabled us to increase our ability to support trials for our UK MOD customer. For example, the RAF approached QinetiQ to conduct firing training at MOD Aberporth, which until recently had been conducted in the Netherlands. Bringing the training to the UK has significant cost and logistics benefits for the customer. Environmental concerns relating to undertaking the training were effectively managed by the QinetiQ team by undertaking a sampling and monitoring programme of the marine environment.

Our supply chain is an extension of our own organisation, and so we take care in ensuring that it is as committed to the same standards of safety, security and governance as we are. We have a supplier code of conduct and our on-boarding and vetting process ensures that suppliers understand the issues which are important to us such as safety, anti-bribery and modern slavery. In return, we are signatories to the Prompt Payment Code, and report our payment details as required by legislation. During FY19 we ran events with our suppliers where we raised awareness of issues such as safety and modern slavery and shared best practice.

Greenhouse gas emissions and energy management

There is clear scientific evidence linking rising greenhouse gas (GHG) concentrations and climate change. We have developed a new Group GHG (Scope 1 and Scope 2) reduction target of a 25% reduction on our FY19 baseline emissions by the end of FY25. The new target follows the retirement of the 2020 target to achieve 17% reduction on a 2013 baseline, which was achieved earlier than expected. Our new target aligns to a climate change trajectory of 1.5°C. In support of this new target we have a new 2025 energy strategy that will support sustainable business growth through responsible supply and use of energy resources, while reducing our GHG emissions. The strategy focuses on resource and cost efficiency, operational resilience and positive environmental impact. Further details on our GHG reporting, our new target and our energy strategy are on our website.

In FY19 we successfully achieved recertification of our Energy Management System to ISO 50001 standard. The management system includes a new tool (the Energy Management Action Plan) to collect, track and quantify energy saving opportunities. We have also developed new sustainable Property Standards to support the sustainable development and maintenance of our estate. In FY19 we migrated to a new data assurance process for Scope 1 and 2 GHG emissions reporting. PricewaterhouseCooper LLP (PwC) carried out a limited assurance engagement on selected GHG emissions data for year ending 31 March 2019 in accordance with International Standard on Assurance Engagements 3000 (revised) and 3410, issued by the International Auditing and Assurance Standards Board. A copy of PwC's report and our methodology is on our website:

 www.QinetiQ.com/about-us/corporate-responsibility

We report our Scope 1 and Scope 2 emissions on the basis of financial control in line with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. There are no material exclusions from this data. The data has been prepared in accordance with the UK Government's Environmental Reporting Guidance (March 2019).

Beating Plastic Pollution

5 June is World Environment Day and activities were organised by teams across our sites to support the theme of 'beating plastic pollution'.

A number of beach cleans and litter picks were undertaken, with one team filling a whole skip with the rubbish they collected.

We promoted the day using china cups, not take-away cups, and built a 'coffee cup tower' with (used) non-recyclable cups to illustrate and raise awareness of the size of the issue. We also encouraged people to reduce the use of disposable plastic cups at water fountains.

These activities all help raise awareness and support our waste target.

Greenhouse gas emissions

	FY19 ¹	FY18 (Restated)	FY18 (Previously Reported)
Total Scope 1 Emissions (tCO ₂ e) from fuel combustion and operation of facilities	20,096	19,776	24,651
Total Scope 2 Emissions (tCO ₂ e) from purchased electricity	20,977	22,666	25,678
Total Scope 1 & 2 Emissions (tCO ₂ e)	41,073	42,441	50,329
Intensity ratio (tCO ₂ e per £m of revenue)	45	51	60

¹ FY19 data is subject to the new assurance process.

The continuous improvement in our Energy Management System, combined with the increased scrutiny of the FY19 data as our new baseline year for the 2025 Group target and the adoption of a new and more robust assurance process, has identified some errors, with historical over-reporting of our Scope 1 and 2 emissions. The original FY18 data is presented alongside the restated data for FY18. The restated FY18 figures have not been subject to external assurance but revisions have been made to ensure consistency to the FY19 methodology.

Investing in our local communities

Our STEM (Science, Technology, Engineering and Maths) outreach programme recognises the value of inspiring the next generation of scientists and engineers and contributing to current and future skills shortages in these disciplines. There is clear evidence that giving young people the opportunity to engage with business has a positive impact on their future employability. Our people use their professional skills to make a positive difference, and our approach is to grow sustainable long-term relationships with local schools and youth groups such as cadets, near to our sites. In addition to STEM volunteering, our non-technical people use their professional skills to make a positive difference in our local communities.

2018 was the Year of Engineering, a Government-led national campaign in the UK, and throughout the year we communicated regularly both with our people and externally to raise the profile of the wide variety of rewarding career pathways available in engineering. While the Year of Engineering has come to a close, we will continue to support our network of STEM Ambassadors to provide real-world insights into engineering and inspire a diverse range of young people to choose careers in STEM.

This year our STEM Ambassadors engaged with over 90 schools and approximately 3,500 young people in the UK, through activities such as inspirational projects with our STEM Ambassadors, visits to our sites, mentoring, support with extra-curricular STEM and coding clubs, and careers fairs. We have also engaged with approximately 18,000 young people at larger events such as the Royal International Air Tattoo and Solent Festival of Engineering.

Outreach – Cadets

A visit to QinetiQ Haslar by a group of Sea Cadets from across the UK, participating in an inaugural engineering summer camp at HMS Sultan, Gosport, as part of the Year of Engineering. Our STEM outreach activities include supporting youth groups such as cadets as well as schools. Site visits and STEM outreach with cadets also form part of our Armed Forces Covenant commitments.

We recognise that STEM subjects have traditionally been seen as male dominated and so as part of our D&I strategy we continue to focus on attracting girls into STEM careers. 30% of our STEM Ambassador role models are female and we again supported International Women in Engineering Day, engaging with 195 girls from 20 different schools, and published blogs and videos featuring our female engineers from across the world, telling their stories.

Across QinetiQ Group we have a number of charity partners chosen by our people: Alzheimer's Society and Alzheimer Scotland, British Heart Foundation and Combat Stress in the UK, and a number of local charities chosen at many of our UK sites, as well as other charity partners internationally, such as Legacy in Australia. In addition to fundraising for these chosen partner charities, there are clear links with and we welcome their contributions to our wellbeing and D&I programmes.

Our commitment to the armed forces

As a signatory to the Armed Forces Covenant, we are proud of our support to the armed forces. In FY19 our Group HR Director was invited to speak at the AGM of SERFCA (South East Reserves Forces and Cadets Association) and we are the first company working with SERFCA to receive a Gold Award in the MOD Defence Employer Recognition Scheme. We undertake a broad range of activities including onward career support for the wounded injured sick (WIS) service personnel at Tedworth House.

Operating review

EMEA Services

	2019 £m	2018 £m
Orders excluding LTPA amendments ¹	534.6	355.9
Revenue	687.7	651.4
Underlying operating profit	96.3	94.3
Underlying operating margin	14.0%	14.5%
Book to bill ratio ²	1.2x	0.8x
Funded order backlog	784.2	709.6
Total funded order backlog ³	2,916.8	1,804.9

¹ Includes share of orders from joint ventures.

² B2B ratio is orders won divided by revenue recognised, excluding the LTPA contract and share of JV orders.

³ 2019 includes LTPA amendment signed 5th April 2019.

Overview

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

Financial performance

Orders for the year were £534.6m (2018: £355.9m), including £23.3m from the two companies acquired in the year, growing £157.1m (44%) on an organic basis excluding acquisitions and foreign exchange. The increase was driven by key orders won including £69m relating to Engineering Delivery Partner (EDP) and £41m for Battlefield Tactical Communications and Information Systems (BATCIS). Performance was particularly strong on smaller value contracts which accounted for £115m of the £157m growth.

Revenue increased by 6% to £687.7m (2018: £651.4m), including £15.1m from acquisitions, and increased by 4% on an organic constant currency basis, principally driven by our Cyber, Information & Training business.

At the beginning of the new financial year, 79% of EMEA Services' FY20 revenue was under contract, compared with 75% at the beginning of the prior year. The growth is a reflection of the increase in key multi-year contracts and securing of the LTPA amendment in April 2019, which is included in this figure.

Underlying operating profit was £96.3m (2018: £94.3m) assisted by ~£9m (2018: ~£8m) non-recurring trading items. Excluding these non-recurring trading items, the QinetiQ Germany acquisition and strategic investment into Inzpire and the effect of foreign exchange, underlying operating profit for EMEA Services increased by 2%. This is despite an approximate £5-6m headwind during FY19 (~£10m cumulatively over three years) due to the lower baseline profit rate for single source contracts, which was in line with our expectations.

Including the LTPA, approximately 70% of EMEA Services revenue is now derived from single source contracts (2018: approximately 75%), reflecting a greater proportion of revenue derived from competitive contracts. By investing in our core contracts and extending their duration we have increased the proportion of revenue contracted on a long-term basis, providing visibility and reducing our exposure to future changes in the baseline profit rate set annually by the Single Source Regulations Office.

Overall, we expect FY19 to have represented the peak in SSRO headwind at ~£5-6m. Based on changes to the profit rate for single source contracts and the actions we have taken, we expect the headwind from the SSRO to abate in FY20 and beyond.

FY19 review

Air & Space (26% of EMEA Services revenue)

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

- We continued to build on the investment made under the December 2016 LTPA amendment to modernise our test aircrew training, read more on page 25.
- BepiColombo, a joint mission between the European Space Agency and Japanese Space Agency to explore Mercury, that showcases QinetiQ's significant investment in developing ion engine technology, successfully launched in October 2018, read more on page 26.
- Our 'Aurora' partnership was successful in being appointed as the Engineering Delivery Partner for Defence Equipment & Support (DE&S), read more on page 26.
- Whilst we were disappointed that the MOD has cancelled the competitive process for ASDOT, we believe our synthetic and live-virtual-constructive technologies are increasingly relevant to the UK's operational training needs.

50%

Increase in orders

4%

Organic revenue growth



79%

of FY20 revenue under contract (FY18: 75%)

2%

Growth in underlying operating profit

We expect the headwind from the SSRO to abate in FY20 and beyond."

David Smith, Chief Financial Officer

Maritime, Land & Weapons (45% of EMEA Services revenue)

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

- In April 2019 we signed an amendment to the LTPA securing £1.3bn of revenue and saving taxpayers £85m, read more on page 25.
- Several high value trials were delivered including 'Information Warrior', a three-week exercise with the Royal Navy exploring the adoption of emerging technologies to secure information advantage at sea.
- We experienced strong demand from international customers. For example, in Australia we deployed our autonomous systems command, control and communication capabilities in support of a significant military exercise.
- We continue to work closely with the Royal Navy to develop their approach to Carrier Task Group operations. Supporting the Royal Navy in developing this strategic capability should deepen our relationship with a key customer and lead to further potential opportunities.

Cyber, Information & Training (CIT) (18% of EMEA Services revenue)

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

- We are repositioning our CIT business to be a 'Mission Assurance Partner' to key strategic clients in the defence and security markets. This should result in a change in the revenue profile of the business unit from short-term contracts to multi-year service and product revenue streams, increasing visibility and supporting growth.
- In line with this approach, in July 2018 we won a contract to support the UK Ministry of Defence in delivering next generation battlefield tactical communications and information systems (BATCIS) worth up to £95m, highlighting our progress in moving to multi-year service contracts. This win reflects our extensive technical capabilities and approach to delivering real innovation for customers.
- We were awarded a £10m contract to provide support to key combat aircraft mission data systems in one of our target markets in the Middle East.
- We completed our strategic investment into Inzpire, a leading provider of operational training, in November 2018. Inzpire is pursuing multiple opportunities in areas such as mission data and aircrew training.
- We opened a new office in Lincoln to act as a hub for our CIT business in support of the work we do with the UK's Royal Air Force in mission data and training. The hub will support our further growth in this critical area and our strategic investment into Inzpire.

International (11% of EMEA Services revenue)

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

- We completed the acquisition of E.I.S. Aircraft Operations in October 2018, read more on page 26.
- We expanded our consulting and customer advice side business in Australia:
 - A significant proportion of this work was awarded through integrated work packages made possible by our new status as a Major Support Provider, which was awarded to QinetiQ as part of Team Nova at the end of FY18.
 - As a result of these wins our Australian business achieved record order intake, breaking through the A\$100m mark for the first time.
- Recognising opportunities in South East Asia, we opened an office in Kuala Lumpur, Malaysia. We achieved two contract wins in the region: one to provide maritime design and hydrodynamic modelling services and the other to provide key engineering and test services for an indigenous product development programme. We will look to leverage our capabilities in Australia to support development in South East Asia.
- In the Middle East we now operate three joint ventures, and are seeing encouraging opportunities in the region. We anticipate that in FY20 the investments in these joint ventures will start to deliver increased contract wins, development of indigenous capability and product sales, but recognise that geopolitical issues remain a risk.

Supporting our customers' enduring need for capability assurance

Our increasing customer focus enabled us to win the competition for the Battlefield and Tactical Communications & Information Systems (BATCIS) contract, worth up to £95m over five years. BATCIS is strategically significant for us as it is our largest UK competitive win to date. The contract was awarded by the Joint Forces Command (JFC) Information Systems and Services (ISS) organisation, an area of the UK MOD we have not worked with regularly before. The award highlights our increased customer focus, and ability to innovate and to form industry partnerships to better meet our customers' needs.

£95m

Largest UK competitive contract win

Operating review *continued*

Global Products

	2019 £m	2018 £m
Orders	241.8	231.3
Revenue	223.4	181.6
Underlying operating profit	27.6	28.2
Underlying operating margin	12.4%	15.5%
Book to bill ratio	1.1x	1.3x
Funded backlog	216.8	200.5

Overview

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

Financial performance

Orders increased to £241.8m (2018: £231.3m) including a contract to deliver unmanned air system services to the Canadian armed forces and underpinned by growth on smaller contracts particularly in QinetiQ North America (QNA) and QinetiQ Target Systems (QTS).

The Global Products division had 60% of its FY20 revenue already under contract at the beginning of the new financial year compared with 51% at the same time last year, reflecting key multi-year contracts secured over the last two years.

Revenue was up 23% on a reported basis at £223.4m (2018: £181.6m). On an organic constant currency basis, revenue increased by 22% driven by new research work delivered by QNA for Common Robotics System Individual (CRS(I)) and Route Clearance Interrogation System (RCIS) and new QTS Banshee sales to the Indian Airforce and Army.

Underlying operating profit was £27.6m (2018: £28.2m) impacted by £1.7m of one-off charges in FY19 compared with £1.0m of one-off gains in FY18. Adjusting for these non-recurring trading items and the impact of foreign exchange, underlying operating profit increased by 7% at constant currency. This was driven by increased volume of product shipments in QTS and QNA, partially offset by an unfavourable change in product mix, with a lower volume of high-margin licence income in FY19.

FY19 review

QinetiQ North America (39% of Global Products revenue)

QinetiQ North America (QNA) develops and produces innovative defence products specialising in unmanned systems, survivability and maritime systems along with products in related commercial markets.

- QNA delivered a strong performance in FY19, winning two programs of record with the US Department of Defense (DoD) with initial values of up to \$44m and \$164m. Read more on page 26.
- The business was also awarded a \$90m Indefinite Delivery/Indefinite Quantity (IDIQ) contract to support the sustainment of the TALON family of robotic systems, providing on-going maintenance, upgrades and servicing of the US Army's existing, fielded fleet of TALON robots. The contract wins within the robotics market reflect our leading capability and create opportunities to work with the DoD to deliver further innovative solutions.
- We were unsuccessful in winning the Man-Transportable Robotic System (MTRS) Program of Record for the US Army. We undertook an extensive exercise to identify why we were unsuccessful and applied what we learnt to our subsequent successful bids.

OptaSense (11% of Global Products revenue)

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

- Our OptaSense business delivered strong order growth during the year in key areas of infrastructure and oil field services, including our first orders in the North Sea; the business enters FY20 with its largest backlog to date.
- Overall revenues remained stable during the period with a greater contribution from repeat customers as they increasingly recognise the value OptaSense creates.
- OptaSense has developed a new, innovative service-based model that has received positive traction in initial testing. If successful, this should deliver larger value contracts over longer durations increasing overall revenue visibility in the division.
- We continue to make good progress on the delivery of the 1,841km Trans Anatolian Natural Gas Pipeline (TANAP), our largest system award to date.

5%
Increase in orders

22%
Organic revenue growth



60%
of FY20 revenue under contract
(FY18: 51%)

2%
Decrease in operating profit

Our strategy is to expand the product portfolio and win larger, longer-term programmes."

David Smith, Chief Financial Officer

Space Products (11% of Global Products revenue)

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

- We delivered a contract for the preliminary design activities of the Altius Satellite. This European Space Agency (ESA) satellite will study the distribution of ozone in the earth's stratosphere and chart climate change. In FY20, we have the potential to convert this design contract into a further order for the Altius satellite.
- We invested in a new, higher grade clean room in facilities in Belgium allowing us to produce up to four major products at any one time. The Altius satellite and the International Berthing and Docking Mechanism are likely to be the first products to benefit from this investment.

EMEA Products (39% of Global Products revenue)

EMEA Products provides research services and bespoke technological solutions developed from intellectual property spun out from EMEA Services. It also includes various product-based acquired businesses including QinetiQ Target Systems (QTS).

- QTS continues to perform well. During the year we received our first contract for the sale of Rattler, our supersonic ground and air launched target that represents high dive, sea skimming missile threats. This first contract with the Royal Navy will see Rattler integrated and certified for use on UK ranges. This is the first new product released by QTS since the acquisition of the business at the end of 2016 and was developed with the technical support of the broader QinetiQ Group.
- Leveraging QTS expertise, we won our largest contract to date in Canada with a C\$51m contract to deliver unmanned aircraft systems (UAS) to the Canadian armed forces, read more on page 26.
- With our partner, we secured a contract for the provision of aerial target services to the UAE armed forces for weapons acceptance and training activities. We will be building our Banshee aerial targets in-country and opening a new product assembly and service facility in Dubai.
- We successfully launched our Obsidian counter drone system and won our first order from the Canadian Government. In addition, we expect the UK Government to go live with the system in the second half of FY20.

Small robot program of record

During the year we successfully won two US robotic programs of record, the largest of which was Common Robotic System-Individual (CRS(I)) worth up to \$164m.

CRS(I) is designed to be back-packable and is equipped with advanced sensors and mission modules for dismounted forces to enhance mission capabilities. The award of this contract was strategically significant for us as it demonstrated both our leading expertise in robotics and autonomy and our ability to create commercially compelling propositions.

Securing two programs of record increases our exposure to an attractive end market, and supports both our US and international growth aspirations.

Chief Financial Officer's review

A strong performance in FY19

David Smith
Chief Financial Officer

Financial performance

	Statutory results		Underlying* results	
(£m)	2019	2018	2019	2018
Revenue	911.1	833.0	911.1	833.0
Operating profit	113.8	141.0	123.9	122.5
Profit after tax	113.9	138.1	111.5	109.0
(p)				
Earnings per share	20.1	24.4	19.7	19.3
Full year dividend per share	6.6	6.3	6.6	6.3

	Underlying* results	
(£m)	2019	2018
Total funded order backlog ¹	3,133.6	2,005.4
Total orders ¹	2,031.7	687.4
Orders excluding LTPA amendments ²	776.4	587.2
Net cash inflow from operations	126.3	126.5
Cash conversion ratio	102%	103%
Free cash flow	35.5	56.3
Net cash	188.5	266.8

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

² Includes share of joint ventures, excludes LTPA contract amendments.

Overview of full year results

We reported a strong performance in FY19, delivering growth across orders, revenue and profitability and building on the strategic progress we have made over the past three years. Our rigorous focus on performance and ensuring we keep costs under control means we were successfully able to offset the well flagged headwind to profitability in the UK. We enter FY20 in a strong position, with a record order backlog and a robust balance sheet. Strong cash generation from the Company is expected to be sufficient to fund our organic investment, while net cash of £188.5m provides support for bolt-on acquisition opportunities.

Revenue was up 9% at £911.1m (2018: £833.0m), including a £15.1m contribution from E.I.S. Aircraft Operations (now known as QinetiQ Germany) and Inpire Ltd, which completed during the second half of FY19. Revenue grew by 8% on an organic basis, with a 4% increase in EMEA Services and a 22% increase in Global Products driven by strong performance in QinetiQ North America (QNA) and QinetiQ Target Systems (QTS).

Orders in the year excluding LTPA amendments totalled £776.4m (2018: £587.2m) a 28% increase on an organic basis. This was driven by a strong performance in EMEA Services in both large, multi-year contracts, such as Engineering Delivery Partner (EDP), and in smaller value contracts. Key orders won in FY19 included £69m relating to EDP, £41m for Battlefield Tactical Communications and Information Systems (BATCIS) and C\$51m for Canadian Armed Forces Unmanned Air System work.

At the beginning of the new financial year, 74% of the Group's FY19 revenue was under contract, compared to 69% at the same point last year. This reflects increased multi-year contracts and securing the LTPA amendment in April 2019, the work for which is included in the calculation.

Order bridge

Organic increase in orders

28%

Total backlog*

£3.1bn

FY18: £2.0bn

* Includes LTPA amendment signed post year end.

Definitions of the Group's 'alternative performance measures' can be found in the glossary on page 159.

Underlying operating profit was up 1% at £123.9m (2018: £122.5m), assisted by ~£7m (2018: ~£9m) non-recurring trading items including: a £6.9m gain on sale of aircraft following investment in a new fleet of aircraft for test aircrew training; a £5.4m benefit related to project risk re-assessments following technical successes on a major contract in the EMEA Services division; and a £5.0m charge relating to redundancy costs. During the year we completed the full acquisition of QinetiQ Germany and a strategic investment in Inzpire which together contributed £1.3m of operating profit in the five months of our ownership, as we increased investment to support future growth. Excluding the non-recurring trading items, the QinetiQ Germany acquisition and strategic investment into Inzpire, and the effect of foreign exchange, underlying operating profit for the Group increased by £3m (3%).

EMEA Services operating profit grew 2% (1% organic) offsetting an approximate £5-6m headwind due to the lower baseline profit rate for single source contracts, which was in line with our expectations. The level of non-recurring items was similar in both years and had minimal impact on EMEA Services growth. Global Products underlying operating profit fell by 2% but was impacted adversely by ~£2m of non-recurring trading items, and was up 7% on an organic basis (excluding non-recurring trading items) driven by increased revenue in QinetiQ North America and QinetiQ Target Systems.

Total operating profit was £113.8m (2018: £141.0m), including £3.9m amortisation of acquired intangibles (2018: £2.6m), £3.7m impairment of property (2018: £nil) and £2.0m acquisition costs (2018: £nil). FY18 profit was higher due to £14.6m profit recognised on the disposal of property and a £5.9m gain on the sale of intellectual property.

Underlying profit before tax increased 2% to £124.0m (2018: £122.1m), broadly in line with the increase in underlying operating profit, with underlying net finance income at £0.1m (2018: cost £0.4m).

Total profit before tax fell to £123.2m (2018: £144.8m) due to higher specific adjusting items in FY18.

Specific adjusting items

Specific adjusting items, shown in the 'middle column', at the profit after tax level amounted to a total net profit of £2.4m (2018: £29.1m). This included £3.9m (2018: £2.6m) amortisation of acquired intangible assets, £3.7m impairment of property and £2.0m acquisition costs, offset by £8.2m (2018: £4.2m) finance income related to the defined benefit pension asset and £3.2m (2018: £6.4m) of tax movements (see below). FY18 contained a significantly higher value of specific adjusting items due to a profit of £14.6m (2019: £0.2m) recognised on the disposal of property and a £5.9m gain (2019: £nil) on the sale of intellectual property.

Net finance costs

Net finance income was £8.3m (2018: £3.8m). The underlying net finance income was £0.1m (2018: cost £0.4m) with additional income of £8.2m (2018: £4.2m) in respect of the defined benefit pension asset reported within specific adjusting items.

Tax

The total tax charge was £9.3m (2018: £6.7m). The underlying tax charge was £12.5m (2018: £13.1m) with an underlying effective tax rate of 10.1% for the year ending 31 March 2019 (2018: 10.7%). The effective tax rate continues to be below the UK statutory rate, primarily as a result of the benefit of research and development expenditure credits ('RDEC') in the UK which are accounted under IAS 12 within the tax line. An adjusted effective tax rate before the impact of RDEC would be 15.0%. The effective tax rate is expected to remain below the UK statutory rate in the medium term, subject to any tax legislation changes, the geographic mix of profits, the recognition of unrecognised tax losses and while the benefit of net RDEC retained by the Group remains in the tax line.

A £2.8m credit in respect of initial recognition of corporate tax deductions for certain equity-settled share-based payment schemes has been classified as a specific adjusting item. Together with a £0.4m tax effect of the pre-tax specific adjusting items, the total specific adjusting items tax credit was £3.2m (2018: £6.4m).

At 31 March 2019 the Group had unused tax losses and surplus interest costs of £114.9m which are available for offset against future taxable profits.

Revenue bridge*

Revenue growth

9%

Underlying operating profit

£123.9m
FY18: £122.5m

* Excludes contribution from joint ventures of £1.9m.

Chief Financial Officer's review *continued*

Cash flow, working capital, capex and net cash

Underlying net cash flow from operations was £126.3m (2018: £126.5m) with an underlying operating cash conversion of 102% (2018: 103%). This included a £27.5m working capital unwind.

Net cash flow associated with capex increased to £80.7m (2018: £54.5m) following the settlement of £23.5m FY18 year end capex creditors in FY19. After paying tax and net interest of £10.1m the Group generated free cash flow of £35.5m (2018: £56.3m), before property disposal proceeds of £5.3m (2018: £23.1m).

Overall capex between FY20-22 is expected to be in the range of £70-100m per annum, of which the majority reflects our investment into the LTPA. Given the nature of our business model, we expect to be able to fund our capex requirements from operational cash flow.

As at 31 March 2019 the Group had £188.5m net cash (2018: £266.8m). The reduction in net cash was primarily due to the £81.2m of consideration and associated repayment of acquired debt for the acquisition of QinetiQ Germany and the strategic investment into Inzpire, and payment of £35.7m of dividends; these were partially offset by £35.5m free cash flow and £5.3m of property disposals.

In September 2018 the Group completed the re-financing of its revolving credit facilities, putting in place a new £275m facility with an 'accordion' facility to expand this up to a maximum of £400m. The facility has an initial term of five years with two one-year options to extend the final maturity to 27 September 2025. The larger facility size, longer term and additional operational flexibility provide the maximum scope to execute our strategic growth plans. QinetiQ has introduced positive incentive language into the facility agreement to reinforce our environmental, social and governance policies, and sustainability agenda; this has the effect of providing a modest margin adjustment of +/- 0.02% if we exceed greenhouse gas emission targets over the life of the facility.

Capital allocation

Priorities for capital allocation are:

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

Earnings per share

Underlying basic earnings per share increased by 2% to 19.7p (2018: 19.3p), benefitting from the higher underlying profit after tax. Basic earnings per share for the total Group (including specific adjusting items) decreased 18% to 20.1p (2018: 24.4p).

The average number of shares in issue during the year, as used in the basic earnings per share calculations, was 566.0m (2018: 565.2m) and there were 566.3m shares in issue at 31 March 2019 (all net of Treasury shares).

Dividend

The Board proposes a final FY19 dividend per share of 4.5p (2018: 4.2p) making the full year dividend 6.6p (2018: 6.3p). The full year dividend represents an increase of 5%, in line with the Group's progressive dividend policy.

Subject to approval at the Annual General Meeting, the final FY19 dividend will be paid on 30 August 2019 to shareholders on the register at 2 August 2019.

Pensions

In the UK, the Group operates a defined benefit pension scheme. The Scheme is closed to future accrual and there is no on-going service cost. Prior to the year end the Scheme completed its first bulk annuity insurance buy-in for approximately £700m. This transaction has removed longevity risk, interest rate risk and inflation risk for approximately one third of the Scheme and is in line with the Group's strategy of de-risking the pension liabilities. As a result of the transaction the accounting pension surplus recorded on the Group's balance sheet reduced by an estimated £120m with no related cash impact.

Group operating profit bridge

Cash conversion (pre-capex)

102%

Operating cash flow

£126.3m

FY18: £126.5m

The Scheme is in a very healthy position with the most recently completed actuarial valuation (prior to the buy-in) showing a surplus of £139.7m (as at 30 June 2017) and the net asset position, post the buy-in transaction, was £259.1m on an accounting basis under IAS 19 as at 31 March 2019 (2018: £316.2m). As at year end the Scheme was hedged against approximately 93% of the interest rate risk and 100% of the inflation rate risk, as measured on the Trustees' gilt-funded basis. Full details are set out in note 29.

During the reporting period the High Court ruled on a case involving Lloyds Banking Group in respect of equalising (between men and woman) Guaranteed Minimum Pensions ('GMPs'). QinetiQ's pension scheme has not been significantly impacted by this court ruling but an increase in liabilities of £0.7m has been recognised in the period, through a past service charge to operating profit. This is reported as a 'significant adjusting item' in the income statement in accordance with historical Group policy.

Implementation of IFRS 15 'Revenue from contracts with customers'

The adoption of accounting standard IFRS 15 for the Group's FY19 financial year has not had a significant impact on QinetiQ's reported financial performance. This was as expected given the nature of our contracts and QinetiQ's historic method of accounting (using 'percentage of completion' accounting for service contracts as opposed to milestone accounting). Additional disclosures (eg in respect of backlog and contract assets and liabilities) are required, and these will be provided in the financial statements.

Implementation of IFRS 9 'Financial instruments'

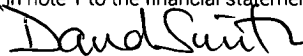
The adoption of accounting standard IFRS 9 for the Group's FY19 financial year has not had a significant impact on QinetiQ's reported financial performance. The Group assessed that certain financial assets would be reclassified from being measured at fair value through other comprehensive income to fair value through profit and loss. The changes to impairment and hedge accounting have not had a material impact on the results of the Group and these accounting policies have also been updated.

'Recent accounting developments adopted by the Group' within note 1 provides further insight into the implementation of both IFRS 15 and IFRS 9.

Implementation of IFRS 16 'Leases'

The new accounting standard IFRS 16 'Leases' will be adopted for the FY20 financial year. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice, i.e. lessors continue to classify leases as finance and operating leases.

The standard will be effective for periods beginning on or after 1 January 2019, i.e. FY20 for QinetiQ, using either the full retrospective approach or the modified retrospective approach. Early adoption is permitted but QinetiQ plans to adopt the new standard on the required effective date, 1 April 2019, using the full retrospective approach. The main impact on QinetiQ's financial statements in FY20 will be the introduction of a right-of-use asset on day one of approximately £23.8m, largely offset by an incremental lease liability of approximately £26.6m, i.e. a reduction in net assets of ~£2.8m. There will also be an immaterial impact on the income statement with <£1m of finance cost being reclassified from operating costs. Detailed analysis is included in note 1 to the financial statements in the Annual Report.



David Smith
Chief Financial Officer
23 May 2019

Corporate Governance

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A live testing of our counter drone technology, Obsidian, at our site in Malvern, UK. Obsidian is specifically designed to detect, identify and track small and micro drones.

Corporate governance statement

An introduction from our Chairman



My fellow Directors and I have worked extensively... to ensure that all voices – those of shareholders, employees, customers and communities – find their way to the board room.”

Mark Elliott
Non-Executive
Chairman

Dear Shareholder,

I am pleased to present this year’s corporate governance statement. As in previous years, this report should be read in conjunction with the section on how we have complied with the UK Corporate Governance Code on pages 65 to 67.

Supporting good governance

During my tenure as the Chairman of QinetiQ, my fellow Directors and I, have built a sound and robust corporate governance structure. This has proved invaluable during the year in progressing with the delivery of our strategy, and in testing and supporting our Executives’ decision making. Key issues considered by the Board during the year, are further described on page 59.

Preparation for the 2018 UK Corporate Governance Code

The 2018 UK Corporate Governance Code was published in July 2018, emphasising the need for boards to develop effective relationships with all stakeholders. In particular, boards are encouraged to ensure they find ways to hear the voice of employees. My fellow Directors and I have worked extensively on our approach to these important matters, to ensure that all voices – those of shareholders, employees, customers and communities – find their way to the board room. More information about how the Board considers stakeholders, including workforce engagement, can be found on pages 62 to 63.

The Board has created a clear action plan to implement the new Code and reporting requirements successfully, and we are confident that we will next year be able to report that the Company is compliant with the Corporate Governance Code and best industry practice.



Culture has been one of the most important focuses of the Company throughout the year, with a number of cultural workshops taking place across the Group."

Changes to the Board

I will be standing down as Chairman after the 2019 AGM. Michael Harper, as Senior Independent Director, has led a comprehensive search during the year to find my successor. This process is further outlined in the Report of the Nominations Committee on page 72. In April, my fellow Directors and I were delighted to welcome Neil Johnson to the Board. He will be working alongside me until the conclusion of the 2019 AGM. Neil's extensive experience as a CEO and Chairman will further strengthen the Board and enhance its knowledge and capabilities.

Diversity

The Board believes in the benefits of diversity and inclusion, and strongly supports the initiatives within our business in relation to these. Further details can be found on pages 39 and 73. It is the responsibility of the Board to monitor the Company's strategy on diversity and inclusion, and the Nominations Committee continues to keep diversity of the Board itself under close review.

Board evaluation

I will have served as Chairman for over nine years by the time I step down. The Board has faced many challenges during that time. We have used the annual evaluations of the Board and the Committees to ensure that we have been focusing on the right issues and adding value. We have also found the evaluation process to be helpful in ensuring that an open dialogue delivers good practice and establishes a culture of continuous improvement. The evaluation this year was conducted externally by Duncan Reed of Condign Board Consulting (further information can be found on page 64). I am pleased to report that the results of this year's anonymised evaluation shows that the Board continues to operate effectively. In addition, I am satisfied that each Director makes a valuable contribution to the work of the Board, and this is outlined in more detail in the biographies of the Directors on page 56 and 57.

Strategy meeting

The strategy of the business is at the core of the Board's thinking during the year, and in addition the Board dedicates one of its seven meetings to strategy only. Further details of this meeting can be found on page 60.

Culture

The delivery of our strategy and the success of the Company depends on a strong culture within the business, as well as benefitting the Company, our employees and other stakeholders. Culture has been one of the most important focuses of the Company throughout the year, with a number of cultural workshops taking place across the Group. The Interim Group HR Director regularly updated the Board on the initiatives, work and progress on the topic of cultural change within the business.

Conclusion

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

Mark Elliott

Non-Executive Chairman

Board of Directors

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

Committee membership key

A Audit N Nominations R Remuneration RC Risk & CSR S Security ■ Committee Chairman

Mark Elliott, N R RC
Non-Executive Chairman
Independent: Upon appointment

Skills, competence and experience: Mark is responsible for leading the Board and ensuring that it operates effectively. Mark's extensive business knowledge, experience on FTSE listed company boards, and his comprehensive international business and management experience, have been essential to his success in leading the QinetiQ Board as its Chairman.

Mark was a Non-Executive Director of G4S plc, where he also served as Senior Independent Director and Chairman of the Remuneration Committee. He was a Non-Executive Director of Reed Elsevier NV, and Reed Elsevier Group plc, where he also became Chairman of the Remuneration Committee. Mark worked for IBM for over 30 years, occupying a number of senior management positions, including General Manager of IBM EMEA, and was a member of IBM's worldwide Management Council.

Other appointments: Chairman of Kodak Alaris Holdings Limited.

Steve Wadey, RC S
Chief Executive Officer
Independent: No

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 and the Company. In addition, his extensive operational and corporate experience, is fundamental to his success in leading the Group's Executive management team, and developing and implementing the Group's strategy.

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

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

David Smith, RC S
Chief Financial Officer
Independent: No

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

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

Other appointments: Non-Executive Director of Motability Operations Group plc.

Michael Harper, A N R RC S
Deputy Chairman and Senior Independent Non-Executive Director
Independent: Yes

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

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

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

Lynn Brubaker, A N R RC
Non-Executive Director
Independent: Yes

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

Lynn has held positions as Non-Executive Director of Force Protection, Inc., Seabury Group, Graham Partners, Cordiem, the Nordam Group, the Flight Safety Foundation (as Chair), and as a member of the Management Advisory Council of the Federal Aviation Administration. Lynn was Vice President and General Manager of Commercial Aerospace at Honeywell International, and prior to that, she held a variety of roles in the commercial aerospace sector working for Allied Signal, the McDonnell Douglas Corporation, Republic Airlines and ComAir Airlines.

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

Admiral Sir James Burnell-Nugent, A N R RC S
Non-Executive Director
Independent: Yes

Skills, competence and experience: Sir James brings to the Board unique senior experience from the armed forces and of contracting with government. In addition to his Board contribution of deep customer knowledge, the Company also benefits from his experience in his roles as Chair of the Risk & CSR Committee and of the Security Committee.

During a 37 year career in the Royal Navy, which culminated in his appointment as Commander-in-Chief Fleet, he commanded the aircraft carrier HMS Invincible and three other ships and submarines.

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

Other appointments: Non-Executive Chairman of Witt Limited.

Ian Mason, A N R RC S
Non-Executive Director
 Independent: Yes

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

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

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

Appointed on 2nd April 2019

Neil Johnson, A N R RC S
Non-Executive Director
 Independent: Yes

Skills, competence and experience: Neil's former CEO experience and current roles as a plc Chairman and Non-Executive Director from numerous international businesses, including from the defence, automotive and engineering, and aerospace industries, brings to the Board relevant knowledge, challenge and leadership.

Starting his career at Sandhurst and the Army, Neil then 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, managing the demutualisation and sale process. Since 2012 Neil has been Senior Independent Director of the Business Growth Fund. He is also a former Director General of the EEF and was a Home Office appointed Independent Member of the Metropolitan Police Authority. He was Chairman of Motability Operations until March 2019.

Other appointments: Chairman of Synthomer Plc (and Chair of its Nominations Committee), Centaur Media plc and Electra Private Equity plc and the Senior Independent Non-Executive Director of the Business Growth Fund. Appointments explanation on page 66.

Paul Murray, A N R RC S
Non-Executive Director
 Independent: Yes

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

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

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

Company Secretary

Jon Messent,
Company Secretary and Group
General Counsel
 Independent: N/A.

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

Susan Searle, A N R RC S
Non-Executive Director
 Independent: Yes

Skills, competence and experience: Susan brings to the Board essential experience of investing in growing technology businesses, acquisitions and exploitation of new technologies. She has worked in the UK and Australia with academics and entrepreneurs on the development and commercialisation of new technologies. Susan's experience from a variety of commercial, business development and operational roles, and from serving on a variety of private company boards, enables her to provide both challenge and beneficial advice to Board discussions.

Susan was a founder of Touchstone Innovations plc, and its CEO until 2013. She has served on a variety of private company boards in engineering, healthcare and advanced materials. Susan was a Trustee of Fight for Sight, and a member of the international advisory Board of PTT. Previously, she held a variety of commercial and business development roles with Shell Chemicals, the Bank of Nova Scotia, Montech (Australia), and Signet Group plc.

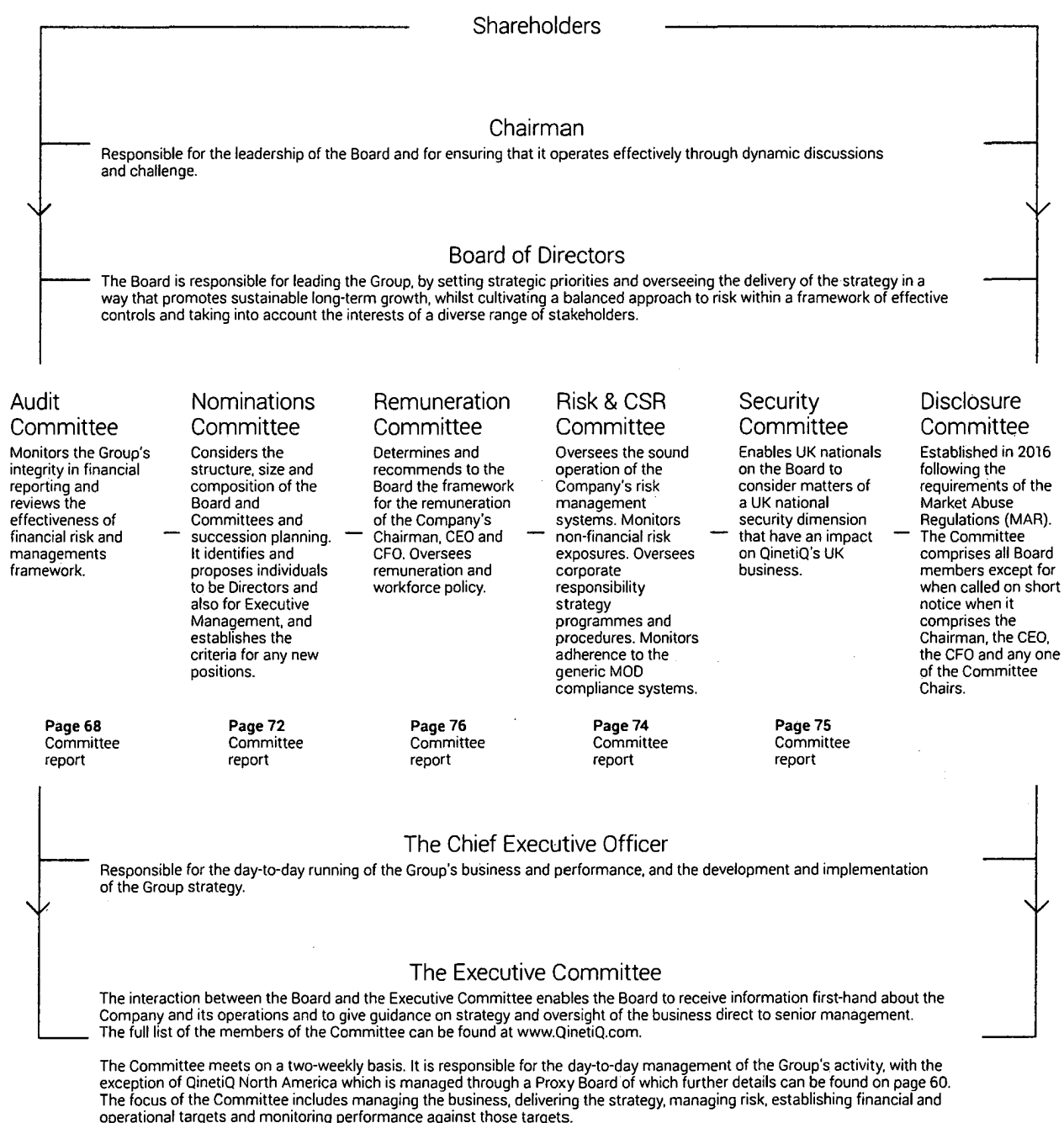
Other appointments: Senior Independent and Non-Executive Director and Chair of the Remuneration Committee of both Benchmark Holdings plc and Horizon Discovery Group plc. Chair of Woodford Patient Capital Trust plc and Mercia Technologies plc (and Chair of its Nominations Committee). Appointments explanation on page 66.

Corporate governance statement

Governance framework


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

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



Board activity

An insight into the year – practicing good governance

Topic	Key activities
Strategy	<ul style="list-style-type: none"> – Approved the FY20 component of the Group's five-year Integrated Strategic Business Plan – Approved the Group's overall five-year Integrated Strategic Business Plan – Approved an investment into Inzpire Group Limited – Approved the acquisition of E.I.S. Aircraft Operations in Germany – Approved the Royal Canadian Navy UAS ISTAR contract – Received presentation from management in relation to business strategy and performance – In-depth reviews of the M&A pipeline and specific M&A opportunities <p> Page 60 Annual Board strategy</p>
Operations and business performance oversight	<ul style="list-style-type: none"> – Approved the annual budget, business plan and KPIs (further details of the KPIs can be found on pages 28 to 31) – Reviewed and approved the Group's full year and half year results (including dividends), as well as its quarterly trading updates – Approved the Group's Annual Report (including its fair, balanced and understandable status) and Notice of AGM – Received regular updates in relation to the renewal of the LTPA contract – Received updates of the Group's operations in North America
Internal control and risk management	<ul style="list-style-type: none"> – Reviewed the Group's risk management framework and principal risks (further details can be found on pages 32 to 36) – Reviewed and confirmed the Group's Viability Statement and going concern status (further details can be found on page 37) – Reviewed and validated the effectiveness of the Group's systems of internal control and risk management (further details can be found on pages 66 to 67)
Leadership, people and culture	<ul style="list-style-type: none"> – Continued focus on the composition, balance and effectiveness of the Board – Received regular updates from the Nominations Committee on the recruitment process of Neil Johnson, as Non-Executive Director, Chairman designate – Reviewed the key operational roles and identified gaps in experience needed to deliver the Group's strategy – Considered the outcomes and approved the actions arising from the external Board evaluation process (further details of this process can be found on page 64) – Reviewed the Group's people strategy, culture, vision and values, including receiving reports on cultural change throughout the business – Approved the Board skills matrix – Reviewed and approved the Non-Executive Directors' fees – Held separate Non-Executive Director sessions with the Chairman after each board meeting to discuss leadership and other board matters
Governance and legal	<ul style="list-style-type: none"> – Received and reviewed regular updates on the corporate governance developments and legal and regulatory issues, including the 2018 Corporate Governance Code and the Companies (Miscellaneous Reporting) Regulations 2018, and approved action plans to ensure smooth transition and compliance with these – Approved the Group's third annual Modern Slavery Statement for publication on the Group's website – Received reports on engagement with institutional shareholders, investor and other stakeholders throughout the year. Further details of the Board's engagement with stakeholders can be found on pages 62 to 63 – Approved the appointment of Barclays plc to replace Bank of America Merrill Lynch as the Company's joint corporate brokers
Brexit	<ul style="list-style-type: none"> – Received regular reports on the impact of Brexit on the Group's strategy and in-year delivery, and approved action plans where necessary in relation to Brexit

Corporate governance statement

continued

Management and control of US subsidiaries

The US Global Products division, trading as QinetiQ North America, which contributed approximately £88m to the Group's revenue in FY19, operates under a Proxy agreement, as detailed below, with the remainder of the US business operating outside the Proxy regime and therefore following the same reporting lines and processes as the Group's other businesses.

US Global Products business and the Proxy agreement

QinetiQ North America is managed via Foster-Miller, Inc (FMI), a wholly-owned subsidiary of QinetiQ in the US. It has been placed under a Proxy agreement as is required by the US National Industry Security Program for main facility security clearances and to be insulated from foreign ownership, control or influence. Under the Proxy, FMI and the US Department of Defense (DoD) are parties to a Proxy agreement that regulates the management and operation of FMI. Pursuant to the Proxy, QinetiQ has appointed three US citizens who hold the requisite clearances as Proxy holders to exercise the voting rights in FMI.

In addition to their powers as Directors, the Proxy holders have power under the Proxy arrangements to exercise all prerogatives of share ownership of FMI. The Proxy holders have a fiduciary duty and agree to perform their role in the best interests of QinetiQ as shareholders (including the legitimate national security interests of the US). QinetiQ Group plc does not have any representation on the Board of FMI, and may not remove the Proxy holders other than for acts of gross negligence or wilful misconduct or for breach of the Proxy agreement (and always only with the consent of the US Defence Security Service).

In terms of the power to govern, the Proxy agreement vests certain powers solely with the Proxy holders and certain powers solely with QinetiQ. By way of example, the Proxy holders cannot carry out any of the below without QinetiQ's express approval:

- Sell or dispose of, in any manner, capital assets or the business of FMI
- Pledge, mortgage or encumber assets of FMI for purposes other than obtaining working capital or funds for capital improvements
- Merge, consolidate, reorganise or dissolve FMI
- File or make any petition under the federal bankruptcy laws, or similar law or statute of any state or any foreign country

Unlike minority interest holders with protective veto rights, QinetiQ can unilaterally require the above to be carried out and these are, therefore, considered to be significant participative features. In addition, QinetiQ can require the payment of dividends, and the pay-down of parent company loans, from FMI.

The Company maintains its involvement in FMI's activities through normal business interaction and liaison with the Chair of the Proxy Board. QinetiQ's CEO and/or CFO attended four meetings of the Proxy Board during the year and from time to time the Proxy holders attend meetings of the Board of Directors of the Company.

The President of FMI is a member of the Executive Committee. FMI commercial and governance activity is included in the business update provided in the regular executive report to the Board. This activity is subject to the confines of the Proxy regime to ensure that it meets the requirements that FMI must conduct its business affairs without external control or influence, and the requirements necessary to protect the US national security interest.

Board strategy meeting

The annual Board strategy meeting was conducted over two days in October 2018. The strategy meeting allows the Board to focus on debating the future direction of the business. It is also an opportunity to reflect on progress to date against the Group's strategy and the execution of the Integrated Strategic Business Plan (ISBP). In preparation for the day, the Board received background reading material, including:

- QinetiQ's trading environment
- Strategic progress
- Transformation / Enabling projects
- Strategically relevant investment options
- Summary of the Group's strategic context
- People strategy, including diversity and inclusion
- M&A pipeline

The meeting topics were mainly presented by senior members of the management team and other members of staff working with strategy matters. This led to insightful and productive discussions on reviewing the business, the Company's strategic goals and its approach going forward. The discussions considered strategic initiatives and more challenging potential business ideas over a five-year horizon.

Following the strategy meeting, insights and ideas generated were further discussed at the Board's meetings in November, January and March, and refined for incorporation into the latest edition of the ISBP. The importance of the strategy meeting lies in the opportunity for the Board to evaluate its strategic goals and to explore new themes and ideas in a conducive environment with senior leaders from across the business. A recent introduction of a 'vignette' approach to strategy discussions has proven to be a successful way of ensuring that sufficient focus is spent on the details while still keeping the bigger picture in view.



The discussions considered strategic initiatives and more challenging potential business ideas over a five-year horizon."

Visiting the business – Meeting our people

During FY19 the Board held three of its seven meetings at operational locations, enabling the Board to see first-hand how our operations are run and, importantly, engage with local teams at all levels. These are invaluable opportunities for the Board to experience the day-to-day work of the business and to gain a real insight into the Company's culture and values of the business in an operational setting, outside of the board room. All other board meetings were held at the London office.

Farnborough, UK – meeting with the Employment Engagement Group (EEG) and getting first-hand insight into QinetiQ's Internal Research & Development (IRAD)

In January 2019 the Board conducted a two-day meeting at QinetiQ's head office and technical facilities in Farnborough. During its visit, the Board was able to meet members of the Employee Engagement Group (EEG) informally over lunch. Further information about the EEG can be found on page 39. The Board also visited the Farnborough Academy Talent Centre. Finally, the Board took part in a walking tour of the Research & Development facilities (R&D), which was conducted and presented by the Group Director of Research, Experimentation & Innovation. The tour and presentation provided the Board with the opportunity to discuss and interact with the teams responsible for IRAD and also gave the Directors key highlights and insights into the risks and challenges they face.

"It is of fundamental importance for the Board that it gets a full and comprehensive understanding of the Company's IRAD developments. The Board greatly benefitted from the well prepared pre-reading materials, presentation and tour of the IRAD facilities."

Mark Elliott, Chairman

Visiting QinetiQ North America – Waltham, US

The Board and Committee meetings in March 2019 were held at QinetiQ North America's (QNA) head office in Waltham, Massachusetts in the United States.

The Board had the opportunity to tour the site and receive presentations from the local management on the key challenges facing the US business. The Board also spent time with employees, gaining valuable feedback on how QinetiQ's culture and values are operating at a local level.

"I found the walking tour in particular an excellent opportunity for the Board to gain an in-depth review of the QNA business and an understanding of the wider context on how QNA operates within the Group and the Group's strategy as a whole."

Susan Searle, Non-Executive Director

Visiting QinetiQ Target Systems in Ashford, Kent, UK

Based in Ashford, Kent, QinetiQ Target Systems (QTS), is a world-leading provider of unmanned air, land and surface vehicle targets for live-fire training and weapon system test and evaluation. In 2018, the Board held its September meeting at the QTS site, giving the Board the opportunity to visit the QTS site production facility. The visit, which was scheduled over two days, included a walking tour of the site, an opportunity for the Board to meet and liaise with the engineering and development teams, and receive a presentation from the management team.

"The visit to QTS brought alive how QinetiQ's culture and values are being integrated at local level."

Admiral Sir James Burnell-Nugent, Non-Executive Director

Corporate governance statement

continued

Stakeholder engagement

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

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

Topic	Key activities
Workforce engagement	<p>One of the focuses of the new Code is the Board's engagement with the Company's workforce, as outlined in Provision 5 of the 2018 Corporate Governance Code. The Board recognises that achieving the Company's strategy depends on the people of our business. During the year the Board has sought to find the most efficient and beneficial solution for QinetiQ, also supporting compliance with the Code. Following discussions during the year, the Board's has concluded on the following approach:</p> <p>The Chairman will effectively act as a Non-Executive Director designated to workforce engagement. As part of this role he will join at least two meetings a year with the Employee Engagement Group (EEG), which is a consultative forum that acts as the collective voice of all UK-based QinetiQ employees. In addition, the Senior Independent Director will join one EEG meeting a year to support appropriate engagement on Executive Director remuneration, as required by the Code, and at least half of the Non-Executive Directors will also meet the EEG each year on a rotational basis. Following these meetings the members of the Board will report back to their fellow Directors on their discussions with the EEG members.</p> <p>During the year of reporting, the Board found visits to various Company sites (of which further information can be found on page 61, both in the UK and in the US, and involvement with the Company's leadership community meetings (further information below), to be excellent opportunities to meet the workforce and to gain an understanding on how the Company's culture and values are embedded within the business. The Board will continue these important visits as part of its engagement with the people of QinetiQ. By way of example, the Board is planning to visit the Company's facilities in Australia in FY20.</p> <p>The Leadership Community meetings are meetings for senior managers across the business, which are held four times a year. The members of the Board each attend two of these meetings annually. In addition the members of the Board are invited to and attend the annual Employee Recognition Gala. These are further opportunities for the Board to engage with employees.</p>



The Board found visits to various Company sites... and involvement with the Company's leadership community meetings... to be excellent opportunities to meet the workforce and to gain an understanding on how the Company's culture and values are embedded within the business."

Topic	Key activities
Investor engagement	<p>The Company places considerable importance on communications with shareholders, both institutional investors and individual shareholders. This communication helps us to understand their views about the Company and allows us to ensure that they are provided with timely and appropriate information on our strategy, performance, objectives, financing and other developments.</p> <p>QinetiQ has a comprehensive investor relations programme through which the CEO, the CFO and the Group Director of Investor Relations & Communications regularly meet with the Company's institutional investors. The Board is informed on a regular basis about the views of key shareholders including noting any concerns. In addition, the Chairman proactively offers to attend meetings with key shareholders and he met with a number of the Company's major shareholders during the year.</p> <p>The Chairman and the Chairman of the Remuneration Committee also regularly engaged with major shareholders throughout the year on the Company's executive remuneration matters, including executive performance measures. Further details of this can be found in the report of the Remuneration Committee on pages 76 to 92.</p> <p>During the year, investor roadshows, which were attended by the CEO and CFO, were held in London and Edinburgh in the UK, and Boston and New York in the US. In addition, the Board members make themselves available to meet shareholders as required. Live webcasts of results presentations were provided and telephone briefings for analysts and investors took place in conjunction with these. Two investor seminars were also held to explain in more depth key aspects of QinetiQ's strategy.</p> <p>All shareholders and potential shareholders are invited and encouraged to visit the 'Investors' section on our website, www.QinetiQ.com, where important information for shareholders can be found. The site also provides contact details for any investor-related queries.</p> <p>The information about major shareholders can be found on page 94 and the analysis of shares held can be found on page 160.</p> <p>Constructive use of the Annual General Meeting</p> <p>The Board encourages all shareholders to participate in the Annual General Meeting (AGM) and to ask questions. All Directors attend the AGM and are available to answer any questions on the work of the Committees.</p> <p>The 2019 AGM is scheduled to be held on 24 July at the offices of Ashurst LLP, London Fruit and Wool Exchange, 1 Duval Square, London E1 6PW. The Notice of AGM and related papers will, unless otherwise noted, be sent to shareholders at least 20 working days before the meeting. For those shareholders who have elected to receive communications electronically, notice is given of the availability of the documents in the 'Investors' section on the Group's website.</p> <p>The Board invited a significant customer to one of its Board dinners during the year. This provided the Board the opportunity to gain invaluable first hand insight into the experience of being a QinetiQ customer."</p>
Customer engagement	<p>One of the Group's key priorities during the year has been to foster closer relationships with customers at all levels. This helps QinetiQ provide value for money and high performance technical solutions to its customers. Customer engagement is underpinned by related, intelligent and persistent communication through a variety of means, building a position of mutual understanding and genuine trust between the Company and the customer. QinetiQ prides itself on building such relationships, taking the time to understand its customers' strategic vision and needs in order to provide timely, effective and affordable solutions that tie into their organisational goals. Given that effective engagement is as much about attitude and behaviour as it is about delivering messages, QinetiQ's customer engagement is affirmed by the timely delivery of programmes, and acting as a genuine, flexible and helpful partner that demonstrates the desire to address customer issues as soon as possible.</p> <p>Managed by the Strategic Engagement Team, QinetiQ's engagement matrix nominates an Executive Committee-level sponsor and business relationship lead to each customer. The sponsor and business lead engage with their nominated customer(s) as business dictates or, as a minimum, at the frequency determined by the engagement matrix to gain a full understanding of any business opportunities or issues, and to ensure consistency of the Company's messaging. Progress and details of customer engagement are distributed to the Executive Committee and thereafter informed by the CEO to the Board.</p> <p>The Board invited a significant customer to one of its Board dinners during the year. This provided the Board the opportunity to gain invaluable first hand insight into the experience of being a QinetiQ customer.</p>
Community investment	<p>At QinetiQ we recognise that it is important that we interact positively with the wider community and environment in which we operate. Our community investment initiatives are further described on pages 38 to 43.</p>

Corporate governance statement

continued

Board performance evaluation

Every three years the Board carries out an external Board effectiveness review of the Board itself and its Committees. Following two internal reviews in 2017 and 2018, the Chairman, Mark Elliott, led the process, with the assistance of the Company Secretary, in finding the most appropriate independent external reviewer for the 2019 evaluation. The Chairman met with three such providers, resulting in the engagement of Duncan Reed of Condign Board Consulting (Condign). Neither has any other connection with the Group.

The evaluation process was as follows:

- 1 **Approach**
Meetings were held between the Chairman, the Company Secretary and Condign to discuss and agree the approach to the process.
- 2 **Individual face-to-face meetings**
Condign conducted face-to-face interviews with all Board and Committee members. In addition, Condign also met with the Group Director Strategy and Planning, the interim Group Human Resources Director, FIT Remuneration Consultants, the Group Financial Controller, the Audit Partner at PwC and the Group Director Safety and Governance.
- 3 **Feedback meeting**
The Chairman and the Company Secretary held a feedback meeting with Condign to provide their comments on the evaluation process.
- 4 **Data analysis**
Condign then collated the individual responses and compiled a confidential and non-attributable report of its findings. The report was initially issued to the Chairman and the Company Secretary, before being submitted to the members of the Board.
- 5 **Board and Committee review of outcome**
The Board and its Committees discussed the findings of the report and agreed a number of actions for the coming year, as set out in this report. The Board also discussed its performance generally and agreed that the Board had worked well together as a unit, discharged its duties and responsibilities effectively, and worked effectively with the Board Committees during the year.

Progress against prior year's review

Key findings	Action taken
Succession planning – focus on skills necessary for implementing the strategy	The Nominations Committee has extensively discussed this topic during the year. A detailed report from the Nominations Committee, including the latest changes to the Board and succession plans for FY20 can be found on pages 72 to 73.
Focus on operational effectiveness and supporting management's implementation of strategy	The annual strategy meeting is of particular benefit to the Board. Further details of this meeting can be found on page 60.

Key findings	Action taken
Leverage the Board's collective experience	The Board focused on using its distinctive strengths, collaborative working style, diversity, experience and maturity to support management in the most effective way.
People and culture – focus on challenging, supporting and evolving this area.	The Board considered the importance of the leadership role it plays in influencing and monitoring the Company's culture, in setting the standards of good behaviour that align with our values, and how to reinforce these formally in the board room and how to best support management to embed our values, beliefs and behaviours throughout the organisation. The Board was assisted in its discussions by the Interim Group Human Resources Director.

Priorities for the coming year

- Enhanced focus on matters that will be transformative in relation to results and performance and with applicability beyond individual countries, projects, companies or sites
- Agree key issues and any new priorities for the Board mandate for the upcoming year
- Cultural discussions – ensure a greater emphasis on experiences and examples to support the Board's debate
- Extend the programme of guests at the Board with the aim of gaining further understanding of stakeholders and competitors

The Board effectiveness review concluded that it was clear the Board was seen to be effective, engaging and helpful to the organisation. It became apparent during the effectiveness review process that the Chairman himself (further to his retirement at the July 2019 AGM) will be missed for his insight, personal qualities and commitment.

The Chairman-elect will inherit an increasingly experienced top team, and a stable Board, who between them are effectively deploying the Company's stated strategy.

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

The Chairman's individual performance

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

The Directors' individual performances

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

Compliance statement

Throughout the year QinetiQ has applied the principles and been compliant with the provisions set out in the UK Corporate Governance Code (the Code), published on 27 April 2016, which is available at www.frc.gov.uk

A. Leadership

A.1 The Role of the Board

The Board of Directors represents the interests of QinetiQ and its shareholders. The Board has ensured that there is a framework of prudent and effective controls which enable risk to be assessed and managed, along with key policies and procedures, and for the business to implement strategy and monitor operational performance through the Board's direction and advice.

The Board has a formal schedule of matters specifically reserved for its decision which can be seen at www.QinetiQ.com. Following the introduction of the 2018 Corporate Governance Code, the Board has reviewed and updated the schedule of matters reserved and limitations of authority to ensure they remain appropriate. The Board has adopted procedures relating to the conduct of the business including the timely provision of information, and the Company Secretary is responsible for ensuring that these are observed.

The Board has seven scheduled meetings throughout the year, which are held over two days. Details of the Directors' attendance can be found in the table below. Additional Board sub-Committee meetings and conference calls are held between the scheduled meetings as required. Non-Executive Directors are encouraged to communicate directly with Executive Directors and senior management between Board meetings via the Executive Directors and the Company Secretary.

The Chairman meets with the Non-Executive Directors, without Executives present, after each Board meeting. The Non-Executive Directors, led by the Senior Independent Director, meet with the Directors at least once a year without the Chairman being present, to evaluate the Chairman's performance. Further details of this can be found on page 64.

A.2 Division of responsibilities

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

A.3 The Chairman

The Chairman, working with the Company Secretary, sets the agenda for the board meetings and encourages an open and constructive debate. On appointment as Chairman in March 2010, Mark Elliott met the independence criteria as set out in the Code.

A.4 The Non-Executive Directors

Non-Executive Directors are appointed for an initial term of three years, subject to annual re-election in accordance with the Code. The Board undertakes an annual review of the independence of the Non-Executive Directors.

The Non-Executive Directors bring independent judgement on key issues affecting the Group and its business operations, including strategy, performance, resources and standards of conduct. They provide constructive challenge to management and help develop proposals on strategy.

A.4.1 Senior Independent Director

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

B. Effectiveness

B.1 Composition of the Board

The Board considers that, throughout the year, at least half of the Board, excluding the Chairman, comprised independent Non-Executive Directors and that the composition of the Board had the requisite balance of skills, experience, challenge and judgement appropriate for the requirements of the business and full Board effectiveness.

The skills and experience of the Board's individual members, particularly in the areas of UK defence and security, the commercialisation of innovative technologies, corporate finance and governance, international markets and risk management, have brought both support and challenge to the CEO, CFO and management team during the year. Full biographical details of all the Directors appear on pages 56 to 57.

Board and Committee attendance – 1 April 2018 to 31 March 2019

Members	Board	Audit Committee	Nominations Committee	Remuneration Committee	Risk & CSR Committee
Lynn Brubaker	7/7	4/4	8/8	6/6	4/4
Admiral Sir James Burnell-Nugent	7/7	4/4	8/8	6/6	4/4
Mark Elliott	7/7	–	8/8	6/6	4/4
Michael Harper	7/7	4/4	8/8	6/6	4/4
Neil Johnson (appointed 2 April 2019)	–	–	–	–	–
Ian Mason	7/7	4/4	8/8	6/6	4/4
Paul Murray	7/7	4/4	8/8	6/6	4/4
Susan Searle	7/7	4/4	8/8	6/6	4/4
David Smith	7/7	–	–	–	4/4
Steve Wadey	7/7	–	–	–	4/4

Compliance statement

continued

B.2 Board Appointments

The Nominations Committee oversees appointments to the Board. Further details of the role of the Nominations Committee and its activities during the year, including the details of the process of the appointment of Neil Johnson, can be found on page 72.

Disclosures on diversity can be found on pages 39 and 73.

B.3 Time commitment

Each Non-Executive Director must be able to devote sufficient time to their role as a member of the Board in order to discharge his or her responsibilities effectively. Prior to undertaking an additional external role or appointment, the Directors are asked to confirm that they will continue to have sufficient time to fulfil their commitments to the Company.

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

Susan Searle holds appointments in four other plc companies, in addition to her work with QinetiQ. However, one of these companies (Woodford Patient Capital Trust) is an investment trust and the other three are AIM listed companies. By nature, the time requirements for these roles are not as significant as at a FTSE 250 operating company such as QinetiQ. Therefore, the Chairman is satisfied that Susan has the time and availability to commit fully to her role as a Non-Executive Director of the QinetiQ Board.

At the date of this report, Neil Johnson, who was appointed a Non-Executive Director, Chairman designate, on 2 April 2019, holds three other Chairmanships. Neil has made preparations to stand down from his role as Chairman of Centaur plc on 30 June 2019. He is also the Chairman of Electra Private Equity, a former private equity firm which has returned over £2bn to shareholders in recent years and is now running off its final few investments prior to closing the fund, at which point he will also resign from this position. Neil will remain the Chairman of Synthomer Plc. In considering his appointment, the Board gave careful consideration to Neil's other appointments, how they would reduce prior to his proposed appointment as Chairman and subsequently concluded that he would effectively be the Chairman of two FTSE250 listed companies, and that accordingly he would be able to give the Company the time and commitment necessary to act first as a Non-Executive Director, and subsequently as its Chairman.

B.4 Director training and development

The Company Secretary organises site visits and training to suit Directors' individual requirements. This year Non-Executive Director site visits included Ashford, Malvern (Susan Searle and Mark Elliott only), and Farnborough in the UK; and Waltham, Massachusetts, in the U.S. External training was conducted by PwC, and briefings were made by the Company Secretary to the Board on corporate governance matters and regulatory changes, in particular on the new 2018 Corporate Governance Code and the Companies (Miscellaneous Reporting) Regulations 2018.

All Directors are expected to commit and take responsibility for their own development during their tenure. During the year of reporting, individual Non-Executive Directors attended various seminars and workshops covering matters such as cyber risks, diversity, remuneration trends and strategy development. In addition, the Directors are required to complete the annual business ethics training, as noted on page 41.

New Directors receive a comprehensive induction on joining the Board, which is tailored to their experience and background. David Smith, who was appointed in March 2017, successfully completed his induction during the year of reporting. Neil Johnson has recently commenced his induction, comprising site visits, meeting staff at all levels throughout the organisation, meeting with major shareholders and having access to comprehensive relevant briefing material.

B.5 Information and support

The Chairman, working in conjunction with the Company Secretary, ensures that the Board receives accurate, timely and clear information. Board papers are made available electronically, allowing sufficient time for review prior to each meeting.

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

The appointment and removal of the Company Secretary is a matter requiring Board approval.

B.6 Evaluation

The details of this year's Board evaluation, which was carried out externally, and an update on the recommendations from the evaluation in 2018 can be found on page 64.

B.7 Re-election

All Directors stand for re-election at each AGM and any term beyond six years is subject to a rigorous review, taking into account the need for progressive refreshment of the Board.

C. Accountability

C.1 Financial and business reporting

The Board has established processes to ensure that all reports and information, which it is required to present in accordance with regulatory requirements, represent a fair, balanced and understandable assessment of the Company's position and prospects. Details of the process for ensuring that this is the case, is set out on page 68. The Board considers that the Annual Report 2019, taken as whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, and performance, business model and strategy.

The going concern statement and viability statement are included on page 37, and a summary of the statements of Directors' responsibilities in respect of the Annual Report and the financial statements is set out on page 95.

C.2 Risk Management and Internal Control

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

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

The Board routinely challenges management to ensure that the systems of internal control are constantly improving in order to maintain their effectiveness. At its meeting in March 2019, the Board reviewed the effectiveness of the systems of internal control that were in operation during the year.

Further to this meeting, the Board confirms that it has carried out a robust risk assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity.

The report of the Audit Committee can be found on pages 68 to 71 and the report of the Risk & CSR Committee can be found on pages 74 to 75.

The Strategic report contains details of the Company's principal risks and uncertainties (see pages 33 to 35), their impact on the Company and how they are managed, including the Company's Three Lines of Defence Model (see page 32).

C.3 Audit Committee and Auditors

The Audit Committee is comprised entirely of independent Non-Executive Directors, and is chaired by Paul Murray, who continues to have recent and relevant financial experience. The Board considers the members of the Committee to be independent. In accordance with the Code, the Board concludes that the Committee as a whole possesses competence relevant to the Company's sector, having a range of financial and commercial experience in the industry and the commercial environment in which QinetiQ operates.

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

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

A full report of the Audit Committee is set out on pages 68 to 71. The Committee's formal terms of reference can be found at www.QinetiQ.com.

D. Remuneration

D.1 The level of components of remuneration

The principal responsibility of the Remuneration Committee is to determine and agree with the Board the overall remuneration principles and the framework for remuneration of the Executive Directors, the Company Secretary, and the other members of the Executive Committee. The report of the Remuneration Committee appears on pages 76 to 92. The terms of reference can be found on the corporate governance section of the Company's website at www.QinetiQ.com.

D.2 Procedure

When determining policy on Executive remuneration the Remuneration Committee takes into account all factors which it deems necessary, such as:

- Relevant legal and regulatory requirements and guidance
- The provisions of the Code
- The views of principal shareholders

Individual members of the Executive Committee are not present when his or her own remuneration is being determined.

E. Relations with Shareholders

E.1 and E.2 Dialogue with Shareholders and Annual General Meeting

The Company attaches significant importance to maintaining effective engagement with shareholders to ensure a mutual understanding of objectives and to deal with any issues of concern. The Chairman and the Executives meet regularly with institutional shareholders, and views are communicated to the Board as a whole. Institutional shareholders are offered the opportunity to attend meetings with the Senior Independent Director, or may request such meetings themselves.

The responsibility for communications with shareholders rests with the Executive Directors, assisted by the Group Director, Investor Relations and Communications. The Company Secretary oversees the communications with private individual shareholders. The Board receives reports of meetings with institutional shareholders together with regular market reports and brokers' reports which enable the Directors to understand the views of shareholders.

See page 63 for further details on the Board's engagement with shareholders. An analysis of the shareholder register, by type of holder and by size of holding, can be found on page 160.

Further details about the AGM can be found on page 95.

Report of the Audit Committee

Dear Shareholder,

I am pleased to present the report of the Audit Committee on the work carried out by the Committee during the last financial year. This report should be read in conjunction with the section on how we have complied with the UK Corporate Governance Code on pages 65 to 67. The Committee continues to operate on the basis of an open but challenging dialogue with management and with the internal and external auditors, and the application of an appropriate level of scrutiny.

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

Paul Murray
Audit Committee
Chairman

Paul Murray
Audit Committee Chairman

Main responsibilities

The Audit Committee monitors the Group's integrity in financial reporting and reviews the effectiveness of the financial risk management framework.

Activities during the year

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

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

Areas of focus	Action taken by the Committee
Longer-term viability statement	The Committee scrutinised and challenged the principle underpinning the statement for FY19, and concluded that the Group will be able to continue in operation and meet its liabilities as they become due. The Committee therefore considers it appropriate that the statement covers a five-year period. The statement can be found in full on page 37.
Financial reporting	<p>As a standing agenda item, the Committee focused on understanding the reasonableness of provisions and liabilities, both in terms of consistency of policy application and key judgements made by management and professional advisors. Considering the nature of the business and global market in which QinetiQ operates, comprehensive discussions were held by the Committee throughout the year where the Committee reviewed whether suitable accounting policies had been adopted, and whether management had made the appropriate estimates and judgements. In addition, support and assessment were sought from the external auditor. To facilitate this process, the Committee received presentations from the CFO and the Group Financial Controller and also received a report from the external auditor covering the key risk areas addressed during the audit, and the auditors' view of the key judgements made by management.</p> <p>Specific issues addressed by the Committee for the periods ended 30 September 2018 and 31 March 2019 include the following:</p> <ul style="list-style-type: none">- The basis for, and judgements made by management in determining, the liabilities recorded for onerous contracts, potential claims and other disputes. Specific items discussed include project risk re-assessments following technical successes on a major contract in the EMEA Services division (generating a one-off benefit to operating profit of £5.4m); a £5.0m charge in the year relating to redundancy costs; liabilities and accounting treatment of engine servicing obligations; liabilities and charges relating to property issues (taking into consideration the views of external advisors) and a number of other contract-related releases/charges- The carrying values of the Group's cash-generating units (CGUs). The major assumptions impacting on the net present value of future expected cash flows were also discussed. Certain discount rate assumptions and market growth forecasts are advised by external consultants- Assumptions used to value the net pension asset of £259.1m (as advised by the Company's external actuaries)- The basis for recognition of US tax losses and judgements in respect of the Group's tax reserves, including R&D expenditure credits- The disclosures in the interim statement, the preliminary announcement and Annual Report and Accounts, in particular those relating to 'specific adjusting items', to 'one-off' trading items and risk. In addition, the disclosures and key accounting judgements in respect of the acquisition of QinetiQ GmbH (formerly E.I.S. Holding GmbH) in Germany and the investment into Inzpire Group Limited, were reviewed. The valuations of acquired intangible assets were undertaken by an external firm of specialists in that area <p>Based upon the business assurance process and discussions with management and the external auditor, the Committee was satisfied that the accounting disclosures and assumptions were reasonable and appropriate for a business of the Group's size and complexity, that the external auditor had fulfilled its responsibilities in scrutinising the financial statements for any material misstatements and that the disclosures were satisfactory.</p>

Areas of focus	Action taken by the Committee
Fair, balanced and understandable	The Committee was required to provide advice to the Board on whether the Annual Report and Accounts, taken as a whole, provide a fair, balanced and understandable assessment of the Company's financial position and future prospects and provide all information necessary to a shareholder to assess the Group's performance, business model and strategy. Following the process established and reported on in previous years, and in forming its opinion, the Committee reflected on the information it had received and its discussions throughout the year. The assessment was assisted by an internal verification of the factual content by management, a review at different levels of the Group to ensure consistency and overall balance, and a comprehensive review by the senior management team and the external auditors. Following its review, the Committee was of the opinion that the FY19 Annual Report and Accounts were representative of the year and present a fair, balanced and understandable overview, providing the necessary information for shareholders to assess the Group's position and performance, business model and strategy. The external auditor confirmed their satisfaction with the standard achieved. The Board's statement in this respect can be found on page 37.

Financial reporting process

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

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

The internal control and risk management systems described on page 60 apply to the Company's process of financial reporting and the preparation of consolidated accounts. The internal audit and external audit functions, and the reviews by the Audit Committee and the Board, provide a structured approach to the review and challenge of financial information and financial reporting.

Internal controls

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

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

The process in respect of QinetiQ North America is adjusted to take into account the Proxy agreement referred to on page 60. The executive management function has regular contact with the Chair of the Proxy Board and with US Executive management, and the Group's internal controls have been applied as far as possible within the requirements of the Proxy regime. In addition, the Executive Directors attended meetings of the US Board during the year. The internal audit function continues to work closely with US management to gain assurance that an effective control environment is in place.

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

Internal audit

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

In addition, a Board Assurance Map ('BAM') process was commenced during the year. The BAM is based on the three lines of defence framework (set out on page 32) and addresses the following:

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

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

During the year a new Group Head of Internal Audit was appointed following the retirement of the previous person in position. The Chair of the Audit Committee and the Chair of the Risk & CSR Committee were involved in determining the role specification for the position and also in the interview process of the candidates. Commencing his role in October 2019, the new Group Head of Internal Audit has been able to provide fresh perspectives to the Audit Committee.

Report of the Audit Committee

continued

Audit Committee effectiveness review

The evaluation of the effectiveness of the Committee was conducted alongside the Board effectiveness review and carried out by way of face-to-face interviews with Condign Board Consulting. Further details of this process can be found on page 64.

The following actions had been noted from the 2018 effectiveness review:

- Value gained from PwC's first year as auditors
- Gaining an improved understanding of the control environment at QNA
- Focus on ensuring that the internal audit function continues to have the appropriate resources, processes and systems

These items were covered during the year under review.

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

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

External audit

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

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

The Company has a Code of Practice applicable to all employees which sets out the principles for regulating the award of non-audit work to the external auditor. The Code of Practice clearly articulates the non-audit services which are prohibited, the non-audit services which can be purchased and the key approvals that are necessary prior to the provision of non-audit work.

Pursuant to the Code of Practice, any non-audit services conducted by the external auditor require the prior consent of the CFO or the Chairman of the Audit Committee, and any services exceeding £50,000 in value require the prior consent of the Audit Committee as a whole. In addition, the Group's policy in respect of the award of non-audit work to the Group's auditors contains a detailed listing of prohibited services, which follows the Financial Reporting Council's guidance. For work that is not prohibited by type, the Audit Committee will take into consideration the size of the contract in proportion to QinetiQ's revenue and profit, and also the total size when aggregated with other contracts with PwC.

The Committee ensures that any advisory and/or consulting services provided by the external auditor do not conflict with its statutory audit responsibilities and are conducted through entirely separate working teams. Such advisory and/or consulting services generally only cover regulatory reporting, tax, and mergers and acquisitions work.

The Code of Practice enables the Committee to take corrective action if it believes that there is a risk of the external auditor's independence being undermined through the award of such work.

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

Review of non-audit work during the year

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

The Committee had concluded, prior to engaging PwC for the provision of these services, that there had not been any conflict of interest that might compromise the independence of PwC's audit work. Details of the external auditor's remuneration can be found in note 5 on page 121.

	2019		2018	
	£m	% of audit fee	£m	% of audit fee
Audit fees	0.7		0.6	
Non-audit:				
Audit-related assurance services	0.1	12%	0.1	12%
All other non-audit services	0.0	6%	0.0	1%
Total non-audit fees	0.1	18%	0.1	13%

Fees related to non-audit work services amounted to £111k, including £74k for audit-related services (2018: £75k including £72k for audit-related services).

Review of the effectiveness and the independence of the external auditor

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

Audit appointment

PricewaterhouseCoopers LLP, as the external auditor, is engaged to conduct a statutory audit and express an opinion on the Company's financial statements. Its audit includes the review and testing of the data which is to produce the information contained in the financial statements. PwC was appointed as auditor of the Group at the 2018 AGM following a tender process undertaken in 2017.

The current external audit engagement partner is Julian Gray, Senior Statutory Auditor, who has held his role since 2017. The time line for the mandatory appointment of a new external audit lead partner is five years. Under the EU audit reform legislation, companies are required to have a mandatory rotation of auditors after ten years, or 20 years if there is compulsory re-tender at ten years.

The Committee and the Board will be recommending PwC's re-appointment at the 2019 AGM.

Statutory audit services compliance

The Company confirms that, during the year under review, it has complied with the provisions of 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.

Employee reporting and guidance: Confidential reporting processes

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

Report of the Nominations Committee

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

Mark Elliott
Nominations
Committee Chairman

Main responsibilities

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

Dear Shareholder,

I am pleased to present the Nominations Committee report covering the Committee's key activities during the year of reporting. This report should be read in conjunction with the separate report on compliance with the UK Corporate Governance Code, which can be found on pages 65 to 67.

It has been a busy year for the Nominations Committee, overseeing the appointment process of Neil Johnson, who joined the Board in early April of this year. The process of his appointment is described further below in this report.

In FY20 the Committee will focus on implementation of the changes to the corporate governance framework, Non-Executive Directors' succession planning, Board diversity and findings of the Board and Committee evaluation.

Mark Elliott
Nominations Committee Chairman

Board succession planning

Appointment of Neil Johnson

Mark Elliott will be stepping down as Chairman at the conclusion of the 2019 AGM after just over nine years in post. In October 2018, a process was launched to identify and recruit a Non-Executive Director, Chairman designate. The candidate specification for this role was carefully prepared by the Committee as a whole, using the Board Diversity Policy, and as such ensuring that it was specific to skills and experience, appropriately neutral, and supportive of QinetiQ's diversity and inclusion strategy. The Committee specifically considered the following qualities in its search for the new Chairman:

- A proven track record as a successful leader in international and defence-related businesses
- Broad knowledge and demonstrable expertise of operating in international businesses
- Credible relationships with relevant external stakeholders
- Strong experience of working with government and partners
- A strong track record of project delivery
- Leadership within a strong and value-based culture

A working group of the Nominations Committee, led by the Senior Independent Director, conducted an extensive and rigorous search for the new Chairman. The working group considered three potential external executive search firms, all of international standing and fully conversant with the benefits that diversity and inclusion brings. Russell Reynolds were chosen to conduct the search, and they produced a diverse list of candidates, including strong female candidates. Susan Searle and Michael Harper initially met with the candidates and, upon their recommendation, the Committee agreed on two preferred candidates. The members of the Committee individually met with both candidates. Based on merit, the Committee ultimately established Neil Johnson to be the best candidate for the position and therefore recommended him to the Board for the appointment of Non-Executive Director, Chairman designate. This meeting of the Nominations Committee was chaired by the Senior Independent Director.

Upcoming changes to the Board

Admiral Sir James Burnell-Nugent has this year served nine years as Non-Executive Director and Chairman of the Risk & CSR Committee. Once more, Russell Reynolds, has been engaged in assisting with finding candidates with relevant Senior Crown Servant experience, equivalent to that of Sir James. The guidance from the Advisory Committee on Business Appointments (ACOPA) restricts appointments of former Senior Servants to the Crown from working in the UK defence market for two years from their last day in post. In addition, work as a consultant or advisor in the defence sector, can also not be undertaken under the same time limit. Owing to this restriction, the Committee has thus far not identified a candidate who would provide the requisite experience and be available in the near term. In light of this, Sir James has agreed to continue his role for a further year until suitable candidates have been found. In accordance with Code Provision B.1.1. of the 2016 UK Corporate Governance Code, the Board has undertaken a rigorous review, without Sir James in attendance, to determine whether he is still independent in character and judgement. Following this review, the Board was satisfied that he continues to remain independent. The Committee based its decision on its view that Sir James has been, and continues to be, excellent in his role as Non-executive Director of the Board and also in the effective way in which he chairs the Risk & CSR Committee, all of which is evidenced by the annual Board evaluations.

For FY20, the Committee will continue to focus on Board succession planning.

Non-Executive Directors' appointment and retirement dates

Name	Appointment date	6-year date	9-year date
Mark Elliott	1 Mar 2010 (as Chair)	1 Mar 2016	1 Mar 2019
Admiral Sir James Burnell-Nugent	10 Apr 2010	10 Apr 2016	10 Apr 2019*
Paul Murray	25 Oct 2010	25 Oct 2016	25 Oct 2019
Michael Harper	22 Nov 2011	22 Nov 2017	22 Nov 2020
Susan Searle	14 Mar 2014	14 Mar 2020	14 Mar 2023
Ian Mason	3 June 2014	3 June 2020	3 June 2023
Lynn Brubaker	27 Jan 2016	27 Jan 2022	27 Jan 2025
Neil Johnson	2 Apr 2019	2 Apr 2025	2 Apr 2028

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

Board experience and balance

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

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

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

Following this review the Committee is satisfied that the Board currently has an appropriate mix of skills, knowledge and experience to operate effectively. The Directors, individually, bring a range of skills gained in diverse business environments and have excellent track records obtained from working in a number of sectors. Further details about the particular skills, knowledge and experience each Director brings to the Board can be found in the Directors' biographies on pages 56 to 57.

Executive succession planning

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

Diversity and inclusion

Board diversity policy

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

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

Further details about the gender balance of the Executive Committee and their direct reports can be found in 'Our People' section on page 39.

Objectives and progress

As at the date of this Annual Report the Board comprises 20% women, which is a smaller number than the Board aspires towards. This number will change to 22% when Mark Elliott steps down from the Board at the conclusion of the 2019 AGM.

The Board is committed to progress against the targets, both in relation to gender and ethnic diversity, as set out in the Board Diversity Policy. The Company's mandatory requirement for a diverse candidate pool ensures that we continue to have the opportunity to recruit candidates from all gender, cultural and ethnical backgrounds. When drawing up selection criteria for a Board recruitment process the Committee will have regard to diversity in its widest sense, but will remained focused on recruiting the best candidate for any role based on merit. The recruitment process for Neil Johnson, as described on the previous page, is an example how the Board Diversity Policy was applied in practice.

Page 39 describes the progress of our Diversity and Inclusion Programme, including progress against the Board Diversity Policy in connection to the Executive Committee and its direct reports. Diversity and Inclusion in relation to the other employees of QinetiQ are covered by other policies and procedures of the Company. Succession plans are continually being reviewed in light of opportunities to develop high calibre employees and improve diversity.

Effectiveness of the Committee

The effectiveness of the Committee is monitored and assessed regularly by Mark Elliott, as the Chairman of the Committee and Chairman of the Board, and as part of the board performance evaluation. The overall outcome of the external FY19 review (further details of this process can be found on page 64) of the Committee was positive, and in particular it was noted that the Committee would be increasingly busy and it would be beneficial for the Committee to continue to use a sub-Committee for succession activities as had been done during the most recent recruitment process to the Board.

Report of the Risk & CSR Committee

**Admiral Sir James
Burnell-Nugent**
Risk & CSR
Committee Chairman

Main responsibilities

The Committee has three primary functions:

- To oversee the sound operation of the Company's risk management systems
- To monitor non-financial risk exposures, including security, trade controls, ethics, corporate responsibility and health, safety and environment
- To monitor adherence to the generic MOD compliance system



The sampling approach of risk, by way of deep-dives, relating to certain sites and projects, was successfully used by the Committee as a way to ensure it kept focus on details while keeping the bigger picture still in view."

Dear Shareholder,

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

The review of the Group Risk Register, which is described further on pages 33 to 35, continues to be fundamental for the Committee to undertake its duties. This year the Committee spent further time, in conjunction with the Executive Committee, on ensuring that the Group Risk Register remains relevant and accurate. 'Red' risks are made the subject of a report to the Committee or become the subject of a deep-dive review as part of the Company's risk management processes.

At QinetiQ we realise that our business has an impact on the communities and environment in which we operate. The Committee and the Board recognise the importance of leading a responsible and sustainable company and was pleased to receive reports from the Group Director Corporate Responsibility during the year, covering areas such as environment, business ethics and code of conduct, emerging reputational risk, diversity and inclusion, stakeholder engagement, trading policy and Modern Slavery Act reporting. You can read more about all of the above in the 'Our people' section on pages 38 to 43.

Details of risk management and internal control processes and the Company's principal risks and uncertainties can be found on pages 66 to 67 and 33 to 35, respectively. In addition, further details about internal controls and financial risks, can be found in the Report of the Audit Committee on pages 68 to 71.

This report should be read in conjunction with the section on compliance with the UK Corporate Governance Code, which can be found on pages 65 to 67.

Admiral Sir James Burnell-Nugent
Risk & CSR Committee Chairman

Good governance supporting the Group's risk management activities

During the year the Committee met on four occasions. All the members of the Board attend the Committee meetings as a Committee member. In addition, the Group Director, Safety and Governance and the Group Head of Internal Audit are invited to attend each meeting. Other senior staff members, such as the Group Head of Enterprise Risk Management and the Group Head of International Governance, are also invited to attend when required. The Group Director, Safety and Governance presents to the Committee twice each year. To enable the Committee to get a comprehensive understanding of how risk management processes have been implemented and to ensure that these are fully embedded within the business' day-to-day work, deep-dives are presented to the Committee by employees who have first-hand knowledge of such matters, i.e. perform the work on a daily basis.

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

Key activities undertaken by the Committee during the year

Risk management	<ul style="list-style-type: none"> Review risk management structures and reporting lines (i.e. effectiveness of control environment) Effectiveness of risk reporting processes Review effectiveness of risk identification processes Consideration of external auditor recommendations relating to risk management
Risk monitoring	<ul style="list-style-type: none"> Review of risk register and key exposures Health, Safety & Environmental Performance Internal Audit reports International business governance Anti-bribery and corruption Cyber & Security
Corporate responsibility	<ul style="list-style-type: none"> Modern Slavery Act Corporate Responsibility Programme and focus Ethics training People (culture, recruitment, retention and equality, diversity & inclusion)
Deep-dives	<ul style="list-style-type: none"> Diving – QinetiQ Haslar Marine Technology Park Aerial targets at QinetiQ Hebrides and Aberporth Ranges Non-ionising radiation – QinetiQ Portsmouth Technology Park Group property high hazard maintenance – QinetiQ Farnborough

Self-certification process

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

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

Generic MOD compliance system

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

The system is designed to give the MOD customer confidence that QinetiQ is able to provide impartial advice during any competitive evaluation of a procurement opportunity where the Group wishes to operate on both the 'buy' and the 'supply' sides. The aim is to achieve a balance between meeting the needs of the procurement customers in the MOD (principally Defence Equipment & Support) and the need to allow QinetiQ the flexibility to commercialise research into the supply chain and pursue its planned business activities, without compromising the defence or security interests of the UK. The Board nominates two senior executives to act as Compliance Implementation Director 'CID' and Compliance Audit Director 'CAD'. During FY19 the CID role was held by the Group Director, Safety and Governance. The CAD role was held by the Company Secretary. In FY20, the CID role transferred to the Group Commercial Director.

Oversight of the operation of the compliance system is provided by the Committee. During the year the Committee received an annual report from the Group Director, Safety and Governance and the internal audit function on the compliance areas that it monitored. A typical report includes a summary of the scope and an Executive summary of the findings with an audit opinion, with agreed associated time-bound action plans.

Effectiveness review

The evaluation of the effectiveness of the Committee during FY19 was conducted externally, by way of an interview processes carried out by Condign Board Consulting (further details of the review process can be found on page 64).

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

- A focused session on the risk attached to strategy to be planned for FY20

Report of the Security Committee

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

Membership and attendance during the year

The Security Committee is chaired by Admiral Sir James Burnell-Nugent and the other Committee members during the year were Michael Harper, Ian Mason, Paul Murray, Susan Searle, David Smith and Steve Wadey. Neil Johnson has also joined the Committee upon his appointment as Non-Executive Director on 2 April 2019.

Main responsibilities

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

Directors' remuneration report

Chairman's statement

Michael Harper
Remuneration
Committee
Chairman

Dear Shareholder,

As the Group Chairman has outlined in his statement on page 14, strong progress has been made by the CEO and the Executive Committee during the third year of our ambitious strategy to modernise and grow our business. This progress is evident in three successive years of organic revenue growth and a 3% increase in FY19 organic operating profit excluding non-recurring trading items. This business performance has been reflected in the strong share price performance and shareholder returns over the year, as shown on page 87.

The annual contribution to the Bonus Banking Plan (BBP) pool for FY19 for the CEO and CFO is higher than for FY18 reflecting the improved performance against plan.

The second award under the Deferred Share Plan (DSP) will be granted at close to the maximum opportunity for Executive Directors which reflects excellent performance against the non-UK revenue growth target set at the start of the year. The DSP award provides a contingent share award which vests in three years to our top 200 leaders, thereby aligning their reward to the shareholder experience through the delivery of future profits and share price growth. The FY19 DSP shares will only fully vest if the level of underlying operating profit in FY19 (£122.6m – excluding the contribution from businesses acquired in year) is at least maintained in FY22.

The FY19 CEO single figure on page 81 shows an increase of 54% on FY18 which has been seriously considered by the Remuneration Committee against the performance of the business, and we believe it is a fair outcome which reflects our commitment to pay for performance; over half of this increase is due to the legacy Performance Share Plan vesting reflecting the share price growth over the year.

The business context in FY19

Three years ago we launched a strategy to deliver sustainable, profitable growth. The strategy focused on leading and modernising UK test & evaluation, becoming a more international company and effectively applying commercial and technological innovation. Since implementing this strategy, we have turned around five years of revenue decline and are now delivering sustainable growth. The progress the business has made since this strategy was developed, and particularly in FY19, is all the more satisfying given the significant market headwind we have faced. In FY19, these headwinds peaked and represented a ~£5m drag to operating profit, cumulatively ~£10m over three years. The fact that our management team were able to

Our Directors' Remuneration Report is organised into the following sections:

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This report complies with the Large and Medium-sized Companies and Groups (Accounting and Reports) (Amendment) Regulations 2013 as well as the Companies Act 2006.

During FY19 the Committee met six times with full attendance at each meeting (detailed summary of attendance is provided on page 65).

The full terms of reference of the Remuneration Committee can be found on the QinetiQ website (www.QinetiQ.com).

successfully lead a company through a period of significant transformation and, in parallel, overcome such strong market headwinds to grow profitability is a great achievement. The signing of the amendment to the Long Term Partnering Agreement in April further underpins the strength of the business and provides a strong platform for future growth.

The Directors' Remuneration Policy

Shareholders approved the Directors' Remuneration Policy at the AGM in 2017 and FY19 represents the second year of the implementation of this policy.

In our FY18 Annual Report we enhanced disclosure and transparency on directors' remuneration to enable our shareholders to review decisions taken during the year as we implement the Policy. This was welcomed by shareholders and this year's report continues in a similar theme with additional disclosures and clear presentation. For example, the Committee decided to publish the CEO pay ratio for FY19, a full year before being required to do so by the new UK Corporate Governance Code.

We trust that improving communications in these ways will ensure both the successful implementation of the Policy and continued shareholder support.

One of the key areas of focus for the Committee in FY20 will be consideration of the Directors' Remuneration Policy for shareholder approval at the July 2020 AGM and we look forward to engaging with our shareholders to seek their views and support.

Incentive outturn for FY19

The FY19 BBP outturn for the Executive Directors was 94.4% and 93.1% of the maximum for the CEO and the CFO respectively. This outturn is higher than that for the previous year (66.7% and 66.1% of maximum for the CEO and the CFO respectively), which reflects the fact that performance exceeded the stretch target set by the Committee on all three core FY19 financial metrics of orders, profit and cash.

Of the FY19 BBP outturn noted above, 50% will be paid in cash and 50% deferred into the BBP, where it will remain at risk of forfeiture for a further two years (see page 84 for the details). These deferred amounts are already reported as remuneration in the year they were earned.

The second DSP award will be made in June 2019 at 99.4% of the maximum available, reflecting performance against the non-UK

revenue growth target, taking International from 27% to 30% of Group revenue over the last year. However, this DSP award will not vest in full unless the FY19 profit performance (£122.6m) underpin is achieved in FY22. Even then the vested shares must be retained for a further two years. The 2019 DSP award is, therefore, an initial contingent share award in a six-year programme providing a clear link to sustainable long-term performance and the shareholder experience.

Shares awarded under the legacy Performance Share Plan (PSP) in 2016 will vest in July 2019 to the CEO at 31.7% of the initial award based on a partial achievement of the Total Shareholder Return target. The Earnings Per Share target was not achieved and this part of the 2016 PSP award will lapse. This was the last full award under the PSP, a legacy plan replaced by the DSP which has more agile growth-focused targets.

Incentive targets for FY20

The Bonus Banking Plan for FY20 is based on the same financial metrics as in FY19 (orders, profit and cash) with stretch targets set against the delivery of the Integrated Strategic Business Plan (ISBP). Financial metrics have a 75% weighting. For FY20 the payment for target performance has been reset as 50% of the stretch level, having previously been 60%. Non-financial targets have a 25% weighting based on the achievement of collective and personal objectives with a target payment of 50% of stretch, as per previous years.

In support of the ISBP, as per FY19, the FY20 DSP performance measure is absolute growth in international revenue above that delivered for FY19. We have also agreed strong underpins to ensure that FY19 profit margins are maintained on non-UK revenue in FY20 and Group operating profitability must be at least equal to FY20 performance in FY23, as detailed on page 91. The Remuneration Committee carefully considered the performance measure for this award and agreed that this continues to be the appropriate metric to drive growth at this stage of the development of the Company. The targets have been set to be stretching by requiring accelerated international revenue growth and achieving the target level of performance results in an award of 35% of the maximum available.

Employee engagement and reward

All QinetiQ's employees are key to the delivery of the strategy. The CEO and the Group HR Director have held regular discussions with our Employee Engagement Group on reward matters including executive remuneration. The people section on page 38 details our employee engagement activity including the introduction of a new employee engagement tool in FY19.

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

In FY19 the Company introduced an All Employee Incentive Scheme (AEIS) whereby every employee can earn a fixed amount if the Company achieves a level of operating profit within a pre-determined range from target to stretch. I am delighted to confirm that the AEIS will pay out at the maximum level of £1,000 to all employees, a truly excellent result, aligning employees and shareholder interests by incentivising and rewarding profitable growth. The Company will operate the AEIS again for FY20.



The Remuneration Committee carefully scrutinises financial performance as it relates to incentive payments and is satisfied that FY19 payments are appropriate and fair, reflecting performance in the year."

Conclusion

The Directors' Remuneration Policy was approved at the 2017 AGM and is summarised on page 80. It is also available to view in full on the Company's website www.QinetiQ.com.

Implementing this Policy in FY19 in the interests of shareholders has been the primary focus of the Remuneration Committee.

FY19 was an outstanding year for QinetiQ as we deliver against our strategy. The Remuneration Committee carefully scrutinises financial performance as it relates to incentive payments and is satisfied that FY19 payments are appropriate and fair, reflecting performance in the year.

I am very grateful for the time shareholders and their representative bodies have given us throughout the year and I hope that we can rely on your vote in favour of the Annual Report on Remuneration at the AGM on 24 July 2019.

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

Michael Harper
Remuneration Committee Chairman
23 May 2019

Directors' remuneration report

At a glance

How to use this report

This 'At a Glance' section highlights the performance and remuneration outcomes for the year ended 31 March 2019 with greater detail provided in the Annual Report on Remuneration.

Key

- Fixed pay
- Bonus Banking Plan (BBP)
- Deferred Share Plan (current policy, DSP)
- Performance Share Plan (old policy, PSP)
- Shareholding guidelines
- Denotes a KPI (see page 28)



Audited information

Content contained within a grey box, accompanied by this 'Audited information' icon, indicates that the information has been audited.

Performance in 2019

The BBP measures annual performance against three financial KPIs (75% weighting) and other key strategic, operational and personal targets (25% weighting). Annual financial performance was excellent and the Company achieved above stretch levels of performance on orders, profit and cash. Against non-financial measures, recognising the exceptional personal contribution to Company performance of both Executive Directors during the year, the CEO and the CFO received payments of 77.5% and 72.5% of the maximum respectively. The DSP award for FY19 reflects non-UK revenue growth at a level just below the maximum, however the operating profit performance for FY19 (£122.6m – excluding the contribution from businesses acquired in year) must be maintained in FY22 for the shares to vest in full. The 2016 PSP partially vested driven by share price appreciation in the year.

Measure and target for DSP and performance outturn

- Non-UK revenue*, FY18 Result+ £m, absolute growth (100% weighting)

FY19 DSP annual target level of performance was exceeded, but performance was just below the maximum stretch level. The vesting of the award is subject to a performance underpin that means the Company must meet or exceed the £122.6m operating profit performance for FY19 in FY22 for full vesting.

Strategic, operational, personal (25% weighting)

CEO and CFO 77.5% and 72.5% aggregate achievement respectively as detailed on page 83.

What we paid our executives this year

The charts below illustrate FY19 potential opportunity against FY18 and FY19 actual pay for both Executive Directors. Actual pay excludes benefits. The actual pay for both Executive Directors reflects excellent Company and individual performance in FY19.

CEO: Steve Wadey (£'000)

CFO: David Smith (£'000)

Shareholding requirement

In line with the Directors' Remuneration Policy, the minimum shareholding requirement is 300% of salary for the CEO and 200% of salary for the CFO. The current shareholding of the Executive Directors illustrated below reflects their relatively short length of service. The Committee reviews progress made towards the guideline and is confident that the implementation of the Policy through the operation of the BBP and DSP will increase the shareholdings given strong Company performance.

Components of remuneration – timing

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

Our remuneration principles

Flexible

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

Stretching

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

Aligned


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

Directors' remuneration report

Summary Directors' Remuneration Policy

The Directors' Remuneration Policy was approved by shareholders at the AGM on 19 July 2017. The full Policy is provided in the Corporate Governance section on the Company's website, and it will remain in effect until the 2020 AGM. A summary of the Policy is set out below:

Element	Policy summary description	Maximum opportunity
Base salary	When determining an appropriate level of salary, the Committee considers: <ul style="list-style-type: none"> – general salary rises to employees – remuneration practices within the Group – any change in scope, role and responsibilities – the general performance of the Group – the experience of the relevant Director – the economic environment – when the Committee determines a benchmarking exercise is appropriate, salaries within the ranges paid by the companies in the comparator groups used for remuneration benchmarking 	Typically, the base salaries of Executive Directors in post at the start of the Policy period and who remain in the same role throughout the Policy period will be increased by a similar percentage to the average annual percentage increase in salaries of all other employees in the Group. The exceptions to this rule may be where: <ul style="list-style-type: none"> – an individual is below market level and a decision is taken to increase base pay to reflect proven competence in the role; or – there is a material increase in scope or responsibility to the Executive Director's role.
Pension	The Company provides a non-consolidated pension contribution allowance in line with practice relative to its comparators.	The maximum pension contribution allowance is 20% for existing Executive Directors. Any new Executive Directors will have a maximum contribution of 15%.
Benefits	Benefits include car allowance, health insurance, life assurance, income protection and membership of the Group's employee Share Incentive Plan which is open to all UK employees.	Benefit values can vary year-on-year depending on premiums and the maximum is the cost of providing the relevant benefits.
Incentive Plan	<p>The Incentive Plan supports the Company's objectives by:</p> <ul style="list-style-type: none"> – allowing the setting of annual targets based on the strategic objectives at that time; and – providing substantial deferral in shares and ongoing adjustment by requiring a threshold level of performance to be achieved during the deferral period. <p>The Incentive Plan consists of two elements:</p> <p>Bonus Banking Plan (BBP) Annual contributions are earned based on the satisfaction of the performance conditions. Contributions are made for three years with payments made over four years. Half the value of a participant's bonus account is paid out annually for three years with 100% of the residual value paid out at the end of year four. Half of the unpaid balance of a participant's bonus account is at risk of annual forfeiture.</p> <p>Deferred Share Plan (DSP) Deferred share-based element earned based on the satisfaction of pre-grant annual performance assessment, which is subject to a three-year vesting period and a further two-year holding period.</p> <p>A minimum 50% of the unvested award is at risk of forfeiture after three years based on a performance underpin.</p>	<p>Maximum 325% of salary (200% of salary under the Bonus Banking Plan and 125% of salary under the Deferred Share Plan).</p> <p>Bonus Banking Plan Maximum = 200% of salary. Target = 80%–120% of salary. Threshold = 0% of salary.</p> <p>Deferred Share Plan Maximum = 125% of salary. Target = 30%–75% of salary. Threshold = 0% of salary.</p>
Shareholding requirements	<p>Executives have five years to accumulate the required shareholding by retaining at least 50% of the post-tax vested shares from Company incentive plans.</p> <p>300% of base salary for the CEO. 200% of base salary for the CFO.</p>	n/a
Chairman and Non-executive Directors		
Fees	Fees are reviewed annually based on equivalent roles in the comparator group used to review salaries paid to the Executive Directors.	The fees for Non-executive Directors and the Group Chairman are broadly set at a competitive level against the comparator group.

 Our full Remuneration Policy can be found on our website www.QinetiQ.com

Directors' remuneration report

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 2019.

✓ Audited information

Executive Directors' single total figure of remuneration

Executive Director	Year	Salary £'000	Benefits £'000	Pension £'000	Bonus Banking Plan £'000	Deferred Share Plan £'000	Performance Share Plan £'000	Total remuneration £'000
Steve Wadey (CEO)	2019	596	48	119	1,126	–	456	2,345
	2018	582	48	116	776	–	–	1,522
David Smith (CFO)	2019	451	34	90	841	–	–	1,416
	2018	443	37	88	585	–	–	1,153

Benefits can include travel and subsistence expenses incurred in relation to the execution of their duties with the Company that are considered by HMRC to be taxable.

Fixed pay

Salary

Salaries are normally reviewed effective 1 September, which is the same timing for the rest of the UK employee population. The Committee takes a number of factors into consideration when awarding salary increases including Company and individual performance, affordability and general market movements.

	Salary as at August 2018 £'000	Increase in the year	Salary as at September 2018 £'000	FY19 Pro-rated salary £'000
Steve Wadey	588	2.5%	603	596
David Smith	445	2.5%	456	451

Benefits

Benefits comprise a car allowance, travel allowance, private medical insurance, life assurance, income protection, and taxable expenses.

	Taxable expenses £'000	Car allowance £'000	Insured benefits £'000	Total benefits £'000
Steve Wadey	15	19	14	48
David Smith	6	13	15	34

Pensions

Neither of the Executive Directors participate in the QinetiQ pension scheme. The pension figure consists of cash in lieu of pension equating to 20% of base salary.

	Cash in lieu of pension £'000	Total in lieu of pension £'000
Steve Wadey	119	119
David Smith	90	90

Bonus Banking Plan

The Bonus Banking Plan was introduced in 2014 and operates on a three-year performance cycle mirroring the financial year, with a four-year vesting cycle, i.e. running from 1 April to 31 March. FY19 represents the second year of the current cycle as detailed on page 82.

	BBP balance brought forward £'000	Dividend equivalent payment £'000	BBP award in year £'000	Cash payment* (50% value) £'000	BBP balance carried forward £'000
CEO	573	12	1,126	855	855
CFO	432	9	841	641	641

Each year any incentive award earned is added to the total plan balance, with 50% of the total plan balance being paid in cash, and the remaining 50% held in the plan in notional shares. In year 4, the total remaining plan balance is paid in shares.

* To be paid June 2019.

Deferred Share Plan

The Deferred Share Plan contingent share award to be made in June 2019 is not included in the single figure as vesting remains subject to a stretching performance underpin in 2022. It will, to the extent it vests, appear in the single total figure in 2022.

2016 Performance Share Plan (legacy plan)

The PSP award made to the CEO in 2016 achieved 31.7% vesting in 2019 based on TSR performance as detailed on page 85. The £3.02 share price is based on three months to 31 March 2019, the actual value will be the share price at vesting on 1 July 2019.

	Shares Awarded	Vesting %	Shares Vesting	Value at £3.02 per share £'000
Steve Wadey	476,190	31.7%	150,952	456

Directors' remuneration report

Annual Report on Remuneration *continued*

Bonus Banking Plan

FY19 performance measures and operation

For the year ended 31 March 2019 achievement of on-target performance provides a payment equal to 115.0% 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 2019, the CEO and CFO were measured against the targets as shown in the chart to the right. The target payment was 60% of maximum for financial objectives and 50% for non-financial objectives.

Setting performance targets – the Remuneration Committee takes into account the budget and the Company's strategy set in relation to the ISBP, shareholder expectations and the external environment. The aim is to set stretching targets which incentivise the Executive Directors to deliver annual results which will exceed the expectations of investors, but which are also sustainable and do not create undue risk. Financial performance measures exclude the contribution from businesses acquired in the year.

% of base salary (%)

Audited information

2019 performance outcomes

	Weighting (%)	Threshold	Target	Stretch	Actual	% of maximum reward achieved	CEO contribution	CFO contribution
CEO/CFO financial performance measures:								
Orders ¹	25	£570m	£650m	£750m	£753.1m	100.0%	£298,211	£225,695
Underlying operating profit ^{1,2}	25	£105m	£112m	£122m	£122.6m	100.0%	£298,211	£225,695
Underlying net cash flow from operations ^{1,2}	25	£85m	£95m	£105m	£124.0m	100.0%	£298,211	£225,695
CEO/CFO shared strategic and operational objectives (as detailed on page 83):								
Strategy:	12.5	40%	50%	100%	65.0%	65.0%	£96,919	£73,351
– Performance against key stretching objectives relating to the UK business, international and innovation								
Operational:		40%	50%	100%	65.0%			
– Performance against stretching objectives relating to transformation and organisational development								
CEO individual personal objective:								
– Performance against stretching objectives relating to growth and leadership	12.5	40%	50%	100%	90.0%	90.0%	£134,195	
CFO individual personal objectives:								
– Performance against stretching objectives relating to business support and operational performance	12.5	40%	50%	100%	80.0%	80.0%		£90,278
CEO overall results						94.38%	£1,125,747	
CFO overall results						93.13%		£840,714

¹ Performance measures exclude the contribution from businesses acquired during the year.

² Definition of underlying measures and performance can be found in the glossary on page 159.

Bonus Banking Plan (continued)

Audited information

Financial performance measures (75% award)

The three key measures of orders, underlying operating profit and underlying net cash flow from operations are given an equal 25% weighting.

The Company drove performance to successfully offset a ~£5m headwind from UK single source regulations in FY19 and delivered organic growth in operating profit. Underlying operating profit was up 1% at £123.9m (2018: £122.5m), assisted by ~£7m (2018: ~£9m) non-recurring trading items including: a £6.9m gain on sale of aircraft following investment in a new fleet of aircraft for test crew training; £5.4m benefit related to project risk re-assessments following technical successes on a major contract in the EMEA Services division; and a £5.0m charge relating to redundancy costs. The decision to include these items took into account a number of factors including a qualitative assessment of the nature of the items.

Reconciliation of measures used in determining remuneration to Group KPIs

The difference below is the contribution from businesses acquired in the year.

£m	Orders	Underlying operating profit	Underlying cash flow
Per KPIs on page 30	776.4m	123.9m	126.3m
Metric used for BBP	753.1m	122.6m	124.0m
Difference	23.3m	1.3m	2.3m

Shared strategic and operational measures (12.5% award)

Measures	2019 Performance	Outcome (% maximum)
Strategic		
UK	- Secured reinvigorated LTPA contract	
International	- Secured significant contracts in export markets and with non-UK governments for the outsourcing of test & evaluation capabilities	
Innovation	- Modernised test & evaluation by establishing a digital hub capability - Secured Engineering Delivery Partner contract as industry lead	
Operational		
Transformation	- Delivered robust and consistent operational performance through the Transformation programme	
Organisational development	- Each member of the Leadership Community personally engaged in the implementation of the cultural development action plan - Embedded 'Safe for Life' across the Group, including supply chain	
Total		65.0%

Personal objectives (12.5% award)

Objectives	2019 Performance	Outcome (% maximum)
CEO		
Growth	- Secured reinvigorated LTPA contract amendment - Acquisitions delivered - International opportunities developed within selected markets to drive medium-term growth	
Leadership	- Delivered organisational and people development plans to two Board reviews - Improved employee engagement through employee survey results and Board interactions with the Employee Engagement Group - Demonstrable progress of talent movement and external recruitment in support of business growth and strategy	
Total		90.0%
CFO		
Growth & Transformation	- Supported business winning activities across UK, International and Innovation - Acquisitions delivered - Ensured funding and allocation plans in place for inorganic growth	
Leadership	- Instilled performance management cadence and improved team employee engagement - Implemented 'Safe for Life' - Restructured team, integrating IT, Security and Property to deliver enhanced functional performance	
Delivery	- Delivered improved operational performance through enhanced tracking, delivery plans and process governance - Created businesses services and revisions to organisational responsibilities	
Total		80.0%

Directors' remuneration report

Annual Report on Remuneration *continued*

Bonus Banking Plan (continued)

BBP payout mechanism

How the plan operates

- The Plan operates on a fixed three-year performance cycle with a four-year vesting cycle. FY19 represents year two of Cycle 2. Plan years commence on 1 April.
- Performance targets are set at the beginning of each Plan year.
- At the end of each of the first three Plan years the performance against targets is assessed and the level of the incentive earned is determined and paid into the Plan account.
- Each year 50% of the account balance is subject to forfeiture.
- At the end of each of the first three Plan years, 50% of the account balance will be paid and the balance retained and held in the Plan as notional shares.
- At the end of the fourth year, any remaining balance in the Plan account is paid out in shares.

* Single figure BBP value for a Plan/financial year.

Audited information

Operation during 2019

Cycle 1 of the BBP ended on 31 March 2018 resulting in the transfer of 314,971 shares to the CEO on 21 June 2018 at a share price of £2.68 per share. The CEO retained the after-tax proceeds as shares.

Cycle 2

	Notional shares on account at start of Plan year 2 at £2.06 per share (1 April 2018)	30-day average share price as at measurement date (£)	Share value as at measurement date (£)	Bonus plan contribution for Plan year 2 (£)	Dividend equivalent payment (£)	Bonus pool total value as at measurement date (£)	Gross cash payment for Plan year 2 (£)	Bonus pool total value following cash payment (£)	Notional shares on account at end of Plan year 2 (31 March 2019)
CEO	188,429	3.04	572,824	1,125,747	11,871	1,710,442	855,221	855,221	281,322
CFO	142,014	3.04	431,723	840,714	8,947	1,281,384	640,692	640,692	210,754

Forfeiture

For BBP Cycle 2 the CEO and CFO retained notional shares in their Plan accounts of which 50% were subject to forfeiture. Forfeiture would have been enacted if Group underlying operating profit was less than £95.0m for FY19. FY19 Group underlying operating profit was £122.6m (excluding contribution from acquisitions) therefore no notional shares were forfeited.

Discretion

For BBP Cycle 2, for the year ended 31 March 2019, financial targets were exceeded providing a contribution of 94.38% of base salary for the CEO and 93.13% of base salary for the CFO. £1,125,747 and £840,714 has been reported in the single figure table which represents the cash and deferred notional share elements. No discretion was applied to these contributions as the Committee considers them appropriate.

Deferred Share Plan (DSP)

Scheme interests awarded during the financial year ended 31 March 2018

The Deferred Share Plan was approved by shareholders at the 2017 AGM. A maximum award of 125% of salary may be made to the CEO and CFO with the amount contingent on meeting a stretching annual performance target based on QinetiQ's strategic growth plan. Once the award has been made, it is deferred for three years and remains subject to a performance underpin; any vested shares are then subject to a further two-year holding period.

Setting performance targets FY19

The FY19 DSP performance measure was non-UK revenue growth. Calibration was set with a maximum of 125% of salary available for achieving stretch and 35% of the maximum payable at target performance. The performance targets were set by the Remuneration Committee so as to be stretching.

Audited information

2019 performance outcome

The 2019 Deferred Share Plan award was measured against FY19 absolute growth in non-UK revenue with the following calibration.

Measure	Weighting	Threshold	Target	Stretch	Actual	% Max award achieved	% Salary awarded	Total £'000
Non-UK revenue (FY18+)	100%	£0.0m	£20.0m	£40.0m	£39.8m	99.35%	124.19%	
CEO								741
CFO								561

The FY19 DSP award was also subject to a pre-grant underpin that FY18 profit margins are maintained on non-UK revenue in FY19. The Remuneration Committee is satisfied that this underpin was achieved.

Non-UK revenue growth achievement at £39.8m is therefore 99.35% of maximum resulting in an award of 124.19% of salary for the CEO and CFO.

The FY19 DSP award is also subject to a further stretching performance underpin which must be achieved before shares vest to the benefit of the participant. The profit outturn for 2019 (£122.6m, excluding the contribution from businesses acquired in the year) must be maintained at the end of the year of vesting (2022) for the shares to vest in full. If this is not maintained then, at a minimum, 50% of the award will lapse. Any vested shares must be retained for a further two-year period. The contingent nature of the DSP award means it is not included in the FY19 single figure, but will appear in FY22 to the extent it vests.

The number of awards made is based on the 30-day average share price ending on 31 March 2019; this is £3.04. It is anticipated that 2019 Deferred Share Plan awards will be made on or around 1 June 2019. The actual number of contingent shares awarded will be detailed in the 2020 Directors' Remuneration Report, but is anticipated to be Steve Wadey 243,650 shares and David Smith 184,401 shares.

Legacy Performance Share Plan (PSP)

2016 PSP

The 2016 PSP award was measured 50% based on EPS growth of 3% to 10% per annum (25% vesting at threshold, 100% at maximum, with linear vesting between these points), and 50% based on TSR performance against the FTSE 250 (30% vesting at median performance, 100% at upper quartile performance, with linear vesting between these points).

The 2016 PSP award measurement period was to 31 March 2019 and the Committee reviewed performance against the EPS and TSR performance measures at the May 2019 meeting.

Measures	Weighting	Performance conditions	Performance			% Max award achieved
			Threshold	Stretch	Actual	
EPS	50%	Between 3% and 10% per annum	17.8p	21.7p	16.9p	0%
TSR	50%	Between FTSE 250 median and upper quartile	22.3%	54.0%	37.4%	63.4%

Based on audited EPS performance and TSR performance analysis provided by the independent advisor to the Committee (FIT Remuneration Consultants), it was determined that the EPS test was not met and that the TSR element (50% weighting) will vest at 63.4% on the third anniversary of grant (1 July 2019), resulting in an aggregate vesting of 31.7% of the initial award to the CEO.

Performance condition adjustments during 2019
As in prior years, the Committee adjusted the performance conditions for the Performance Share Plan to reflect continuing operations and share buyback so performance is measured on a like-for-like basis.

Reconciliation of measures used in determining remuneration to Group KPIs

	EPS p
Per KPIs on page 30	19.7
Metric used for PSP	16.9
Difference	2.8
Which relates to:	
– Constant number of shares	
– Excluding profit after tax of acquired businesses	

Directors' remuneration report

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 equivalent to 300% (CEO) and 200% (CFO) of base salary. Executive Directors have five years to achieve the required level through, at a minimum, retaining 50% of the after-tax shares vesting from Company incentive plans.

The CEO does not currently meet the minimum shareholding requirement; with a current holding equivalent to 137% of base salary using a share price of £3.02 (three-month average to 31 March 2019). This reflects his appointment date as CEO and the limited opportunity for share-based awards to vest.

The CFO does not currently meet the minimum shareholding requirement; with a current holding equivalent to 44% of base salary using a share price of £3.02 (three-month average to 31 March 2019). This reflects his recent appointment as CFO and the lack of any opportunity for share-based awards to vest.

	Shares beneficially owned	Shares subject to performance conditions	Shares not subject to performance conditions	Total shares held at 31 Mar 2019
Steve Wadey	270,268	799,111	–	1,069,379
David Smith	65,285	167,975	–	233,260
Mark Elliott	145,000	–	–	145,000
Michael Harper	40,000	–	–	40,000
Admiral Sir James Burnell-Nugent	15,567	–	–	15,567
Paul Murray	83,214	–	–	83,214
Susan Searle	25,000	–	–	25,000
Ian Mason	10,000	–	–	10,000
Lynn Brubaker	12,000	–	–	12,000
Neil Johnson (appointed 2nd April 2019)	–	–	–	–

Shares beneficially owned comprise shares held under the Share Incentive Plan (SIP) (including matched shares) and shares owned by the Director and any connected persons. On 9 April 2019 Steve Wadey and David Smith purchased 66 shares and 66 shares respectively, then on 9 May 2019, Steve Wadey and David Smith purchased 66 shares and 65 shares respectively, through their participation in the SIP.

Shares subject to performance conditions comprise awards made under the Performance Share Plan and Deferred Share Plan as detailed on page 87. Notional shares held by the CEO and CFO in the BBP Cycle 2 do not appear in the table above as they are not actual shares at 23 May 2019.

✓ Audited information

Total scheme interests summary

Total scheme interests, including those awarded during the financial year ended 31 March 2019, are as follows.

Steve Wadey

Plan name	Date of grant	Number 1 April 2018	Granted in year (maximum potential of awards)	Exercised/ vested in year	Lapsed in year	Number 31 March 2019	Market price on date of grant	Vest date
PSP 2015	28 Jul 15	363,636	–	–	363,636	–	231.0	28 Jul 18
PSP 2016	1 Jul 16	476,190	–	–	–	476,190	224.4	1 Jul 19
PSP 2017	22 Jun 17	102,136	–	–	–	102,136	281.0	22 Jun 20
DSP 2018	8 Jun 18	–	220,785	–	–	220,785	206.0	8 Jun 21
		941,962	220,785	–	363,636	799,111		

David Smith

Plan name	Date of grant	Number 1 April 2017	Granted in year (maximum potential of awards)	Exercised/ vested in year	Lapsed in year	Number 31 March 2018	Market price on date of grant	Vest date
DSP 2018	8 Jun 18	–	167,975	–	–	167,975	206.0	8 Jun 21
		–	167,975	–	–	167,975		

The contingent share award in relation to the 2019 DSP will be granted on or around 1 June 2019. The Committee estimates that 243,650 contingent shares will be granted to Steve Wadey and 184,401 to David Smith. This is calculated based on awards of 124.2% salary, and a share price of £3.04 (based on 30 day average to 31 March 2019).

The highest and lowest prices of a QinetiQ share during the year ended 31 March 2019 were 311.4p and 204.1p. There have been no other changes to the interests shown above between 31 March 2019 and 23 May 2019.

Payments to past Directors and payment for loss of office

No payments were made to past Directors during the year and no payments were made for loss of office during the year.

Performance review

The ten-year and three-year charts show the Company's Total Shareholder Return over the period from 31 March 2009 to 31 March 2019 and 31 March 2016 to 31 March 2019 compared with the FTSE 250 (excluding investment trusts) over the same period based on spot values. The Committee has chosen to demonstrate the Company's performance against this index as it is the index in which the Company is listed. This comparator group is also used to measure TSR performance in the PSP (under which no future awards will be made).

Ten-year comparator chart

Three-year comparator chart

Directors' remuneration report

Annual Report on Remuneration *continued*

CEO remuneration

The table below shows the CEO's remuneration over the same performance period as the Total Shareholder Return chart (31 March 2009 to 31 March 2019):

Year ended 31 March	CEO	Salary/fees	Single figure	Annual bonus (% of maximum)	Long-term incentives (% of maximum vesting)
2019	Steve Wadey	596,422	2,345,200	94.4%	31.7%
2018	Steve Wadey	582,167	1,522,460	66.7%	–
2017 (restated)	Steve Wadey	568,166	1,829,470	86.4%	–
2016	Steve Wadey	520,219	1,654,546	85.4%	–
2016	David Mellors	455,885	1,423,382	82.9%	–
2015	David Mellors	501,227	1,725,960	88.6%	13.9%
2015	Leo Quinn	469,776	673,979	–	–
2014	Leo Quinn	610,844	2,177,742	77.0%	15.4%
2013	Leo Quinn	593,050	3,992,001	100.0%	40.3%
2012	Leo Quinn	580,000	1,495,284	100.0%	–
2011	Leo Quinn	580,000	1,327,156	100.0%	–
2010	Leo Quinn	217,872	886,564	–	–
2010	Graham Love	266,667	1,246,320	–	–

CEO Pay Ratio

For transparency the Remuneration Committee has decided to publish the ratio of the CEO's pay for FY19 to the earnings of QinetiQ's UK employees, one year in advance of the legal requirement to do so under the revised UK Corporate Governance Code.

The calculation below is based on the FY19 'single figure' for the CEO of £2,345,200, and similar calculations for the UK workforce (i.e. 'Option A' as defined by the Companies (Miscellaneous Reporting) Regulations 2018).

Total remuneration

Year	Ratio of the CEO's pay to UK employees			Total pay of UK employees		
	25th Percentile	Median	75th Percentile	25th Percentile	Median	75th Percentile
FY19	70 : 1	50 : 1	38 : 1	£33,730	£46,562	£61,895

The Remuneration Committee welcomes the opportunity to provide this information to shareholders. The Company aims to reward all employees fairly for the success and growth they create, hence the inception of the All Employee Incentive Scheme in FY19.

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 2019 and the preceding year.

Non-executive Director	Salary/fees £'000		Benefits £'000		Committee Chair fees £'000		US/UK attendance fee £'000		Single figure £'000	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Lynn Brubaker	49	48	11	16	–	–	24	21	84	85
Admiral Sir James Burnell-Nugent	49	48	2	2	9	9	3	–	63	59
Mark Elliott	242	242	75	76	–	–	–	–	317	318
Michael Harper	49	48	2	1	19	19	3	–	73	68
Neil Johnson	–	–	–	–	–	–	–	–	–	–
Ian Mason	49	48	1	1	–	–	3	–	53	49
Paul Murray	49	48	1	1	9	9	3	–	62	58
Susan Searle	49	48	1	1	–	–	3	–	53	49

Benefits include travel and subsistence expenses incurred in relation to the execution of their duties with the Company that are considered by HMRC to be taxable.

Mark Elliott, the Chairman, and Lynn Brubaker are US residents. Mark is entitled to an accommodation allowance of £75,000 and Lynn is entitled to receive a \$4,000 fee for attending UK meetings. UK-based Non-executive Directors are entitled to receive a £2,500 fee for attending US meetings.

The Committee Chair fees figure for Michael Harper includes a payment of £10,000 as Senior Independent Director.

Percentage change in CEO remuneration

The following table compares change in CEO remuneration with an employee comparator group (averaged per capita). The comparison group (4,000 employees) represents the employees in the UK principal businesses in service between 1 April 2018 and 31 March 2019.

	CEO			Comparison group		
	2019	2018	% change	2019	2018	% change
Base salary	£596,422	£582,167	2.4%	£44,010	£41,283	6.6%
Benefits	£47,874	£47,533	0.7%	£1,298	£1,190	9.1%
Annual bonus	£1,125,747	£776,327	45.0%	£3,446	£1,436	140.0%

Remuneration policy for all employees


All employees of QinetiQ are entitled to base salary, benefits and pension. UK and Australia-based employees are entitled to participate in the QinetiQ Share Incentive Plan. The maximum incentive opportunity available is based on the seniority and responsibility of the role. Participation in the DSP is available to Executive Directors, senior managers and selected employees throughout the organisation.

In FY19 the Company introduced an All Employee Incentive Scheme (AEIS) whereby every employee has the opportunity to earn a cash bonus based on Company and personal performance. For FY19 the Company element of the AEIS achieved a level above stretch resulting in a payment of £1,000 to every employee, plus the opportunity to earn an additional payment based on personal performance. The AEIS will be operated again in FY20.

The Committee reviews (but does not decide) the general reward policy for all employees and of any significant changes proposed.

Gender related pay

QinetiQ is subject to gender pay reporting for UK employees and a copy of our 2018 report is available on the Company's website

 Our Gender Pay Gap report can be found on our website www.QinetiQ.com

Relative importance of spend on pay

The graph below shows actual spend on all employee remuneration, shareholder dividends and buybacks and any other significant use of profit and cash within the previous two financial years.

Directors' remuneration report

Annual Report on Remuneration *continued*

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 73).

Director	Date appointed	Arrangement	Notice period
Lynn Brubaker	27 January 2016	Initial term of three years from date of appointment until the conclusion of the Annual General Meeting approximately three years from that date, subject to annual reappointment at the AGM.	1 month
Admiral Sir James Burnell-Nugent	10 April 2010	Initial term of three years from date of appointment, subject to annual reappointment at the AGM.	-
Mark Elliott	01 June 2009	Initial term of three years from date of appointment, retiring from the role of Group Chairman on 24 July 2019.	-
Michael Harper	22 November 2011	Initial term of three years from date of appointment, subject to annual reappointment at the AGM.	-
Neil Johnson	2 April 2019	Initial term of three years from date of appointment, subject to annual reappointment at the AGM.	-
Ian Mason	04 June 2014	Initial term of three years from date of appointment until the conclusion of the Annual General Meeting approximately three years from that date, subject to annual reappointment at the AGM.	1 month
Paul Murray	25 October 2010	Initial term of three years from date of appointment, subject to annual reappointment at the AGM.	-
Susan Searle	14 March 2014	Initial term of three years from date of appointment until the conclusion of the Annual General Meeting approximately three years from that date, subject to annual reappointment at the AGM.	-
David Smith	01 March 2017	Service contract	12 months
Steve Wadey	27 April 2015	Service contract	12 months

Implementation of Policy for the year ending 31 March 2019

Fees

Non-Executive Directors' fees were not increased during FY19 and will next be reviewed in July 2019. The current fee is £49,000 per annum.

The current Non-Executive Group Chairman's fee was last increased on 1 December 2016 and is £242,000 per annum. Subject to his election at the Annual General Meeting, the new Non-Executive Group Chairman will receive a fee of £250,000 per annum.

Fees are reviewed in line with Policy.

Executive Directors are permitted to accept one external non-executive director position with the Board's approval. Any fees received in respect of these appointments may be retained by the Executive Director.

The CEO does not hold any Non-Executive directorships in other companies. David Smith was appointed Non-Executive director of Motability Operations Group plc on 1 July 2010. Non-Executive director fees, as reported in the 2018 Motability Operations Group plc annual report, were £50,000 per annum which are retained.

Fees effective as at 1 April 2018
£

Group Chairman	242,000
Accommodation allowance for Group Chairman	75,000
Basic fee for UK Non-Executive Director	49,000
Additional fee for chairing a Committee	9,000
Additional fee to Deputy Chairman/Senior Independent Non-Executive Director	10,000
Additional fee for attendance at a Board meeting held in US by UK resident Non-Executive Director	2,500
Additional fee for attendance at a Board meeting held in UK by US resident Non-Executive Director	\$4,000

Implementation of Policy for the year ending 31 March 2020

Incentives for Executives

The table below shows the measures and relative weighting for the Bonus Banking Plan for the CEO and CFO:

	Performance measure (excluding 2020 acquisitions)	Relative weighting (%)
Bonus Banking Plan	Underlying operating profit	25.0%
Target performance 100% of base salary	Underlying net cash flow from operations	25.0%
Stretch performance 200% of base salary	Orders	25.0%
	Collective objectives	12.5%
	Personal objectives	12.5%

For FY20, the Remuneration Committee set the target level of performance at 50% of stretch for the financial measures, having been 60% for FY19. Collective and personal objectives were previously set at a 50% payment for target performance and will be so for FY19. Details of specific performance targets for the Bonus Banking Plan have not been provided as they are deemed commercially sensitive. The targets will continue to be set at a challenging level and they will be disclosed retrospectively in next year's Annual Report on Remuneration.

The Deferred Share Plan will award a maximum of 125% of base salary for achieving stretch performance with 35% of maximum payable at target performance. As per FY19, the FY20 performance measure will be absolute growth in organic non-UK revenue as, in line with the ISBP, the Board has agreed that a critical aim for the Company is to deliver growth in international revenue. This is at the heart of our strategy to drive sustainable growth and follows significant success in FY19. The DSP awards will be subject to two performance underpins:

- To ensure that we deliver strong margins, the profit margin on non-UK revenue in FY20 must be the same or higher than the profit margin on non-UK revenue in FY19
- Group underlying profit outturn for FY20 must be maintained at the end of the three-year vesting period. If this is not maintained then, at a minimum, 50% of the award will lapse. For the purposes of the FY20 DSP award, this will be the actual underlying operating profit (£m) for FY20 which must be achieved in FY23

Awards will be made in June 2020 based on FY20 performance. Details of performance targets for the Deferred Share Plan have not been provided as they are deemed commercially sensitive. They will be disclosed retrospectively in next year's Annual Report on Remuneration.

Salary and benefits

Salaries will be reviewed effective from 1 September 2019. No changes are envisaged to the implementation of benefits policy.

Remuneration Committee meetings, activities and decisions 2019

The following table provides a summary of all the key activities during the year. There was full attendance at each meeting.

	Base salary	Incentives	Share awards	Governance	Resourcing
May 2018		FY18 final results	2015 PSP vesting	Approve Directors' Remuneration Report. Review of shareholder engagement regarding DSP performance measure	
July 2018	Executive Director and Executive Committee salary review			AGM preparation	
September 2018		Review of incentive target setting process		Review of remuneration-related risk	
November 2018	Trends in executive remuneration	FY19 half year forecast	Review of Executive Committee shareholdings	Review of Company reward practices	
January 2019		FY20 incentive measures		Revisions to the UK Corporate Governance Code	New Chairman fees
March 2019		FY19 provisional results FY20 target setting	2016 PSP provisional vesting		

Effectiveness review

In 2019, the effectiveness review was undertaken by an independent third party, and the Committee was found to be functioning effectively. Considerations for 2019 include explaining the incentive plans to shareholders as the Committee works towards the approval of the Directors' Remuneration Policy in 2020, implementation of the new UK Corporate Governance Code and ensuring continuing close collaboration between the Chairmen of the Audit and Remuneration Committees.

Directors' remuneration report

Annual Report on Remuneration *continued*

Remuneration consultants

The Committee has appointed FIT Remuneration Consultants LLP, an independent firm of remuneration consultants, to provide advice on market practice, corporate governance and investors' views. Fees paid during the year for these services were £50,000.

FIT provided the following additional services during the year:

- Implementation support for the Company on executive share plans; and
- TSR performance monitoring for Performance Share Plan awards.

The Committee is satisfied the scale and nature of this work does not impact on the objectivity and independence of the advice it receives from FIT.

Statement of voting

Annual Report on Remuneration – 2018

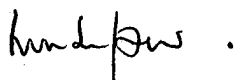
Votes for	407,739,447 (89.3%)
Votes against	49,109,681 (10.7%)
Total votes cast	456,849,128 (80.46% share capital)
Abstained	4,284,969

Details on the voting on all resolutions at the 2019 AGM will be announced via the RNS and posted on the QinetiQ website following the AGM.

Michael Harper

Remuneration Committee Chairman

23 May 2019



Directors' report

Statutory information contained elsewhere in the Annual Report

Information required to be part of this Directors' report can be found elsewhere in the Annual Report as indicated in the table below, and is incorporated into this report by reference:

Information	Page
Corporate governance statement	54
Directors' details	56
Directors' interests in shares	86
Employees	38
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	134 note 25
Greenhouse gas emissions	43
Likely future developments in the business of the Company or its subsidiaries	2-51
Results and dividends	48-51

Management report

The Strategic report on pages 2 to 51 and the Directors' report, as detailed on pages 93 to 95, including information which has been incorporated into those sections by reference, comprise the management report specified by rules 4.1.5R (2) and 4.1.8R of the FCA's Disclosure Guidance and Transparency Rules (DTRs).

Research and development

One of the Group's principal business streams is the provision of funded research and development (R&D) for customers. The Group also invests in the commercialisation of promising technologies across all areas of business.

In the financial year, the Group recorded £298.9m (2018: £310.1m) of total R&D-related expenditure, of which £272.9m (2018: £284.3) was customer-funded work and £26.0m (2018: £25.8m) was internally funded. Additionally, £3.1m (2018: £1.8m) of late-stage development costs was capitalised and £1.1m (2018: £1.5m) of capitalised development costs was amortised in the year.

Political donations

QinetiQ does not make political donations to parties as that term would be commonly recognised. The legal definition of that term is, however, quite broad and may have the effect of covering a number of normal business activities that would not commonly be perceived to be political donations, such as sponsorship of events.

These may include legitimate interactions in making MPs and others in the political world aware of key industry issues and matters that affect QinetiQ, and that make an important contribution to their understanding of QinetiQ, the markets in which it operates and the work of their constituents.

Branches

The Company and its subsidiaries have established branches in a number of different countries; their results are, however, not material to the Group's financial results.

Share capital

As at 31 March 2019, the Company had an allotted and fully paid up share capital of 571,757,121 ordinary shares of 1p each with an aggregate nominal value of £5.7m and one Special Share with a nominal value of £1. The ordinary share total includes 3,794,743 shares held exclusive of voting rights in treasury and 1,410,327 shares held by employee share trusts.

Details of the shares in issue during the financial year are shown in note 27 on page 142.

Rights of ordinary shareholders

The holders of ordinary shares are entitled to receive the Company's Reports and Accounts, to attend and speak at general meetings of the Company, to exercise voting rights in person or by appointing a proxy, and to receive a dividend where declared or paid out of profits available for that purpose.

Rights of special shareholder

The Special Share is held by HM Government through the Secretary of State for Defence (the Special Shareholder) and it may only be held by and transferred to HM Government. It confers certain rights to protect UK defence and security interests. These include:

- The promotion and reinforcement of the MOD compliance principles which require QinetiQ to be an impartial, ethical and responsible contractor by avoiding conflicts of interest in its dealings with the MOD
- The protection of defined strategic assets of the Group, such as certain testing facilities, by providing the Special Shareholder with an option to purchase those assets in certain circumstances
- The right to require certain persons with a material interest in QinetiQ to dispose of some or all of their ordinary shares on the grounds of national security or conflict of interest
- A provisions whereby at least the Non-executive Chairman or Chief Executive Officer must be a British citizen

The Special Share carries no financial and economic value and the Special Shareholder is not entitled to vote at a general meeting of the Company. At any time the Special Shareholder may require QinetiQ to redeem the share at par and, if wound up, the Special Shareholder would be entitled to be repaid at its nominal value before other shareholders. Any variation of the rights attached to the Special Share requires the written approval of the MOD. Further details can be found in note 27 on page 142.

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 2019, the Trust held 1,410,327 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.

Directors' report *continued*

Equiniti Share Plan Trustees Limited acts as Trustee in respect of all ordinary shares held by employees under the QinetiQ Group plc Share Incentive Plan (the Plan). Equiniti Share Plan Trustees Limited will vote on all resolutions proposed at general meetings in accordance with voting instructions received from participants in the Plan.

Corporate sponsored nominee

In circumstances where ordinary shares are held by the corporate sponsored nominee service, Equiniti Corporate Nominees Limited will vote on all resolutions proposed at general meetings in accordance with voting instructions received from shareholders using such corporate nominee service.

Major shareholdings

In accordance with DTR 5, the Company has been notified of the following from holders representing 3% or more of the issued ordinary share capital of the Company:

Name of shareholder	At 31 March 2019 % of issued share capital*	At 15 May 2019* % of issued share capital
Schroders	9.62%	9.62%
BlackRock, Inc.	5.01%	5.01%
Silchester International	4.96%	4.96%
Investec	4.95%	4.95%
Standard Life Aberdeen plc	4.81%	4.81%
Norges Bank	3.94%	3.94%

* As notified by the shareholder and based on the issued ordinary share capital at the time of the notification.

* Being a date not more than a month prior to the date of the Notice of AGM.

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 practicable.

Directors' conflicts of interest

The Company requires Directors to disclose proposed outside business interests before they are entered into. This enables prior assessment of any conflict, or potential conflict, of interest and any impact on time commitment. An annual review of all external interests is carried out by the Board.

Directors' interests in contracts

At the date of this report, there is no contract or arrangement with the Company or any of its subsidiaries that is significant in relation to the business of the Group as a whole in which a Director of the Company is materially interested.

Indemnities

The Company has entered into indemnity deeds with all its current Directors containing qualifying indemnity provisions, as defined in Section 234 of the Companies Act 2006, under which the Company has agreed to indemnify each Director in respect of certain liabilities, which may be attached to them as Directors or as former Directors of the Company or any of its subsidiaries. All such indemnity provisions are in force as at the date of this Directors' report.

The Directors of QinetiQ Pension Scheme Trustee Limited, a Group company and the Trustee of the QinetiQ Pension Scheme (the Scheme), benefit from an indemnity contained in the rules of the Scheme. The indemnity would be provided out of the Scheme assets.

Change of control – significant agreements

The following significant agreements contain provisions entitling the counterparties to require prior approval, exercise termination, alteration or other similar rights in the event of a change of control of the Company, or if the Company ceases to be a UK company:

- The Combined Aerial Target Service contract is a 20-year contract awarded to QinetiQ by the MOD on 14 December 2006. The terms of this contract require QinetiQ Limited to remain a UK company which is incorporated under the laws of any part of the UK, or an overseas company registered in the UK, and that at least 50% of the Board of Directors are UK nationals. The terms also contain change of control conditions and restricted share transfer conditions which require prior approval from HM Government if there is a material change in the ownership of QinetiQ Limited's share capital, unless the change relates to shares listed on a regulated market; 'material' is defined as being 10% or more of the share capital. In addition, there are restrictions on transfers of shares to persons from countries appearing on the restricted list as issued by HM Government
- The Long Term Partnering Agreement (LTPA) is a 25-year contract, which QinetiQ Limited signed on 28 February 2003, to provide test, evaluation and training services to the MOD. This contract contains conditions under which the prior approval of HM Government is required if the contractor, QinetiQ Limited, ceases to be a subsidiary of the QinetiQ Group, except where such change in control is permitted under the Shareholders Agreement to which the MOD is a party
- The Company is party to a £275m multi-currency revolving credit facility, provided by a consortium of banks, that expires on 27 September 2023, with an option to extend to a final maturity to 27 September 2025. Under the terms of the facility, in the event of a change of control of the Company, any lender may give notice to cancel its commitment under the facility and require all outstanding amounts to be repaid

The Directors' contracts contain no provisions for compensation for loss of office on a change of control of the Company.

Disclosures in accordance with Listing Rule 9.8.4

There are no matters requiring disclosure under the FCA's Listing Rule 9.8.4, other than details of long-term incentive schemes, which are explained further on page 85.

Articles of Association

Changes to the Articles must be submitted to shareholders for approval. Save in respect of the rights attaching to the Special Share, the Company has not adopted any special rules relating to the appointment and replacement of Directors or the amendment of the Company's Articles of Association, other than as provided under UK corporate law.

Appointment and replacement of Directors

According to the Articles of Association, all Directors are subject to election by shareholders at the first AGM following their appointment, and to re-election thereafter at intervals of no more than three years. In line with best practice reflected in the Code, however, the Company requires each serving member of the Board to be put forward for election or re-election on an annual basis at each AGM.

Powers of the Directors: allotment/purchase of own shares

At the Company's AGM held in July 2018, the shareholders passed resolutions which authorised the Directors to allot relevant securities up to an aggregate nominal value of £3,910,816 (£1,955,408 pursuant only to a rights issue), to disapply pre-emption rights (up to 5% of the issued ordinary share capital) and to purchase ordinary shares (up to 10% of the issued ordinary share capital). The authorities will remain valid until the 2019 AGM.

Resolutions in respect of the allotment of relevant securities, the disapplication of pre-exemption rights and the purchase of own shares will be laid before the 2019 AGM.

Annual General Meeting

The Company's AGM will be held on Wednesday, 24 July 2019 at 11.00am, at the offices of Ashurst LLP, Fruit and Wool Exchange, 1 Duval Square, London E1 6PW.

Independent auditor

PwC has expressed its willingness to continue in office as independent auditor and a resolution to re-appoint them will be proposed at the AGM.

Statement of Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to

ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group and company's position and performance, business model and strategy.

Each of the directors, whose names and functions are listed in pages 56 and 57 confirm that, to the best of their knowledge:

- the company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the company;
 - the group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the group; and
 - the Directors' Report includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces.
- In the case of each director in office at the date the Directors' Report is approved:
- so far as the director is aware, there is no relevant audit information of which the group and company's auditors are unaware; and
 - they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group and company's auditors are aware of that information.

Scope of the reporting in this Annual Report

The Board has prepared a Strategic report which provides an overview of the development and performance of the Group's business in the year ended 31 March 2019.

For the purposes of DTR 4.1.5R(2) and DTR 4.1.8 the Directors' report, the Directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware, and that they have taken all steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the Board.

Jon Messent

Company Secretary and Group General Counsel
23 May 2019

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 2019 and of the Group's profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the consolidated and Company balance sheets as at 31 March 2019; the consolidated income statement and consolidated comprehensive income statement, the consolidated cash flow statement, and the consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

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

Independence

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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in note 5 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 April 2018 to 31 March 2019.

Our audit approach

Overview

- Overall Group materiality: £6.1 million (2018: £5.8 million), based on 5% of underlying profit before tax.
- Overall Company materiality: £4.8 million (2018: £4.8 million), based on 1% of total assets.
- We conducted full scope audit work in the UK over QinetiQ Limited, the main trading entity of the Group which provided significant coverage over all financial statement balances, except inventory. We performed the audit of specific inventory balances at two entities.
- In addition, we performed procedures over goodwill, intangible assets, taxation and testing of the consolidation at a Group level.
- Long-term contract accounting.
- Provisions and contingent liabilities.
- Impairment of goodwill and acquired intangibles.
- Accounting for tax research and development expenditure credits and tax uncertainties.
- Acquisition accounting.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to relevant tax legislation, Single Source Contracting Regulations, the Health and Safety Executive and anti-bribery and corruption legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, and management bias in accounting estimates. The Group engagement team shared this risk assessment with the component auditors so that they could include

appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- Discussions with management, internal audit and the Group's legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Assessment of matters reported on the Group's whistleblowing helpline and the results of management's investigation of such matters;
- Reviewing correspondence with and reports to relevant regulatory authorities;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to long-term contract accounting and the impairment of intangible fixed assets (see related key audit matters below);
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management; and
- Incorporating elements of unpredictability into the audit procedures performed.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
<p>Long-term contract accounting</p> <p>Refer to page 68 (Report of the Audit Committee) and page 111 (note 1, Significant accounting policies – Revenue from contracts with customers) and page 118 (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.</p> <p>Long-term contracting accounting requires a number of judgements and management estimates to be made, particularly calculating the forecast costs to complete the contract. These judgements drive the revenue and profit recognition, and together with cash paid by the customer, impact the balance sheet position at the year end.</p> <p>Onerous contract provisions are recorded where there is an expectation that a contract will be loss-making, and judgement is applied to determine the magnitude of any provision. Particular focus is given to contracts which are technologically challenging.</p>	<p>We evaluated the contract governance policies and controls in place within the business, and tested the design and operating effectiveness of key controls in place 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 reviews. These detailed reviews involved meeting with key personnel to discuss contract performance, as well as obtaining evidence to support contract financials. Specifically our procedures included the following:</p> <ul style="list-style-type: none"> - We assessed the basis of revenue recognition to ensure it is in line with accounting standards - We agreed overall anticipated revenue to the underlying contract and validated a sample of customer invoices through to cash receipt - We recalculated revenue recognised and agreed both revenue, costs and associated balance sheet positions to the underlying general ledger - We obtained evidence to corroborate management estimates and judgements, particularly around costs to complete. Where necessary, we obtained correspondence with the customer to evidence progress made on the contract during the year and remaining obligations. - We validated costs incurred and allocated to contracts during the year to supporting documentation on a company wide basis. <p>For remaining untested low-risk contracts, we selected a sample and performed testing over revenue, agreeing to supporting documentation including customer contracts and validating a sample of customer invoices to cash receipt.</p> <p>We agreed contract loss provisions recorded based on the overall outcome anticipated on the contract through a combination of the procedures above.</p> <p>Additional testing was performed, where not sufficiently covered by the above, over contract-related balance sheet positions. These have been sample tested and agreed to supporting documentation.</p> <p>No material exceptions were found.</p>

Independent auditors' report to the members of QinetiQ Group plc *continued*

Key audit matter

Provisions and contingent liabilities

Refer to page 68 (Report of the Audit Committee) and page 117 (note 1, Significant accounting policies – Other payables, provisions and contingent liabilities), page 133 (note 22, Provisions) and page 149 (note 31, Contingent liabilities and assets).

QinetiQ Group plc holds provisions in respect of legal, regulatory and environmental issues. (Note: Project and contract related provisions are covered within the 'long-term contract accounting' matter above).

The Group operates in regulated environments and a failure to comply with particular regulations could result in fines and/or penalties. There is judgement required in determining the significance of any instances of potential non-compliance and potential liability based on management's assessment of the most likely outcome.

The financial statements should disclose any contingent liabilities in respect of contractual, regulatory or legal issues which have not been provided for on the basis that they are not considered to qualify for recognition as provisions.

Impairment of goodwill and acquired intangibles

Refer to page 68 (Report of the Audit Committee), page 117 (note 1, Significant accounting policies – Business combinations and related goodwill), page 122 (note 13, Goodwill) and page 128 (note 14, Intangible assets).

The carrying value of goodwill associated with the US Global Products business was written down to its recoverable amount in the year ended 31 March 2016. As a result, any deterioration in these projections or an increase in the discount rate applied may result in a further write-down being required.

In addition, the business has a material amount of acquired intangible assets, including for recent acquisitions. There is an increased risk of impairment where the post-acquisition performance of businesses acquired is behind expectations from the time of the original acquisition.

The current year acquisitions have been considered within the key audit matter below.

Accounting for tax research and development expenditure credits and tax uncertainties

Refer to page 68 (Report of the Audit Committee), page 117 (note 1, Significant accounting policies – Taxation), page 124 (note 8, Taxation) and page 130 (note 17, Deferred tax).

The Group has determined that it is appropriate to account for the UK's Research and Development Expenditure Credit ('RDEC') under IAS 12, rather than as a government grant within IAS 20.

Measurement of current tax (including RDEC) and deferred tax requires judgements as to the probable amount of tax payable after the preparation of tax filings and potential challenge by relevant tax authorities.

There is a risk that the key judgements on which the provisions are based do not take into account or do not properly reflect the latest available, reliable information or an appropriate application of relevant tax legislation, and are either under or overstated as a result.

Acquisition accounting

Refer to page 68 (Report of the Audit Committee), page 117 (note 1, Significant accounting policies – Business combinations and related goodwill), and page 122 (note 7, Business Combinations).

QinetiQ Group plc has completed two acquisitions in the year.

Business combinations are inherently of greater risk as they are one-off and unique in nature. Management have applied key judgements, including assessing the fair value of assets and liabilities acquired.

A material amount of goodwill has resulted from these transactions, creating a risk that this may be impaired if it is unsupported by the forecast performance of the businesses acquired.

How our audit addressed the key audit matter

We have assessed management's processes and controls over legal and regulatory claims and issues and made enquiries with in-house legal counsel.

We tested the appropriateness of management's assumptions by reference to third party evidence for key provisions recorded at the year end. In doing this, we concluded on whether our understanding of the business gained throughout the audit process corroborated the provisions recorded.

We challenged management's estimates of the most likely outcomes by critically evaluating the range of possible outcomes to determine if the amounts provided are appropriate.

We assessed the adequacy of the Group's financial statement disclosures and adherence to accounting standards.

We found that the judgements formed by management were within an acceptable range and disclosures made in the financial statements were appropriate.

We have tested the principles and mathematical integrity of the Group's discounted cash flow model used to assess goodwill and intangible assets for potential impairment. With the assistance of our valuation specialists, we assessed the growth and discount rates used in this impairment calculation, by comparing the Group's assumptions to external data. We concluded that the Group's assumptions were appropriate.

We challenged the cash flow projections used within the model by reference to current level of sales and analysis of management's historic forecasting accuracy.

We tested the sensitivity of the impairment calculation to changes in the underlying assumptions and concluded that there is sufficient headroom within the model such that no impairment is required.

We assessed whether the Group's disclosures regarding sensitivity of the outcome of the impairment assessment to changes in key assumptions properly reflected the risks inherent in the valuation of goodwill. We are satisfied that the disclosures made in the financial statements are appropriate.

We have reviewed management's accounting policy for RDEC and disclosure (note 8, Taxation) of its impact on the Group's underlying effective tax rate. Management have made a judgement as to whether RDEC should be accounted for under IAS 12 or IAS 20 and we consider the disclosures made sufficient to enable a user of the accounts to identify and understand the impact of management's accounting policy.

We have used our tax specialists to challenge the appropriateness of management's assumptions and estimates in relation to tax positions, including RDEC and recognition of deferred tax assets, by critically assessing the range of possible outcomes. We obtained the latest correspondence with the relevant tax authorities to corroborate management's conclusions.

We found that judgements made by management were within an acceptable range.

We reviewed the disclosures made in respect of tax, in particular around estimates and uncertainties, and are satisfied that the disclosures made were appropriate.

We have obtained and reviewed the purchase agreements to ensure that all terms have been considered and accounted for appropriately.

We used our internal valuation experts to assess the appropriateness of the fair value of acquired intangibles, as calculated by management's experts.

We agreed consideration to supporting documents and ensured that the resulting goodwill is calculated accurately and supported by the expected future performance of the acquired businesses.

We reviewed the disclosures made in respect of tax, in particular around estimates and uncertainties, and are satisfied that the disclosures made were appropriate.

We determined that there were no key audit matters applicable to the Company to communicate in our report.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The only financially significant component within the Group is QinetiQ Limited. The audit of this entity's complete financial information was performed by the Group audit team in the UK. This provided sufficient coverage over all financial statement balances, except inventory. We performed additional audit procedures over inventory balances at two further entities to ensure sufficient coverage over that financial statement line item. One entity was located within the UK and work was performed by the Group audit team. The other entity was located in the US and work was performed by our local PwC component audit team.

In addition to the above, we performed analytical procedures on the remaining entities to understand key balances and transactions in the year and performed additional procedures on any unusual balances identified.

The audit procedures performed over the complete financial information of QinetiQ Limited, accounted for 72% of total Group revenue (2018 coverage: 75%) and 87% of underlying profit before taxation (2018 coverage: 87%). These audit procedures, in addition to the specific audit procedures performed over inventory in two locations and goodwill and intangibles arising on acquisition, accounted for 88% of total Group assets (2018 coverage: 91%).

The combination of the work referred to above, together with additional procedures performed at Group level, including testing of significant journals posted within the consolidation and significant adjustments made to the financial statements, gave us the evidence we needed for our opinion on the financial statements as a whole.

Only one component auditor, located in the US, was involved in the audit as all other audit procedures were performed by the Group audit team. The US business operates under a Proxy Board which is required to carry on business with the US Department of Defense. This Proxy Board places certain restrictions on access to, and communication of, information outside of the US borders. We planned our audit to ensure US personnel completed the audit work within the US and obtained approvals for transfer of information in advance of undertaking the audit work. The Group engagement leader met and agreed the audit plan with our US component audit team, in addition to agreeing the format and content of communications. We determined the level of involvement we needed to have in the audit work at this reporting entity to be able to conclude whether sufficient appropriate evidence had been obtained as a basis for our opinion on the financial statements as a whole. As the procedures performed by this component were limited to inventory only, this included discussion with the component team and attending the audit close meeting by conference call, at which the outcome of all audit findings was discussed.

The Company audit was performed by the Group audit team at QinetiQ Group plc's head office in the UK. Audit procedures were performed over the complete financial information and disclosures for statutory audit purposes only. Audit work over the Company was not required for the Group audit, as all significant balances within the Company are eliminated on consolidation.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£6.1 million (2018: £5.8 million).	£4.8 million (2018: £4.8 million).
How we determined it	5% of underlying profit before tax.	1% of total assets.
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report, 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 the shareholders in assessing the performance of this entity, and is a generally accepted auditing benchmark for non-trading entities. This materiality relates to the audit for the statutory entity only, as the Company was not in scope for the Group audit.

Independent auditors' report to the members of QinetiQ Group plc *continued*

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £3.0 million and £5.8 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £300,000 (Group audit) (2018: £290,000) and £240,000 (Company audit) (2018: £240,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least 12 months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.
We are required to report if the Directors' statement relating to going concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report. (CA06)

The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the group

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 67 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 37 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 95, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and company obtained in the course of performing our audit.
- The section of the Annual Report on page 68 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Responsibilities for the financial statements and the audit Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 95, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs

(UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 22 June 2017 to audit the financial statements for the year ended 31 March 2018 and subsequent financial periods. The period of total uninterrupted engagement is two years, covering the years ended 31 March 2018 to 31 March 2019.

Julian Gray (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton
23 May 2019



Financial Statements

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QinetiQ's SPUR robot which won the competition for the US Army's Common Robotic System-Individual (CRS(I)) program. The robot is designed to be back-packable and is equipped with advanced sensors and mission modules to enable dismounted forces to detect, identify and counter hazards.

Consolidated income statement

For the year ended 31 March

		2019					2018
			Specific adjusting items*			Specific adjusting items*	
All figures in £ million	Note	Underlying*		Total	Underlying*		Total
Revenue ¹	2, 3	911.1	–	911.1	833.0	–	833.0
Operating costs excluding depreciation and amortisation		(762.5)	(2.7)	(765.2)	(690.9)	–	(690.9)
Other income	2	10.6	0.2	10.8	9.7	21.1	30.8
EBITDA (earnings before interest, tax, depreciation and amortisation)		159.2	(2.5)	156.7	151.8	21.1	172.9
Depreciation and impairment of property, plant and equipment	3, 15	(32.1)	(3.7)	(35.8)	(25.6)	–	(25.6)
Amortisation of intangible assets	3, 14	(3.2)	(3.9)	(7.1)	(3.7)	(2.6)	(6.3)
Operating profit/(loss)	3	123.9	(10.1)	113.8	122.5	18.5	141.0
Gain on sale of investments		–	1.1	1.1	–	–	–
Finance income	6	1.2	8.2	9.4	0.7	4.2	4.9
Finance expense	6	(1.1)	–	(1.1)	(1.1)	–	(1.1)
Profit/(loss) before tax	5	124.0	(0.8)	123.2	122.1	22.7	144.8
Taxation (expense)/income	8	(12.5)	3.2	(9.3)	(13.1)	6.4	(6.7)
Profit for the year attributable to equity shareholders		111.5	2.4	113.9	109.0	29.1	138.1
Earnings per share							
Basic	12	19.7p		20.1p	19.3p		24.4p
Diluted	12	19.6p		20.0p	19.2p		24.3p

¹ Revenue excludes the share of revenue of joint ventures £1.9m (2018: nil).

* Alternative performance measures are used to supplement the statutory figures. These are additional financial indicators used by management internally to assess the underlying performance of the Group. Definitions can be found in the glossary on page 159. Also refer to note 1 and note 4 for details of 'specific adjusting items'.

Consolidated comprehensive income statement

For the year ended 31 March

All figures in £ million	2019	2018
Profit for the year	113.9	138.1
<i>Items that will not be reclassified to profit or loss:</i>		
Actuarial (loss)/gain recognised in defined benefit pension schemes	(66.4)	143.6
Tax on items that will not be reclassified to profit and loss	11.3	(24.4)
Total items that will not be reclassified to profit or loss	(55.1)	119.2
<i>Items that may be reclassified to profit or loss:</i>		
Foreign currency translation gains/(losses) on foreign operations	4.6	(9.7)
Movement in deferred tax on foreign currency translation	(0.4)	(1.0)
Increase/(decrease) in fair value of hedging derivatives	1.8	(2.2)
Movement in deferred tax hedging derivatives	(0.2)	0.4
Recycling of gain on disposal of investment	(1.1)	–
Fair value gains/(losses) on available-for-sale investments	0.7	(0.6)
Total items that may be reclassified to profit or loss	5.4	(13.1)
Other comprehensive (expense)/income for the year, net of tax	(49.7)	106.1
Total comprehensive income for the year	64.2	244.2

Consolidated statement of changes in equity

For the year ended 31 March

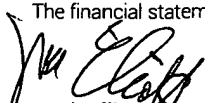
All figures in £ million	Issued share capital	Capital redemption reserve	Share premium	Hedge reserve	Translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
At 1 April 2018	5.7	40.8	147.6	(1.8)	(0.4)	552.2	744.1	0.2	744.3
Profit for the year	–	–	–	–	–	113.9	113.9	–	113.9
Acquisition of partially owned subsidiary	–	–	–	–	–	–	–	2.0	2.0
Other comprehensive income/(expense) for the year, net of tax	–	–	–	1.6	4.2	(55.5)	(49.7)	–	(49.7)
Purchase of own shares	–	–	–	–	–	(0.7)	(0.7)	–	(0.7)
Share-based payments	–	–	–	–	–	5.9	5.9	–	5.9
Deferred tax on share options	–	–	–	–	–	1.0	1.0	–	1.0
Dividends	–	–	–	–	–	(35.7)	(35.7)	–	(35.7)
At 31 March 2019	5.7	40.8	147.6	(0.2)	3.8	581.1	778.8	2.2	781.0
At 1 April 2017	5.7	40.8	147.6	–	10.3	328.0	532.4	0.2	532.6
Profit for the year	–	–	–	–	–	138.1	138.1	–	138.1
Other comprehensive income/(expense) for the year, net of tax	–	–	–	(1.8)	(10.7)	118.6	106.1	–	106.1
Purchase of own shares	–	–	–	–	–	(0.7)	(0.7)	–	(0.7)
Share-based payments	–	–	–	–	–	2.7	2.7	–	2.7
Dividends	–	–	–	–	–	(34.5)	(34.5)	–	(34.5)
At 31 March 2018	5.7	40.8	147.6	(1.8)	(0.4)	552.2	744.1	0.2	744.3

Consolidated balance sheet

As at 31 March

All figures in £ million	Note	2019	2018
Non-current assets			
Goodwill	13	148.6	101.5
Intangible assets	14	88.5	41.1
Property, plant and equipment	15	298.0	269.0
Other financial assets	23	0.9	0.3
Equity accounted investments	16	4.5	2.2
Retirement benefit surplus	29	259.1	316.2
Deferred tax asset	17	7.8	6.4
		807.4	736.7
Current assets			
Inventories	18	40.1	38.1
Other financial assets	23	0.5	16.9
Trade and other receivables	19	208.5	150.3
Investments	20	–	0.7
Current tax receivable		1.5	–
Assets held for sale	15	1.9	1.2
Cash and cash equivalents	23	190.8	254.1
		443.3	461.3
Total assets		1,250.7	1,198.0
Current liabilities			
Trade and other payables	21	(346.6)	(334.9)
Current tax payable		(8.5)	(8.9)
Provisions	22	(6.2)	(6.0)
Other financial liabilities	23	(1.8)	(2.6)
		(363.1)	(352.4)
Non-current liabilities			
Deferred tax liability	17	(73.1)	(66.4)
Provisions	22	(10.7)	(14.3)
Other financial liabilities	23	(1.9)	(1.9)
Other payables	21	(20.9)	(18.7)
		(106.6)	(101.3)
Total liabilities		(469.7)	(453.7)
Net assets		781.0	744.3
Capital and reserves			
Ordinary shares	27	5.7	5.7
Capital redemption reserve		40.8	40.8
Share premium account		147.6	147.6
Hedging reserve		(0.2)	(1.8)
Translation reserve		3.8	(0.4)
Retained earnings		581.1	552.2
Capital and reserves attributable to shareholders of the parent company		778.8	744.1
Non-controlling interest		2.2	0.2
Total shareholders' funds		781.0	744.3

The financial statements were approved by the Board of Directors and authorised for issue on 23 May 2019 and were signed on its behalf by:


Mark Elliott
 Chairman


Steve Wadey
 Chief Executive Officer


David Smith
 Chief Financial Officer

Consolidated cash flow statement

For the year ended 31 March

All figures in £ million	Note	2019	2018
Underlying net cash inflow from operations	26	126.3	126.5
(Less)/add back specific adjusting items	26	(0.7)	5.9
Net cash inflow from operations	26	125.6	132.4
Tax paid		(10.7)	(15.7)
Interest received		1.3	0.7
Interest paid		(0.7)	(0.7)
Net cash inflow from operating activities		115.5	116.7
Purchases of intangible assets		(10.6)	(8.5)
Purchases of property, plant and equipment		(77.0)	(46.0)
Proceeds from disposals of plant and equipment		6.9	-
Proceeds from sale of property		5.3	23.1
Proceeds from sale of investments		1.5	-
Acquisition of businesses		(61.2)	(1.1)
Investment in joint venture		(1.6)	(0.5)
Proceeds from disposal of available-for-sale-investments		15.7	-
Investment in available-for-sale investments		-	(5.0)
Net cash outflow from investing activities		(121.0)	(38.0)
Purchase of own shares		(0.7)	(0.7)
Dividends paid to shareholders		(35.7)	(34.5)
Repayment of external bank loan	7	(20.0)	-
Payment of bank facility arrangement fee		(1.5)	-
Capital element of finance lease payments		(0.4)	-
Net cash outflow from financing activities		(58.3)	(35.2)
(Decrease)/increase in cash and cash equivalents		(63.8)	43.5
Effect of foreign exchange changes on cash and cash equivalents		0.5	(1.2)
Cash and cash equivalents at beginning of the year		254.1	211.8
Cash and cash equivalents at end of the year	23	190.8	254.1

Reconciliation of movement in net cash for the year ended 31 March

All figures in £ million	Note	2019	2018
(Decrease)/increase in cash and cash equivalents in the year		(63.8)	43.5
Add back net cash flows not impacting net cash		6.2	5.0
Change in net cash resulting from cash flows		(57.6)	48.5
Finance leases and debt recognised on acquisition		(22.7)	-
Other movements including foreign exchange		2.0	(3.6)
(Decrease)/increase in net cash as defined by the Group		(78.3)	44.9
Net cash as defined by Group at the beginning of the year		266.8	221.9
Net cash as defined by Group at the end of the year	23	188.5	266.8
Less: other financial assets and liabilities	23	2.3	(12.7)
Total cash and cash equivalents	23	190.8	254.1

Notes to the Financial Statements

1. Significant accounting policies

QinetiQ Group plc ('the Company') is a public limited company, which is listed on the London Stock Exchange and is incorporated and domiciled in United Kingdom. The consolidated financial statements of the Group comprise statements for the Company and its subsidiaries, together referred to as 'the Group'.

Accounting policies

The following accounting policies have been applied consistently to all periods presented in dealing with items that are considered material in relation to the Group's financial statements. In the income statement, the Group presents specific adjusting items separately. In the judgement of the Directors, for the reader to obtain a proper understanding of business performance, specific adjusting items need to be disclosed separately. Underlying measures of performance exclude specific adjusting items.

Specific adjusting items include the following:

Item	Distorting due to irregular nature year on year	Distorting due to fluctuating nature (size and sign)	Does not reflect in-year operational performance of continuing business
Amortisation of intangible assets arising from acquisitions			✓
Pension net finance income and pension past service cost		✓	✓
Gains/losses on disposal of property, investments and intellectual property	✓	✓	✓
Transaction & integration costs in respect of business acquisitions	✓		✓
Impairment of property	✓		
The tax impact of the above	✓	✓	✓
Other significant non-recurring deferred tax movements	✓	✓	✓

The financial impact of each item is reported in note 4 to these financial statements.

Basis of preparation

The Group's financial statements, approved by the Directors, have been prepared on a going concern basis as discussed in the Directors' report on page 95 and in accordance with International Financial Reporting Standards as adopted by the EU (IFRS) and the Companies Act 2006 applicable to companies reporting under IFRS. The Company has elected to prepare its parent company financial statements in accordance with UK GAAP (FRS 101); these are presented on page 151. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and other relevant financial assets and liabilities. The Group's reporting currency is Sterling and unless otherwise stated the financial statements are rounded to the nearest £100,000.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary undertakings to 31 March 2019. The purchase method of accounting has been adopted. Those subsidiary undertakings acquired or disposed of in the period are included in the consolidated income statement from the date control is obtained to the date that control is lost (usually on acquisition and disposal respectively). An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. This is the IFRS 10 definition of 'control'.

The Group comprises certain entities that are operated under the management of a Proxy Board. Details of the Proxy Board arrangements and the powers of the Proxy holders and QinetiQ management are set out in the Corporate Governance section of this Annual Report. IFRS 10 is the accounting standard now applicable in respect of consolidation of entities. This does not specifically deal with proxy situations. However, having considered the terms of the Proxy agreement, the Directors consider that the Group meets the requirements of IFRS 10 in respect of control over such affected entities and, therefore, consolidates these entities in the consolidated accounts.

An associate is an undertaking over which the Group exercises significant influence, usually from 20%–50% of the equity voting rights, in respect of financial and operating policy. A joint venture is an undertaking over which the Group exercises joint control. Associates and joint ventures are accounted for using the equity method from the date of acquisition to the date of disposal. The Group's investments in associates and joint ventures are held at cost including goodwill on acquisition and any post-acquisition changes in the Group's share of the net assets of the associate less any impairment to the recoverable amount. Where an associate or joint venture has net liabilities, full provision is made for the Group's share of liabilities where there is a constructive or legal obligation to provide additional funding to the associate or joint venture.

The financial statements of subsidiaries, joint ventures and associates are adjusted where necessary to ensure compliance with Group accounting policies.

Recent accounting developments

Developments adopted by the Group in 2019 with no material impact on the financial statements

The following IFRS and EU-endorsed standards and amendments, improvements and interpretations of published standards are effective for accounting periods beginning on or after 1 January 2018 and have been adopted with no material impact on the Group's financial statements:

- Amendments to IFRS 2 'Share based payments', on clarifying how to account for certain types of share-based payment transactions
- Amendments to IFRS 4 'Insurance contracts' regarding the implementation of IFRS 9 'Financial instruments'
- Amendments to IAS 40 'Investment property', relating to transfers of investment property
- IFRIC 22 'Foreign currency transactions and advance consideration'

Annual improvement 2014-2016 cycle have been adopted with effect from 1 January 2018. No changes to the previously published accounting policies or other adjustments were required on the adoption of these amendments.

IFRS 15 Revenue from Contracts with Customers

In the current year the Group has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016). IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. The model includes identifying the contract with the customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations in the contract and recognising the revenue when the entity satisfies a performance obligation.

The new revenue standard supersedes all previous revenue recognition requirements under IFRS and required either a full retrospective application or a cumulative effect transitional method. The Group adopted the new standard using the cumulative effect transitional method without using the practical expedients for modified contracts in IFRS 15.C5(c). This method requires, if the impact of adoption is material, an adjustment to the opening balance of equity in the period of adoption without having to restate comparative amounts. The adoption of IFRS 15 has not had a significant impact on QinetiQ's reported financial performance. This was as expected given the nature of our contracts and QinetiQ's historic method of accounting (using 'percentage of completion' accounting for service contracts as opposed to milestone accounting).

QinetiQ performed a detailed assessment of the impact of implementing IFRS 15. All major long-term service contracts (LTPA, CATS, NCSISS, MSCA and FAST), which accounted for approximately 39% of FY18 revenue, were assessed by the Group Finance team and the Company's auditors in detail and concluded on individually. Management within each business unit also assessed all other contracts greater than £1m and which extended beyond FY18 into FY19. We have not identified any contracts in total, or part contracts (in the form of performance obligations), where we would need to move from recognising revenue over time to recognising revenue at a point in time. The majority of QinetiQ's contracts are largely either long-term service contracts where the customer benefits from QinetiQ's performance throughout the contract, or they are long-term design, build and delivery contracts which are highly bespoke and have no alternative use to QinetiQ (and QinetiQ have a right to payment for work performed to date). Therefore, it remains appropriate to recognise revenue over time using an input-based methodology (cost-to-cost). Where IFRS 15 has required the disaggregation of contracts into distinct performance obligations, this does not materially alter the revenue recognised compared to the long-term percentage completion methodology previously applied. Product shipment contracts with control clauses were assessed to determine the point in time when revenue shall be recognised by considering the additional indicators highlighted in the new standard. It was determined that there was no material impact on QinetiQ point in time revenue recognition. No adjustment to the opening balance of equity has been required following implementation of IFRS 15. More extensive disclosures are required, however. (See note 2)

IFRS 15 requires the recognition of an asset in respect of incremental costs of obtaining a contract with a customer where it is expected these costs will be recovered. We have determined that this has minimal impact to the Group, as even though many of our contracts are single-sourced, we do not typically incur qualifying incremental costs (including third party expenses) in securing those contracts that would be considered recoverable.

IFRS 15 uses the terms 'contract assets' and 'contract liabilities' to describe what was known as 'amounts recoverable under contracts' and 'deferred income'; however the Standard does not prohibit an entity from using alternative descriptions in the balance sheet. The Group has adopted the new terminology used in IFRS 15 to describe such balances.

The Group's accounting policies for its revenue streams are disclosed in detail on pages 111-112.

IFRS 9 financial instruments

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities, introduces a new impairment model for financial assets, as well as new rules for hedge accounting. The new standard has replaced IAS 39 in its entirety and is effective for annual periods beginning on or after 1 January 2018. The Group adopted the new standard during the current reporting period, FY19, and has not restated comparative periods. All components of the standard, including new rules for hedge accounting and impairment, are applied prospectively.

The impact of adopting the new standard in FY19 resulted in certain financial assets being reclassified from fair value through other comprehensive income to fair value through profit and loss. This change has not had a material impact on profit in FY19 as these financial assets were sold during the period without any significant increase in fair value. Gains previously held in other comprehensive income have been released to equity.

Notes to the Financial Statements *continued*

1. Significant accounting policies continued

Derivative financial instruments designated as cash flow hedges under IAS 39 in the prior period shall continue to be classified as such and continue to qualify for hedge accounting under IFRS 9. Trade and other receivables previously classified as 'loans and receivables' and measured at amortised cost under IAS 39 are now classified as 'financial assets at fair value through profit and loss' and measured at amortised costs under IFRS 9. Loans and receivables no longer exist as a classification category under IFRS 9. Trade and other payables previously classified and measured at amortised cost under IAS 39 shall continue to be classified and measured at amortised costs under IFRS 9.

The Group's trade receivables are subject to the new expected credit loss impairment model under IFRS 9. In determining the recoverability of trade receivables, the Group considers any change in the credit quality of each trade receivable from the date credit was granted to the reporting date using forward looking information. The Group assessed credit risk to be limited as a result of the high percentage of revenue derived from UK and US government agencies. For non-government customers the Group considers the expected credit loss to be immaterial to the financial statements.

The changes to impairment and hedge accounting have not had a material impact on the Group financial statements

Developments expected in future periods for which the impact has been assessed

IFRS 16 leases

The new leases standard was published in January 2016. Under the new standard, companies will recognise new assets and liabilities, bringing added transparency to the balance sheet. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases.

The standard will be effective for periods beginning on or after 1 January 2019, i.e. FY20 for QinetiQ, using either the full retrospective approach or the modified retrospective approach. Early adoption is permitted but QinetiQ plans to adopt the new standard on the required effective date, 1 April 2019, using the full retrospective approach. Under the full retrospective approach QinetiQ will be required to apply IFRS 16 to all periods presented as if it had always been applied by restating comparative periods. A third balance sheet (1 April 2018) is required to be presented in addition to FY19 restated in FY20. The income statement and cash flow statement will only have FY19 restated. A detailed change in accounting policies note will show a reconciliation between previously reported figures and restated figures for all three statements. QinetiQ will apply IAS 17 when preparing FY19 financial statements and then also apply IFRS 16 to prepare comparative financial information to be included in FY20 financial statements. QinetiQ elected to apply the full retrospective approach. A benefit of the full retrospective approach is that financial statements will be comparable in the first year of adoption.

When applying the full retrospective approach QinetiQ elected to use the short-term lease and low-value asset exemptions for leases less than 12 months and lease assets under £5,000. QinetiQ also elected to reassess all leases using new IFRS 16 lease definitions and have not elected to use the practical expedient which exempts entities from doing so.

QinetiQ quantified the expected impact on the FY19 financial statements using all available lease information and expectations around extensions, early terminations and payments as at 31 March 2019. Should there be changes to any lease terms during FY20 QinetiQ will consider these in lease calculations for the FY20 financial statements.

The expected impact on financial statements under the full retrospective approach is set out below:

For the year ended 31 March	2020	2019
Balance sheet		
Right-of-use assets	16.7	23.8
Lease liabilities	(19.3)	(26.6)
Income statement		
Depreciation of right-of-use assets	7.6	7.9
Finance expense in respect of lease liabilities	0.9	1.1
Operating lease expense no longer incurred	(8.5)	(8.9)

IFRIC 23 'Uncertainty over income tax treatments'

This interpretation was published in June 2017 and is required to be applied in the determination of taxable profits / losses and tax attributes, when there is uncertainty over their treatment under IAS 12.

The primary impact on QinetiQ arises in relation to the provision for potential overseas tax liabilities in territories where the group does not have a registered taxable presence (i.e. territories to which the group exports goods or short term services). Currently, the group holds a provision under IAS12 reflecting the potential risk of QinetiQ's many activities across many jurisdictions. This provision is not expected to meet the more prescriptive threshold for recognition under IFRIC 23, which explicitly requires consideration of each tax jurisdiction individually.

Combined with an assessment of other tax reserves, the estimated impact of the adoption of IFRIC 23 in FY20 is a reduction in tax provisions (within current tax payable) of approximately £2m.

Developments expected in future periods with no material impact on the Group's financial statements

The Directors anticipate that the adoption of the following new, revised, amended and improved published standards and interpretations, which were in issue at the date of authorisation of these financial statements, will have no material impact on the financial statements of the Group when they become applicable in future periods:

- Amendments to IFRS 3, and 9
- Amendments to IAS 1, 8, 19 and 28

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 exist within a contract. As part of the assessment the Group obtains an understanding of the overall deliverable to the customer through discussions with business units and project leads. Each individual deliverable in the contract is then assessed to determine if it is an input into the overall deliverable, and therefore part of a single performance obligation, or if it is a stand-alone separable deliverable with its own transaction price and therefore a distinct performance obligation in its own right. Each distinct performance obligation identified within a contract is accounted for separately.

Certain service contracts have a similar pattern of transfer of control to the customer where each year is effectively the same from a performance obligation perspective. The Group has applied the series guidance as permitted within the Standard to these contracts and accounts for these as a series of distinct service performance obligations satisfied annually over the contract term. The transaction price for a contract is determined at contract inception based on a fixed-margin applied to the total forecast costs to complete the deliverable. Some long-term contracts include an excess profit clause which is a variable consideration factor that could impact the transaction price. Excess profits are estimated at contract inception and at the end of each reporting period to ensure that the transaction price is not under or over stated. Any required adjustment will be made against the transaction price in the period in which it occurred. The Group does not offer any right of return or refunds which could impact transaction price at inception. Certain contracts attract bonuses and/or penalties which are variable and will have an impact on transaction price at contract inception. The Group assesses variable consideration in relation to bonuses and penalties at contract inception using the most-likely method and this forms part of the transaction price and recognised over time as costs have been 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.

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, 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.

Notes to the Financial Statements *continued*

1. Significant accounting policies continued

When the outcome of a distinct performance obligation in delivering services can be reliably estimated, revenue associated with the performance obligation is recognised over time using the input method. The input method recognises revenue over time on the basis of costs incurred to date to the satisfaction of a performance obligation relative to the total forecast costs to complete the performance obligation. The Group has determined the input method to be appropriate as it best depicts the Group's performance in transferring control of the service to the customer as it incurs costs on a particular contract.

No profit is recognised on contracts until the outcome of the contract can be reliably estimated. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately as an expense.

Goods sold

The Group recognises revenue on the sale of products at a point in time once control has been transferred to the customer. Control is generally transferred to customers on delivery of products or when the customer has the significant risks and rewards of ownership of the product. Payment is typically due within 30 days of invoice (within the UK) and customers typically do not have a right of return or refund. The transaction price for sale of products is agreed at contract inception. When the Group develops a bespoke product for a customer with no alternative use to the Group, revenue is recognised over time using the input method.

Licence revenue

Licence revenue is attributed to either 'right to use' or 'right to access' licences. 'Right to use' licence revenue is recognised at a point in time when the Group sells a licence to a customer and does not undertake significant further activities or involvement in developing the licence after the sale. 'Right to access' licence revenue is recognised over time when the Group maintains a significant level of involvement in developing and enhancing the licence after the sale. The level of involvement goes beyond general support, bug-fixing and upgrades which generally only maintain the current operating level. The transaction price for intellectual property is agreed at contract inception.

The Group recognises licence revenue through the supply of a range of security, messaging and connectivity software products. A licence fee is paid for each computer that uses the software and the customer can also purchase a support service contract for a fixed period. The sale of these types of licences is recognised at a point in time as a distinct performance obligation because the Group does not undertake any further activities in developing the licence after the sale. The support service contract is recognised over time as a separate performance obligation as this is an optional extra and is not integral into the functionality of the licence. The support service contract offers general support and maintenance of the licence to the customer over a fixed period.

The Group also offers a cloud-based service where customers pay a host fee, licence fee and support and maintenance fee to access the QinetiQ hosted service for a fixed term. It was assessed that each of the three deliverables could not benefit the customer on a stand-alone basis as the customer requires each to obtain the complete hosting service. One distinct service performance obligation is provided to the customer over the term of the contract. The Group recognises revenue over time as the customer simultaneously receives and consumes the benefits of the hosting service provided by the Group as the Group performs.

Contract assets

Contract assets is a new term used in adopting IFRS 15 and effectively represents amounts recoverable under contracts as previously reported. Contract assets represent revenue recognised in excess of amounts invoiced. Revenue is recognised on service contracts by using a 'percentage complete' method, applying the proportion of contract costs incurred for work performed to date relative to the estimated total contract cost, after making suitable allowances for technical and other risks related to performance milestones yet to be achieved, and applying that proportion to total contract price. Payment for service contracts are not always due from the customer until certain milestones have been reached and, therefore, a contract asset is recognised over the period in which the services are performed representing the Group's right to consideration for services performed to date, to the extent that the customer has not yet been invoiced for those services.

Contract liabilities

Contract liabilities is a new term used in adopting IFRS 15 and effectively represents deferred income as previously reported. The Group, on occasion, bills customers in advance of performing certain types of work which results in the Group recognising contract liabilities. Once the work has been performed these amounts will be reduced and recognised as revenue. For sale of goods, revenue is recognised in the income statement when control of the goods has been transferred to the customer, being at the point when the goods are delivered. Any transaction price received by the Group prior to that point is recognised as a contract liability.

Principal-agent arrangements

The Group enters into certain arrangements which involve a consortium of service providers. The Group acts as a 'Prime' contractor in certain contracts with customers and utilises sub-contractors to undertake the work. Under these contracts the Group is considered to be primarily responsible for fulfilling the service to the customer. The Group performs a technical assessment of the work before it is delivered to the customer and is responsible for quality and performance of the sub-contractor. As such the Group is considered to be the principal to the arrangement with the customer and includes sub-contractor costs within revenue. However, where the Group is merely acting as an agent of a sub-contractor then no revenue is recognised in respect of sub-contractor costs. 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. Under IAS 18 the Group capitalised bidding costs on major bids once preferred bidder status was achieved. The capitalised costs were amortised over the life of the contract. Under IFRS 15 bidding costs are not seen as incremental costs of obtaining a contract and the Group will expense bid costs as incurred.

Segmental information

Segmental information is presented according to the Group's internal management reporting structure and the markets in which it operates. Segmental results represent the contribution of the different segments to the profit of the Group. Corporate expenses are allocated to the corresponding segments. Unallocated items mainly comprise specific adjusting items. Specific adjusting items are referred to in note 4. Segmental assets and liabilities information is not regularly provided to the Chief Operating Decision Maker.

Research and development expenditure

R&D costs incurred in respect of specific contracts placed by customers are recognised within operating costs and revenue is recognised in respect of the R&D services performed. Internally funded development expenditure is capitalised in the balance sheet where there is a clearly defined project, the expenditures are separately identifiable, the project is technically and commercially feasible, all costs are recoverable by future revenue and the resources are committed to complete the project. Such capitalised costs are amortised over the forecast period of sales resulting from the development. All other R&D costs are expensed to the income statement in the period in which they are incurred. If the research phase cannot be clearly distinguished from the development phase, the respective project-related costs are treated as if they were incurred in the research phase only and expensed.

Financing

The Group holds no external borrowings but does have access to a revolving credit facility (undrawn during 2018 and 2019), fees for which are reported within finance costs. Costs of letters of credit are also charged to finance expense. Income earned on funds invested is reported within finance income. Exchange differences on financial assets and liabilities and the income or expense from interest hedging instruments that are recognised in the income statement are included within finance income and finance expense. Financing also includes the net finance income or expense in respect of defined benefit pension schemes. The Group pays in advance finance costs in relation to the multi-currency facility which are recognised as a deferred finance cost asset.

Taxation

The taxation charge is based on the taxable profit for the year and takes into account taxation deferred because of temporary differences between the treatment of certain items for taxation and accounting purposes. Current tax and deferred tax are charged or credited to the income statement, except where they relate to items charged or credited to equity, in which case the relevant tax is charged or credited to equity. Deferred taxation is the tax attributable to the temporary differences that appear when taxation authorities recognise and measure assets and liabilities with rules that differ from those of the consolidated financial statements. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using rates enacted or substantively enacted at the balance sheet date.

The Group's accounting policy is to include the impact of research and development expenditure credits (RDEC) within the tax charge. To provide comparability to other companies that account for RDEC as a government grant the effective underlying tax rate is disclosed in the taxation note both with and without the impact.

Any changes in the tax rates are recognised in the income statement unless related to items directly recognised in equity. Deferred tax liabilities are recognised on all taxable temporary differences excluding non-deductible goodwill. Deferred tax assets are recognised on all deductible temporary differences provided that it is probable that future taxable income will be available against which the asset can be utilised. Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset and there is an intention to settle balances on a net basis.

Non-current assets held for sale

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

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

Notes to the Financial Statements *continued*

1. Significant accounting policies continued

Goodwill

Goodwill on acquisitions of subsidiaries is included in non-current assets. Goodwill on acquisitions of joint ventures and associates is included in the carrying value of equity accounted investments. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

Intangible assets

Intangible assets arising from business combinations are recognised at fair value and are amortised over their expected useful lives, typically between one and 16 years. Internally generated intangible assets are recorded at cost, including labour, directly attributable costs and any third-party expenses.

The 'multi-period excess earnings' method and the 'relief-from-royalty' method are both used for fair valuing intangible assets arising from acquisitions. The multi-period excess earnings method considers the present value of net cash flows expected to be generated by customer relationships, by excluding any cash flows related to contributory assets. The relief-from-royalty method considers the discounted estimated royalty payments that are expected to be avoided as a result of the patents or trademarks being owned.

Purchased intangible assets are recognised at cost less amortisation. Intangible assets are amortised over their respective useful lives on a straight-line basis as follows:

Intellectual property rights	2–10 years
Customer relationships	1–16 years
Development costs	1–4 years
Other	1–14 years

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation. Freehold land is not depreciated. Other tangible non-current assets are depreciated on a straight-line basis over their useful economic lives to their estimated residual value as follows:

Freehold buildings	20–25 years
Leasehold land and buildings	Shorter of useful economic life and the period of the lease
Plant and machinery	3–15 years
Fixtures and fittings / office equipment	5–10 years
Computers	3–5 years
Motor vehicles	3–5 years

Assets under construction are included in property, plant and equipment on the basis of expenditure incurred at the balance sheet date. In the case of assets constructed by the Group, the value includes the cost of own work completed, including directly attributable costs and interest.

The useful lives, depreciation methods and residual values applied to property, plant and equipment are reviewed annually and, if appropriate, adjusted accordingly.

Impairment of goodwill and tangible, intangible and held for sale assets

At each reporting date the Group assesses whether there is an indication that an asset may be impaired. If the carrying amount of any asset exceeds its recoverable amount an impairment loss is recognised immediately in the income statement. In addition, goodwill is tested for impairment annually irrespective of any indication of impairment. If the carrying amount exceeds the recoverable amount, the respective asset or the assets in the cash-generating unit (CGU) are written down to their recoverable amounts. The recoverable amount of an asset or CGU is the higher of its fair value less costs to sell and its value in use. The value in use is the present value of the future cash flows expected to be derived from an asset or CGU calculated using an appropriate pre-tax discount rate. Impairment losses are expensed to the income statement.

Investments in debt and equity securities

Investments held by the Group are classified as either a current asset or as a non-current asset and those classified as available for sale are stated at fair value, with any resultant gain or loss, other than impairment losses, being recognised directly in equity. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement.

The fair value of quoted financial instruments is their bid price at the balance sheet date. The fair value of unquoted equity investments is based on the price of the most recent investment by the Group or a third party, if available, or derived from the present value of forecast future cash flows.

Inventories

Inventory and work-in-progress are stated at the lower of cost and net realisable value. Work-in-progress and manufactured finished goods are valued at production cost. Production cost includes direct production costs and an appropriate proportion of production overheads. A provision is established when the net realisable value of any inventory item is lower than its cost. A 'market comparison' technique is used to fair value inventories acquired through a business combination. The fair value is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Trade and other receivables

Trade and other receivables are stated net of provisions for doubtful debts. Amounts recoverable on contracts are included in trade and other receivables and represent revenue recognised in excess of amounts invoiced. Other receivables will also include insurance recoveries where we are virtually certain of recovery.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and short-term deposits that are readily convertible into cash. In the cash flow statement overdraft balances are included in cash and equivalents.

Current and non-current liabilities

Current liabilities include amounts due within the normal operating cycle of the Group. Deferred income, or 'contract liabilities', is included in trade and other payables and represents amounts invoiced in excess of revenue recognised. Interest-bearing current and non-current liabilities are initially recognised at fair value and then stated at amortised cost with any difference between the cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest rate basis. Costs associated with the arrangement of bank facilities or the issue of loans are held net of the associated liability presented in the balance sheet. Capitalised issue costs are released over the estimated life of the facility or instrument to which they relate using the effective interest rate method. If it becomes clear that the facility or instrument will be redeemed early, the amortisation of the issue costs will be accelerated.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event which can be reliably estimated, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where appropriate, provisions are determined by discounting the expected cash flows at an appropriate discount rate reflecting the level of risk and the time value of money.

Financial instruments

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

Financial assets

Financial assets are classified on the Group's balance sheet as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. This classification is made on the basis of both the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Financial liabilities

Financial liabilities are classified on the Group's balance sheet as subsequently measured at amortised cost except for financial liabilities at fair value through profit and loss. The Group may at initial recognition irrevocably designate a financial liability as measured at fair value through profit or loss if a contract contains one or more embedded derivatives and the host is not an asset within the scope of IFRS 9, or when doing so results in more relevant information.

Impairment of trade receivables

The Group applies the simplified approach when using the expected credit loss (ECL) impairment model for trade receivables. Under the simplified approach the Group always measures the loss allowance at an amount equal to the lifetime expected credit losses for trade receivables. The Group measures the expected credit losses of trade receivables in a way that reflects a probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and supportable information that is readily available at each reporting date about past events, current condition and forecasts of future economic conditions. The ECL's are updated each reporting period to reflect changes in credit risk since initial recognition.

Derivative financial instruments

Derivative financial instruments are initially recognised and thereafter held at fair value, being the market value for quoted instruments or valuation based on models and discounted cash flow calculations for unlisted instruments.

Fair value hedging

Changes in the fair value of derivatives designated as fair value hedges of currency risk or interest rate risk are recognised in the income statement. The hedged item is held at fair value with respect to the hedged risk with any gain or loss recognised in the income statement.

Notes to the Financial Statements *continued*

1. Significant accounting policies continued

Cash flow hedging

Changes in the fair value of derivatives designated as a cash flow hedge that are regarded as highly effective are recognised in equity. The ineffective portion is recognised immediately in the income statement. Where a hedged item results in an asset or a liability, gains and losses previously recognised in equity are included in the cost of the asset or liability. Gains and losses previously recognised in equity are removed and recognised in the income statement at the same time as the hedged transaction.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at period-end rates. Any resulting exchange differences are taken to the income statement. Gains and losses on designated forward foreign exchange hedging contracts are matched against the foreign exchange movements on the underlying transaction.

The individual financial statements of each Group company are presented in its functional currency. On consolidation, assets and liabilities of overseas subsidiaries, associated undertakings and joint ventures, including any related goodwill, are translated to Sterling at the rate of exchange at the balance sheet date. The results and cash flows of overseas subsidiaries, associated undertakings and joint ventures are translated to Sterling using the average rates of exchange during the period. Exchange adjustments arising from the re-translation of the opening net investment and the results for the period to the period-end rate are taken directly to equity and reported in the statement of comprehensive income.

Post-retirement benefits

The Group provides both defined contribution and defined benefit pension arrangements. The liabilities of the Group arising from defined benefit obligations are determined using the projected unit credit method. Valuations for accounting purposes are carried out bi-annually. Actuarial advice is provided by external consultants. For the funded defined benefit plans, the excess or deficit of the fair value of plan assets less the present value of the defined benefit obligation are recognised as an asset or a liability respectively.

Per the Scheme rules, the Company has an unconditional right to a refund of any surplus that may arise on cessation of the Scheme in the context of IFRIC 14 paragraphs 11(b) and 12 and therefore the full net pension asset can be recognised on the Group's balance sheet and the Group's minimum funding commitments to the Scheme do not give rise to an additional balance sheet liability.

For defined benefit plans, the cost charged to the income statement consists of administrative expenses and the net interest income. There is no service cost due to the fact the plans are closed to future accrual. The net interest income is reported within finance income and the administration cost element is charged as a component of operating costs in the income statement. Actuarial gains and losses and re-measurement gains and losses are recognised immediately in full through the statement of comprehensive income. Contributions to defined contribution plans are charged to the income statement as incurred.

Share-based payments

The Group operates share-based payment arrangements with employees. The fair value of equity-settled awards for share-based payments is determined on grant and expensed straight line over the period from grant to the date of earliest unconditional exercise. The fair value of cash-settled awards for share-based payments is determined each period end until they are exercised or lapse. The value is expensed straight line over the period from grant to the date of earliest unconditional exercise. The charges for both equity and cash-settled share-based payments are updated annually for non-market-based vesting conditions.

Share capital

Ordinary share capital of the Company is recorded as the proceeds received, less issue costs. Company shares held by the employee benefit trusts are held at the consideration paid. They are classified as own shares within equity. Any gain or loss on the purchase, sale or issue of Company shares is recorded in equity.

Critical accounting estimates and judgements in applying accounting policies

The following commentary is intended to highlight those policies that are critical to the business based on the level of management judgement required in their application, their complexity and their potential impact on the results and financial position reported for the Group. The level of management judgement required includes assumptions and estimates about future events that are uncertain and the actual outcome of which may result in a materially different outcome from that anticipated.

Revenue from contracts with customers

Performance obligations

Long-term services contracts require judgement and a detailed assessment of each deliverable within a contract to determine distinct performance obligations. Point in time, sale of product, contracts are generally straightforward as usually only one performance obligation exists which is to deliver a product.

Management, business unit leaders and project leads collaborate to determine the overall deliverable to customers and what they expect to receive over the period of delivery. Each individual deliverable within the contract is then assessed to determine if the customer can benefit from a task on a stand-alone basis (or with other readily available resources) and if a task is separately identifiable from other tasks in the contract. When determining if a task is separately identifiable management assesses how tasks combine and integrate with each other to deliver the overall performance obligation. If individual tasks are not highly interrelated, could be delivered by an independent third-party and the customer could benefit from the task on a stand-alone basis management assess these to be distinct performance obligations. If multiple tasks are highly interrelated and combine together to deliver one overall deliverable these are assessed to be one performance obligation as a customer would not ordinarily contract with the Group for certain tasks only.

Variable consideration

The Group applies judgement when determining the amount of variable consideration to include in the transaction price at contract inception. Variable bonus consideration is earned based on the Group meeting milestones and performance KPI's on certain contracts. At contract inception management uses the 'most-likely method' to determine the amount bonus to include in the transaction price. This is based on management's best estimates on how the Group expects to perform against contract milestones and KPI's. Where management is uncertain on a milestone's or KPI's achievement it is assumed that it will not be met and the associated bonus is not included in the transaction price. Management applies the same methodology for penalties where the transaction price will be reduced for penalties which management view will most-likely be incurred. Where there is uncertainty on penalties management will reduce the transaction price at contract inception for these.

Forecast costs at completion (FCAC) and contract progress

The estimation process required to evaluate the potential outcome of contracts and projects requires skill, knowledge and experience from a variety of sources within the business to assess the status of the contract, costs to complete, internal and external labour resources required and other factors. This process is carried out continuously throughout the business to ensure that project and contract assessments reflect the latest status of such work.

Business combinations and related goodwill

The Group tests annually whether goodwill has suffered any impairment. This process relies on the use of estimates of the future profitability and cash flows of its cash generating units which may differ from the actual results delivered. In addition, the Group reviews whether identified intangible assets have suffered any impairment. Further details on the sensitivity of the carrying value of goodwill to changes in the key assumptions are set out in note 13.

Tax

The Group has significant levels of unused tax losses, as set out in note 8. Judgement is applied when assessing the recoverability of deferred tax assets impacting on the value of losses recognised on the balance sheet as a deferred tax asset. Judgement is also required when assessing technical uncertainties associated with tax positions. To the extent that the outcome of a tax audit differs from the tax that has been provided, adjustments will be made to current tax and deferred tax provisions held in the period the determination is made.

Other payables, provisions and contingent liabilities

The Group holds liabilities in respect of environmental and regulatory issues (see note 22). The Group operates in regulated environments and a failure to comply with particular regulations could result in fines and/or penalties. There is judgement required in determining the significance of any instances of potential non-compliance and potential liability based on management's assessment of the most likely outcome. The financial statements also disclose contingent liabilities in respect of legal claims and regulatory issues which have not been provided for on the basis that they are not considered to qualify for recognition as provisions. Judgement is required in these assessments.

Post-retirement benefits

The Group's defined benefit pension obligations and net income statement costs are based on key assumptions, including discount rates, mortality and inflation. Management exercises its best judgement, in consultation with actuarial advisors, in selecting the values for these assumptions that are the most appropriate to the 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 29.

Notes to the Financial Statements *continued*

2. Revenue from contracts with customers and other income

Revenue and other income is analysed as follows:

Revenue by category and other income

For the year ended 31 March

All figures in £ million	2019	2018
Services contracts with customers	790.9	733.4
Sale of goods contracts with customers	105.6	85.8
Royalties and licences	14.6	13.8
Total revenue	911.1	833.0
Less: acquired businesses [^]	(15.1)	-
Adjust to constant prior year exchange rates	1.4	-
Total revenue on an organic, constant currency basis	897.4	833.0
Organic revenue growth at constant currency	8%	3%

[^] For the period of which there was no contribution in the equivalent period in the prior year which was pre-ownership by the Group.

Other income

	2019	2018
Share of associates' and joint ventures' profit after tax	0.6	0.3
Other income	10.0	9.4
Other income - underlying	10.6	9.7
Specific adjusting item: gain on sale of assets (note 4)	0.2	21.1
Total other income	10.8	30.8

Revenue and profit after tax of associates and joint ventures was £16.2m and £1.2m respectively (2018: revenue of £13.6m and profit after tax of £0.6m). The figures in the table above represent the Group share of this profit after tax.

Other income is in respect of property rentals and the recovery of other related property costs.

Revenue by customer geographic location

For the year ended 31 March

All figures in £ million	2019	2018
US	105.3	81.6
Australia	55.2	54.8
Europe	60.8	43.2
Middle East	11.0	13.9
Rest of World	41.4	32.5
International	273.7	226.0
United Kingdom	637.4	607.0
Total revenue	911.1	833.0

Reconciliation of international revenue to organic international revenue including share of joint ventures

For the year ended 31 March

All figures in £ million	2019	2018
International revenue	273.7	226.0
Less: international revenue from businesses acquired in current financial year	(9.8)	-
Add: incremental share of revenue from joint ventures	1.9	-
Organic international revenue including share of joint ventures	265.8	226.0

The year on year organic growth in international revenue including share of joint ventures was £39.8m. This metric is used for management remuneration purposes under the Deferred Share Scheme.

Revenue by major customer type

For the year ended 31 March

All figures in £ million	2019	2018
UK Government	562.7	544.2
US Government	83.1	65.5
Other	265.3	223.3
Total revenue	911.1	833.0

'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 (adjusted to include the LTPA amendment signed 5 April 2019):

All figures in £ million	2020	2021	2022	2023+	Total
Revenue from contracts with customers	706.4	454.8	348.8	1,623.6	3,133.6
Total revenue allocated to unsatisfied performance obligations	706.4	454.8	348.8	1,623.6	3,133.6

Management expects that 23% (£706.4m) of revenue allocated to unsatisfied contracts as of 31 March 2019 will be recognised as revenue during the next reporting period.

3. Segmental analysis

The analysis by business segment is presented in accordance with IFRS 8 Operating Segments, on the basis of those reportable segments whose operating results are regularly reviewed by the Board (the Chief Operating Decision Maker as defined by IFRS 8) and are aligned with the Group's strategic direction, determined with reference to the products and services they provide, as follows:

EMEA Services provides technical assurance, test and evaluation and training services, underpinned by long-term contracts. EMEA Services comprises the following business units which are not considered reportable segments as defined by IFRS 8: Maritime, Land & Weapons; Air & Space, Cyber, Information & Training, and International business. These are aggregated into the single EMEA Services segment due to their similar characteristics including the nature of the services provided and customers.

Global Products combines all other business units not aggregated within EMEA Services. Generally these business units 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. Global Products comprises the following business units which are not considered reportable segments as defined by IFRS 8: QinetiQ North America, Space Products, OptaSense and EMEA Products. No single component represents 10% or more of the Group's revenue.

Operating segments

All figures in £ million	2019		2018	
	Revenue from external customers	Underlying operating profit ¹	Revenue from external customers	Underlying operating profit ¹
EMEA Services	687.7	96.3	651.4	94.3
Global Products	223.4	27.6	181.6	28.2
Total operating segments	911.1	123.9	833.0	122.5
Underlying operating margin*		13.6%		14.7%

¹ The measure of profit presented to the Chief Operating Decision Maker is operating profit stated before specific adjusting items ('underlying operating profit'). The specific adjusting items are detailed in note 4.

* Definitions of the Group's 'Alternative performance measures' can be found in the glossary on page 159.

No measure of segmental assets and liabilities is reported as this information is not regularly provided to the Chief Operating Decision Maker.

Notes to the Financial Statements *continued*

3. Segmental analysis continued

Reconciliation of segmental results to total profit

All figures in £ million	Note	2019	2018
Underlying operating profit		123.9	122.5
Specific adjusting items operating (loss)/profit	4	(10.1)	18.5
Operating profit		113.8	141.0
Gain on sale of investments		1.1	–
Net finance income	6	8.3	3.8
Profit before tax		123.2	144.8
Taxation expense	8	(9.3)	(6.7)
Profit for the year attributable to equity shareholders		113.9	138.1

Non-current assets* by geographic location

All figures in £ million	UK	Rest of World	Total
Year ended 31 March 2019	382.1	153.0	535.1
Year ended 31 March 2018	340.5	71.1	411.6

* Excluding deferred tax, financial instruments and retirement benefit surplus.

Depreciation, impairment and amortisation by business segment – excluding specific adjusting items For the year ended 31 March 2019

All figures in £ million	EMEA Services	Global Products	Total
Depreciation and impairment of property, plant and equipment*	29.9	2.2	32.1
Amortisation of purchased or internally developed intangible assets	2.3	0.9	3.2
	32.2	3.1	35.3

* Excludes impairment of property £3.7m which is treated as a specific adjusting item (note 4).

For the year ended 31 March 2018

All figures in £ million	EMEA Services	Global Products	Total
Depreciation of property, plant and equipment	23.6	2.0	25.6
Amortisation of purchased or internally developed intangible assets	2.3	1.4	3.7
	25.9	3.4	29.3

4. Specific adjusting items

In the income statement, the Group presents specific adjusting items separately. In the judgement of the Directors, for the reader to obtain a proper understanding of the financial information, specific adjusting items need to be disclosed separately because of their size and nature. Further explanation of this rationale is provided in note 1 (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	2019	2018
Gain on sale of property		0.2	14.6
Gain on sale of investment		–	0.6
Gain on sale of intellectual property		–	5.9
Pension past service cost in respect of GMP equalisation		(0.7)	–
Acquisition transaction costs		(1.3)	–
Acquisition integration costs		(0.7)	–
Specific adjusting items (loss)/profit before interest, tax, depreciation and amortisation		(2.5)	21.1
Impairment of property		(3.7)	–
Amortisation of intangible assets arising from acquisitions		(3.9)	(2.6)
Specific adjusting items operating (loss)/profit		(10.1)	18.5
Gain on sale of investments		1.1	–
Defined benefit pension scheme net finance income		8.2	4.2
Specific adjusting items (loss)/profit before tax		(0.8)	22.7
Specific adjusting items – tax	8	3.2	6.4
Total specific adjusting items profit after tax		2.4	29.1

Reconciliation of underlying profit for the year to total profit for the year

All figures in £ million	Note	2019	2018
Underlying profit after tax – total Group		111.5	109.0
Total specific adjusting items profit after tax		2.4	29.1
Total profit for the year attributable to equity shareholders		113.9	138.1

5. Profit before tax

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

All figures in £ million	2019	2018
Fees payable to the auditor and its associates:		
Audit of the Group's annual accounts	0.5	0.4
Audit of the accounts of subsidiaries of the Company and its associated pension scheme	0.2	0.2
Total audit fees	0.7	0.6
Audit-related assurance services	0.1	0.1
Total non-audit fees	0.1	0.1
Total auditors' remuneration	0.8	0.7

The following items have also been charged in arriving at profit before tax:

All figures in £ million	2019	2018
Cost of inventories expensed	28.5	25.4
Owned assets: depreciation	29.0	25.6
Leased assets: depreciation	0.4	–
Foreign exchange loss	0.5	–
Research and development expenditure – customer funded contracts	272.9	284.3
Research and development expenditure – Group funded	26.0	25.8

Notes to the Financial Statements *continued*

6. Finance income and expense

For the year ended 31 March

All figures in £ million	2019	2018
Receivable on bank deposits	1.2	0.7
Finance income before specific adjusting items	1.2	0.7
Amortisation of deferred financing costs	(0.3)	(0.3)
Payable on commitment fees	(0.6)	(0.7)
Finance lease expense	(0.1)	–
Unwinding of discount on financial liabilities	(0.1)	(0.1)
Finance expense before specific adjusting items	(1.1)	(1.1)
Specific adjusting items:		
Defined benefit pension scheme net finance income	8.2	4.2
Net finance income	8.3	3.8

7. Business combinations

Acquisitions in prior year

A payment of £0.1m deferred consideration has been paid in respect of the prior year acquisition of Rubikon Group Pty Limited. The remaining £0.1m deferred consideration has not been paid as at year end.

Acquisitions in the year to 31 March 2019

All figures in £ million	Date acquired	Cash consideration	Goodwill	Fair value of net assets acquired	Contribution post-acquisition	
					Revenue	Operating profit
Company acquired						
E.I.S Aircraft Operations	16 October 2018	46.8	(33.3)	13.5	9.8	1.1
Inzpire Group Limited	19 November 2018	22.9	(11.7)	13.2	5.3	0.2
Total current year acquisitions		69.7	(45.0)	26.7	15.1	1.3
Payment of deferred consideration – prior year acquisitions ¹		0.1				
Less: cash acquired		(9.9)				
Plus: transaction costs ²		1.3				
Net cash outflow in the year		61.2				

¹ Deferred consideration has been paid in respect of the prior year acquisition of Rubikon Group Pty Limited.

² Transaction costs have been included in 'Operating costs excluding depreciation and amortisation' as a specific adjusting item.

E.I.S Aircraft Operations (EIS), now QinetiQ Germany

QinetiQ acquired 100% of the share capital of EIS Holding GmbH, and thereby its Aircraft Operations business, in October 2018 for €52.6m (£46.8m). EIS had €22.5m (£20.0m) of bank funding as at acquisition and this loan was paid off by the Group post acquisition. EIS is a leading provider of airborne training services based in Germany, delivering threat-representation and operational readiness for military customer. EIS has natural synergies with QinetiQ's existing air engineering, test aircrew training and unmanned target service capabilities which we will exploit to strengthen our position in defence operational training. EIS will continue to be led by its existing management team, forms part of QinetiQ's International business unit and, post-acquisition, is reported within QinetiQ's EMEA Services division. If the acquisition had occurred on the first day of the financial year, Group revenue for the year would have been £925.2m and the Group profit before tax would have been £125.9m.

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition and the adjustments required to the book values of the assets and liabilities in order to present the net assets of these businesses at fair value and in accordance with Group accounting policies. The fair values remain provisional, but will be finalised within 12 months of acquisition.

All figures in £ million	Note	Book value	Fair value adjustment	Fair value at acquisition
Intangible assets	14	–	37.3	37.3
Property, plant and equipment	15	4.8	–	4.8
Inventory		0.4	–	0.4
Trade and other receivables		9.2	–	9.2
Cash and cash equivalents		6.4	–	6.4
Trade and other payables		(6.7)	–	(6.7)
Finance lease liabilities		(2.7)	–	(2.7)
Corporation tax		(2.5)	–	(2.5)
Bank loan		(20.0)	–	(20.0)
Deferred tax liability	17	(0.8)	(11.9)	(12.7)
Net assets acquired		(11.9)	25.4	13.5
Goodwill	13			33.3
Consideration				46.8

The consideration of £46.8m was satisfied entirely in cash in the financial year, with no deferred consideration.

The fair value adjustments include £37.3m in relation to the recognition of acquired intangible assets of which £31.8m relates to customer relationships and £5.5m relates to existing technology. The goodwill is attributable mainly to the skills and technical talent of the EIS work force and the synergies expected to be achieved from integrating the company into the Group's existing business.

Inzpire Group Limited (Inzpire)

In November 2018 QinetiQ acquired 85% of the shares of Inzpire Group Limited for a total consideration of £22.9m with an arrangement to acquire the remaining 15% after two years. Inzpire is a highly regarded provider of training services to the Royal Air Force and British Army and this strategic investment further enhances our capability in defence operational training. With a leading position within the UK, the investment allows us to further leverage the capability in attractive markets internationally, complementing our acquisitions of QTS and EIS and supporting our strategic objectives. If the acquisition had occurred on the first day of the financial year, Group revenue for the year would have been £921.4m and the Group profit before tax would have been £124.8m.

Following completion, Inzpire continues to be led by its existing management team. It is aligned to QinetiQ's CIT business unit and is reported within QinetiQ's EMEA Services division.

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition and the adjustments required to the book values of the assets and liabilities in order to present the net assets of the business at fair value and in accordance with Group accounting policies. The fair values remain provisional, but will be finalised within 12 months of acquisition.

All figures in £ million	Note	Book value	Fair value adjustment	Fair value at acquisition
Intangible assets	14	–	9.6	9.6
Property, plant and equipment	15	0.4	–	0.4
Inventory		0.1	–	0.1
Trade and other receivables		3.3	–	3.3
Cash and cash equivalents		3.5	–	3.5
Trade and other payables		(2.0)	–	(2.0)
Deferred tax liability	17	–	(1.7)	(1.7)
Net assets acquired		5.3	7.9	13.2
Non-controlling interest				(2.0)
Goodwill	13			11.7
Consideration				22.9

The consideration of £22.9m was satisfied entirely in cash in the financial year, with no deferred consideration.

The fair value adjustments include £9.6m in relation to the recognition of acquired intangible assets of which £4.6m relates to customer relationships, £4.4m relates to existing technology and £0.6m relates to trade names. The goodwill is attributable mainly to the skills and technical talent of Inzpire's work force and the synergies expected to be achieved from integrating the company into the Group's existing business.

Notes to the Financial Statements *continued*

8. Taxation

All figures in £ million	2019			2018		
	Underlying	Specific adjusting items	Total	Underlying	Specific adjusting items	Total
Analysis of charge						
Current UK tax expense/(income)	8.2	1.0	9.2	(0.2)	0.6	0.4
Current UK tax in respect of prior years	(1.6)	(4.1)	(5.7)	(1.0)	-	(1.0)
Overseas corporation tax						
Current year	1.8	-	1.8	4.7	-	4.7
Current tax expense/(income)	8.4	(3.1)	5.3	3.5	0.6	4.1
Deferred tax expense/(income)	3.5	(1.2)	2.3	7.9	(7.2)	0.7
Deferred tax impact of change in rates	(0.1)	(0.1)	(0.2)	2.4	(1.2)	1.2
Deferred tax in respect of prior years	0.7	1.2	1.9	(0.7)	1.4	0.7
Deferred tax expense/(income)	4.1	(0.1)	4.0	9.6	(7.0)	2.6
Taxation expense/(income)	12.5	(3.2)	9.3	13.1	(6.4)	6.7

Factors affecting tax charge/(credit) in year

Principal factors reducing the Group's current year tax charge below the UK statutory rate are explained below:

Profit before tax	124.0	(0.8)	123.2	122.1	22.7	144.8
Tax on profit before tax at 19% (2018: 19%)	23.6	(0.2)	23.4	23.2	4.3	27.5
Effect of:						
Expenses not deductible for tax purposes and non-taxable items	(0.9)	0.1	(0.8)	(0.2)	(3.3)	(3.5)
Current UK tax in respect of prior years	(1.6)	(4.1)	(5.7)	(1.0)	-	(1.0)
Research and development expenditure credits	(7.1)	-	(7.1)	(12.0)	-	(12.0)
Tax in respect of an FY09 US acquisition – payable to the tax authorities	-	-	-	1.0	-	1.0
Recognition of deferred tax asset	(1.6)	-	(1.6)	-	(7.6)	(7.6)
Deferred tax impact of change in rates	(0.7)	(0.1)	(0.8)	1.5	(1.2)	0.3
Deferred tax in respect of prior years	0.7	1.2	1.9	(0.7)	1.4	0.7
Other deferred tax movements	-	0.2	0.2	(0.1)	0.2	0.1
Different tax rates in overseas jurisdictions	0.1	(0.3)	(0.2)	1.4	(0.2)	1.2
Taxation expense/(income)	12.5	(3.2)	9.3	13.1	(6.4)	6.7
Effective tax rate	10.1%		7.5%	10.7%		4.6%

The total tax charge was £9.3m (2018: £6.7m). The underlying tax charge was £12.5m (2018: £13.1m) with an underlying effective tax rate of 10.1% for the year ending 31 March 2019 (2018: 10.7%). The effective tax rate continues to be below the UK statutory rate, primarily as a result of the benefit of research and development expenditure credits ('RDEC') in the UK which are accounted under IAS12 within the tax line. The adjusted effective tax rate before the impact of RDEC would be 15.0%. The effective tax rate is expected to remain below the UK statutory rate in the medium term, subject to any tax legislation changes, the geographic mix of profits, the recognition of unrecognised tax losses and while the benefit of net RDEC retained by the Group remains in the tax line.

Tax losses and specific adjusting items

A £2.8m credit in respect of initial recognition of corporate tax deductions for certain equity-settled share based payment schemes has been classified as a specific adjusting item. Together with a £0.4m tax effect of the pre-tax specific adjusting items, the total specific adjusting items tax credit was £3.2m (2018: £6.4m).

At 31 March 2019 the Group had unused tax losses and surplus interest costs of £114.9m which are available for offset against future taxable profits. A deferred tax asset of £4.9m is recognised in respect of £21.1m of US net operating losses. No deferred tax asset is recognised in respect of the remaining £93.8m of losses/interest costs due to uncertainty over the timing and extent of their utilisation. The Group has £60.0m of time-limited losses of which US capital losses of £28.2m will expire in 2020 and US net operating losses of £21.2m will expire in 2035, £9.1m in 2036 and £1.5m in 2038. Deferred tax has been calculated using the enacted future statutory tax rates.

Factors affecting future tax charges

The effective tax rate is expected to remain below the UK statutory rate in the medium term, subject to the impact of any tax legislation changes, the geographic mix of profits and the assumption that the benefits of net R&D expenditure credits retained by the Group remain in the tax line. Future recognition of unrecognised tax losses will also affect future tax charges.

9. Dividends

An analysis of the dividends paid and proposed in respect of the years ended 31 March 2019 and 31 March 2018 is provided below:

	Pence per share	£m	Date paid/ payable
Interim 2019	2.1	11.9	Feb 2019
Final 2019 (proposed)	4.5	25.5	Aug 2019
Total for the year ended 31 March 2019	6.6	37.4	
Interim 2018	2.1	11.9	Feb 2018
Final 2018	4.2	23.8	Aug 2018
Total for the year ended 31 March 2018	6.3	35.7	

The Directors propose a final dividend of 4.5p (2018: 4.2p) per share. The dividend, which is subject to shareholder approval, will be paid on 30 August 2019. The ex-dividend date is 1 August 2019 and the record date is 2 August 2019.

10. 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	
	2019 Number	2018 Number	2019 Number	2018 Number
EMEA Services	5,170	5,239	5,134	5,340
Global Products	891	826	860	803
Total	6,061	6,065	5,994	6,143

The aggregate payroll costs of these persons were as follows:

All figures in £ million	Note	2019	2018
Wages and salaries		303.1	292.3
Social security costs		27.4	28.1
Pension costs		40.2	39.6
Share-based payments costs	28	6.1	2.7
Total employee costs		376.8	362.7

11. Directors and other senior management personnel

The Directors and other senior management personnel of the Group during the year to 31 March 2019 comprise the Board of Directors and the Executive Committee. The remuneration and benefits provided to Directors and the Executive Committee are summarised below:

All figures in £ million	2019	2018
Short-term employee remuneration including benefits	10.0	8.1
Post-employment benefits	0.1	0.1
Share-based payments costs	1.2	0.7
Total	11.3	8.9

Short-term employee remuneration and benefits include salary, bonus and benefits. Post-employment benefits relate to pension amounts.

Notes to the Financial Statements *continued*

12. 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 27). For diluted earnings per share the weighted average number of shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares arising from unvested share-based awards including share options.

For the year ended 31 March		2019	2018
Weighted average number of shares	Million	566.0	565.2
Effect of dilutive securities	Million	4.0	2.0
Diluted number of shares	Million	570.0	567.2

Underlying basic earnings per share figures are presented below, in addition to the basic and diluted earnings per share, because the Directors consider this gives a more relevant indication of underlying business performance and reflects the adjustments to basic earnings per share for the impact of specific adjusting items (see note 4) and tax thereon.

Underlying EPS

For the year ended 31 March		2019	2018
Profit attributable to equity shareholders	£ million	113.9	138.1
Remove profit after tax in respect of specific adjusting items	£ million	(2.4)	(29.1)
Underlying profit after taxation	£ million	111.5	109.0
Weighted average number of shares	Million	566.0	565.2
Underlying basic EPS	Pence	19.7	19.3
Diluted number of shares	Million	570.0	567.2
Underlying diluted EPS	Pence	19.6	19.2

Basic and diluted EPS

For the year ended 31 March		2019	2018
Profit attributable to equity shareholders	£ million	113.9	138.1
Weighted average number of shares	Million	566.0	565.2
Basic EPS – total Group	Pence	20.1	24.4
Diluted number of shares	Million	570.0	567.2
Diluted EPS – total Group	Pence	20.0	24.3

13. Goodwill

All figures in £ million	2019	2018
Cost		
At 1 April	203.0	220.4
Acquisitions	45.0	–
Foreign exchange	9.4	(17.4)
At 31 March	257.4	203.0
Impairment		
At 1 April	(101.5)	(112.6)
Foreign exchange	(7.3)	11.1
At 31 March	(108.8)	(101.5)
Net book value at 31 March	148.6	101.5

The goodwill acquired of £45.0m arises from the acquisitions of E.I.S. Aircraft Operations (now QinetiQ GmbH) and Innpire Group Limited in the year, generating goodwill of £33.3m and £11.7m respectively. Foreign exchange movements in respect of the E.I.S. goodwill post acquisition result in the E.I.S. closing goodwill as at 31 March 2019 decreasing to £32.2m (as per the following table).

Goodwill analysed by cash-generating unit (CGU)

Goodwill is allocated across four cash-generating units (CGUs) within the EMEA Services segment and five CGUs within the Global Products segment. The full list of CGUs that have goodwill allocated to them is as follows:

All figures in £ million	Primary reporting segments	2019
QinetiQ North America	Global Products	41.9
Target Systems	Global Products	24.3
Boldon James	Global Products	10.7
Commerce Decisions	Global Products	6.4
Space Products	Global Products	5.7
QinetiQ Germany (acquired in year, see note 7)	EMEA Services	32.2
Inzpire (acquired in year, see note 7)	EMEA Services	11.7
Advisory Services	EMEA Services	9.8
Australia	EMEA Services	5.9
Net book value at 31 March		148.6

Goodwill is attributable to the excess of consideration over the fair value of net assets acquired and includes expected synergies, future growth prospects and employee knowledge, expertise and security clearances. The Group tests each CGU for impairment annually, or more frequently if there are indications that goodwill might be impaired. Impairment testing is dependent on management's estimates and judgements, particularly as they relate to the forecasting of future cash flows, the discount rates selected and expected long-term growth rates. Significant headroom exists in all CGUs and management considers that there are no likely variations in the key assumptions which would lead to an impairment being recognised.

Key assumptions**Cash flows**

The value-in-use calculations generally use discounted future cash flows based on financial plans approved by the Board covering a three-year period. Cash flows for periods beyond these periods are extrapolated based on the last year of the plans, with a terminal growth-rate assumption applied.

Terminal growth rates

The specific plans for each of the CGUs have been extrapolated using a terminal growth rate of 1.0% – 2.4% (2018: 1.0% – 2.5%). The US terminal growth rate was 1.9% (2018: 1.7%). 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.

Discount rates

The Group's weighted average cost of capital was used as a basis in determining the discount rate to be applied, adjusted for risks specific to the market characteristics of CGUs, as appropriate on a pre-tax basis. This is considered an appropriate estimate of a market participant discount rate. The pre-tax discount rates applied to the cash flows of the QNA CGU and to the Target Systems CGU were 14.6% and 11.3% respectively. Discount rates ranging from 11.2% to 12.0% were applied to the cash flows of the other, less significant, CGUs.

Sensitivity analysis shows that the value of the terminal year cash flow, the discount rate and the terminal growth rates have a significant impact on the value of the discounted cash flow.

Significant CGUs**QinetiQ North America (QNA)**

The carrying value of the goodwill for QNA CGU was £41.9m as at 31 March 2019 (2018: £38.8m). The recoverable amount of this CGU as at 31 March 2019, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £52.4m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. These cash flows include certain assumptions about revenue and profit in respect of new product lines still to be launched and the success of winning certain government contracts. An increase in the discount rate by 1%, a decrease in the terminal growth rate by 1% or a decrease in the terminal year cash flows of £2.0m would not cause the net operating assets to exceed their recoverable amount.

Target Systems

The recoverable amount of this CGU as at 31 March 2019, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £29.4m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate by 1%, a decrease in the terminal growth rate by 1% or a decrease in the terminal year cash flows of £2.0m would not cause the net operating assets to exceed their recoverable amount.

Notes to the Financial Statements *continued*

14. Intangible assets Year ended 31 March 2019

All figures in £ million	Acquired intangible assets		Development costs	AICC* and other intangible assets	Total
	Customer relationships	Other			
Cost					
At 1 April 2018	52.7	62.6	22.3	47.0	184.6
Additions – internally developed*	–	–	0.3	3.2	3.5
Additions – purchased*	–	–	2.8	1.9	4.7
Additions – recognised on acquisition	36.4	10.5	–	–	46.9
Foreign exchange	1.1	2.9	0.4	0.2	4.6
At 31 March 2019	90.2	76.0	25.8	52.3	244.3
Accumulated amortisation and impairment					
At 1 April 2018	33.8	55.4	19.3	35.0	143.5
Amortisation charge for year	2.7	1.2	1.1	2.1	7.1
Foreign exchange	1.9	2.9	0.2	0.2	5.2
At 31 March 2019	38.4	59.5	20.6	37.3	155.8
Net book value at 31 March 2019	51.8	16.5	5.2	15.0	88.5

* AICC = Assets In Course Of Construction £7.4m (2018: £4.0m)

* Additions per the table above are lower than the capital expenditure included in the cash flow statement due to the relative timing of cash payments compared to the recognition of balance sheet assets

'Other' consists primarily of intellectual property and existing technology arising on acquisition of businesses.

Year ended 31 March 2018

All figures in £ million	Acquired intangible assets		Development costs	AICC* and other intangible assets	Total
	Customer relationships	Other			
Cost					
At 1 April 2017	56.0	67.5	19.7	43.3	186.5
Additions – internally developed	–	–	0.4	3.6	4.0
Additions – purchased	–	–	1.4	7.9	9.3
Reclassification from property, plant and equipment	–	–	–	0.4	0.4
Disposals	–	–	–	(7.1)	(7.1)
Transfers	–	–	0.7	(0.7)	–
Foreign exchange	(3.3)	(4.9)	0.1	(0.4)	(8.5)
At 31 March 2018	52.7	62.6	22.3	47.0	184.6
Accumulated amortisation and impairment					
At 1 April 2017	34.9	58.8	17.8	40.3	151.8
Amortisation charge for year	1.6	1.0	1.5	2.2	6.3
Disposals	–	–	–	(7.1)	(7.1)
Foreign exchange	(2.7)	(4.4)	–	(0.4)	(7.5)
At 31 March 2018	33.8	55.4	19.3	35.0	143.5
Net book value at 31 March 2018	18.9	7.2	3.0	12.0	41.1

* AICC = Assets In Course Of Construction £4.0m (2017: £2.1m)

15. Property, plant and equipment

Year ended 31 March 2019

All figures in £ million	Land and buildings	Plant, machinery and vehicles ^a	Computers and office equipment	Assets under construction	Total
Cost					
At 1 April 2018	303.1	193.8	50.3	50.8	598.0
Additions – purchased [*]	2.1	21.9	2.2	35.1	61.3
Additions – recognised on acquisition	–	5.0	0.2	–	5.2
Land and buildings assets classified as held for sale	(0.7)	–	–	–	(0.7)
Disposals	–	(1.2)	(0.3)	(1.4)	(2.9)
Transfers	1.9	19.1	10.1	(31.1)	–
Foreign exchange	0.5	1.1	0.4	–	2.0
At 31 March 2019	306.9	239.7	62.9	53.4	662.9
Accumulated depreciation and impairment					
At 1 April 2018	161.2	140.2	27.6	–	329.0
Charge for year	8.7	13.0	7.7	–	29.4
Impairment	3.7	2.7	–	–	6.4
Disposals	–	(1.2)	(0.3)	–	(1.5)
Foreign exchange	0.4	0.9	0.3	–	1.6
At 31 March 2019	174.0	155.6	35.3	–	364.9
Net book value at 31 March 2019	132.9	84.1	27.6	53.4	298.0

^{*} Additions per the table above are lower than the capital expenditure included in the cash flow statement due to the relative timing of cash payments compared to the recognition of balance sheet assets

^a Includes finance leased aircrafts acquired as part of EIS £2.5m

Disposals include aircraft sold for a gain of £6.9m following investment in new aircraft for test aircrew training under the LTPA contract.

Non-current assets classified as held for sale

Property, plant and equipment excludes property to the value of £1.9m (2018: £1.2m) which is reported separately as 'Non-current assets classified as held for sale'. £0.7m of property was transferred out of PP&E in the current year and £1.2m had been transferred out in the prior year. This property is surplus to use in the Group and disposal transactions are expected to complete within the next 12 months.

Year ended 31 March 2018

All figures in £ million	Land and buildings	Plant, machinery and vehicles	Computers and office equipment	Assets under construction	Total
Cost					
At 1 April 2017	331.7	198.5	52.1	34.3	616.6
Additions – purchased	1.0	13.4	3.5	49.2	67.1
Additions – acquisitions	–	–	–	(0.4)	(0.4)
Land and buildings assets classified as held for sale	(1.2)	–	–	–	(1.2)
Disposals	(29.2)	(32.6)	(16.6)	(2.4)	(80.8)
Transfers	1.7	16.3	11.7	(29.7)	–
Foreign exchange	(0.9)	(1.8)	(0.4)	(0.2)	(3.3)
At 31 March 2018	303.1	193.8	50.3	50.8	598.0
Accumulated depreciation and impairment					
At 1 April 2017	174.9	163.5	39.4	–	377.8
Charge for year	9.7	10.5	5.4	–	25.6
Disposals	(22.6)	(32.2)	(16.6)	–	(71.4)
Foreign exchange	(0.8)	(1.6)	(0.6)	–	(3.0)
At 31 March 2018	161.2	140.2	27.6	–	329.0
Net book value at 31 March 2018	141.9	53.6	22.7	50.8	269.0

Notes to the Financial Statements *continued*

16. Equity accounted investments As at 31 March

	2019		2018	
	Joint ventures and associates financial results	Group net share of joint ventures and associates	Joint ventures and associates financial results	Group net share of joint ventures and associates
Non-current assets	0.2	0.1	0.2	0.1
Current assets	18.6	9.4	11.4	5.6
	18.8	9.5	11.6	5.7
Non-current liabilities	(1.9)	(0.6)	-	-
Current liabilities	(9.0)	(4.4)	(7.1)	(3.5)
	(10.9)	(5.0)	(7.1)	(3.5)
Net assets of joint ventures and associates	7.9	4.5	4.5	2.2
Net assets of joint ventures		2.1		0.5
Net assets of associate		2.4		1.7
Net assets of joint ventures and associates		4.5		2.2

17. Deferred tax

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to do so and there is an intention to settle the balances net.

Movements in the deferred tax assets and liabilities are shown below:

Year ended 31 March 2019

Deferred tax asset

All figures in £ million	Intellectual property	Short-term timing differences	Losses	Total
At 1 April 2018	3.2	7.3	5.5	16.0
(Charged)/credited to income statement	(2.8)	6.1	(0.8)	2.5
Charged to other comprehensive income	-	(0.6)	-	(0.6)
Credited to equity	-	1.0	-	1.0
Acquired in business combination	-	(0.8)	-	(0.8)
Foreign exchange	-	1.0	0.2	1.2
Gross deferred tax asset at 31 March 2019	0.4	14.0	4.9	19.3
Less: liability available for offset				(11.5)
Net deferred tax asset at 31 March 2019				7.8

Deferred tax liability

All figures in £ million	Pension surplus	Accelerated capital allowances	Acquisition intangibles	Total
At 1 April 2018	(58.5)	(10.3)	(7.2)	(76.0)
(Charged)/credited to income statement	(1.4)	(5.8)	0.7	(6.5)
Credited to other comprehensive income	11.3	-	-	11.3
Acquired in business combination	-	-	(13.6)	(13.6)
Foreign exchange	-	-	0.2	0.2
Gross deferred tax liability at 31 March 2019	(48.6)	(16.1)	(19.9)	(84.6)
Less: asset available for offset				11.5
Net deferred tax liability at 31 March 2019				(73.1)

Deferred tax has been calculated using the enacted future statutory tax rates.

Deferred tax of £13.6m was created on the acquisitions of E.I.S. and Inzpire in the year (£11.9m and £1.7m respectively). E.I.S. also had a net £0.8m of deferred tax liability on the balance sheet at acquisition, included as an asset in the table above due to a swing to a deferred tax asset position at year end.

At 31 March 2019 the Group had unused tax losses and surplus interest costs of £114.9m which are available for offset against future profits. A deferred tax asset of £4.9m is recognised in respect of £21.1m of US net operating losses. No deferred tax asset is recognised in respect of the remaining £93.8m of losses/interest costs due to uncertainty over the timing and extent of their utilisation. The Group has £60.0m of time-limited losses of which US capital losses of £28.2m will expire in 2020 and US net operating losses of £21.2m will expire in 2035, £9.1m in 2036 and £1.5m in 2038. Deferred tax has been calculated using the enacted future statutory tax rates.

Year ended 31 March 2018

Deferred tax asset

All figures in £ million	Intellectual property	Short-term timing differences	Losses	Total
At 1 April 2017	-	9.9	3.7	13.6
(Charged)/credited to income statement	3.2	(1.2)	1.9	3.9
Charged to other comprehensive income	-	(0.6)	-	(0.6)
Foreign exchange	-	(0.8)	(0.1)	(0.9)
Gross deferred tax asset at 31 March 2018	3.2	7.3	5.5	16.0
Less: liability available for offset				(9.6)
Net deferred tax asset at 31 March 2018				6.4

Deferred tax liability

All figures in £ million	Pension surplus	Accelerated capital allowances	Acquisition intangibles	Total
At 1 April 2017	(31.4)	(4.9)	(8.9)	(45.2)
(Charged)/credited to income statement	(2.7)	(5.3)	1.5	(6.5)
Charged to other comprehensive income	(24.4)	-	-	(24.4)
Foreign exchange	-	(0.1)	0.2	0.1
Gross deferred tax liability at 31 March 2018	(58.5)	(10.3)	(7.2)	(76.0)
Less: asset available for offset				9.6
Net deferred tax liability at 31 March 2018				(66.4)

18. Inventories

As at 31 March

All figures in £ million	2019	2018
Raw materials	24.1	18.3
Work in progress	6.4	9.2
Finished goods	9.6	10.6
	40.1	38.1

19. Trade and other receivables

As at 31 March

All figures in £ million	2019	2018
Trade receivables	86.7	66.7
Contract assets	90.5	62.3
Other receivables	12.1	7.9
Prepayments	19.2	13.4
	208.5	150.3

Notes to the Financial Statements *continued*

19. Trade and other receivables continued

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was granted to the reporting date. Credit risk is limited as a result of the high percentage of revenue derived from UK and US government agencies. Accordingly, the Directors believe that no credit provision in excess of the allowance for doubtful debts is required. As at 31 March 2019 the Group carried a provision for doubtful debts of £1.2m (2018: £1.5m).

Contract assets is a new term used in adopting IFRS 15 and effectively represents amounts recoverable under contracts as previously reported (refer to accounting policies note). The increase in contract assets in the year primarily reflects the phasing of payment milestones on programmes in the Group's Maritime, Land & Weapons business unit. This is expected to reduce in 2020.

Ageing of past due but not impaired receivables

All figures in £ million	2019	2018
Up to three months	14.5	10.5
Over three months	2.4	0.6
	16.9	11.1

Movements in the doubtful debt provision

All figures in £ million	2019	2018
At 1 April	1.5	2.0
Created	1.9	0.5
Released	(0.1)	(0.1)
Utilised	(2.2)	(0.8)
Foreign exchange	0.1	(0.1)
At 31 March	1.2	1.5

The maximum exposure to credit risk in relation to trade receivables at the reporting date is the fair value of trade receivables. The Group does not hold any collateral as security.

20. Current asset investments

As at 31 March

All figures in £ million	2019	2018
Current asset investments	-	0.7

The Group previously held a 2.6% investment in pSivida, a company listed on NASDAQ. The investment was sold in FY19 for proceeds of £1.5m, recognising a gain on sale of £1.1m.

21. Trade and other payables

As at 31 March

All figures in £ million	2019	2018
Trade payables	61.2	83.0
Other tax and social security	31.8	26.3
Contract liabilities	123.6	88.0
Accrued expenses and other payables	130.0	137.6
Total current trade and other payables	346.6	334.9
Contract liabilities	4.3	6.1
Other payables	16.6	12.6
Total non-current trade and other payables	20.9	18.7
Total trade and other payables	367.5	353.6

Contract liabilities is a new term used in adopting IFRS 15 and effectively represents deferred income as previously reported (see accounting policies note). The increase in contract liabilities in the year primarily reflects the relative phasing of project delivery versus payment milestones on various programmes in the Group's Maritime, Land & Weapons, Air & Space and CIT business units. This is expected to reduce in 2020. Revenue recognised in the current period that was included in contract liabilities balance at the beginning of the period was £62.0m.

22. Provisions

Year ended 31 March 2019

All figures in £ million	Property	Other	Total
At 1 April 2018	11.1	9.2	20.3
Created in year	1.6	2.6	4.2
Released in year	(0.8)	(5.2)	(6.0)
Unwind of discount	0.1	–	0.1
Utilised in year	(1.6)	(0.2)	(1.8)
Reclassification	2.7	(2.7)	–
Foreign exchange	–	0.1	0.1
At 31 March 2019	13.1	3.8	16.9
Current liability	5.4	0.8	6.2
Non-current liability	7.7	3.0	10.7
At 31 March 2019	13.1	3.8	16.9

Property provisions relate to under-utilised properties in the UK. The extent of the provision is affected by the timing of when properties can be sub-let and the proportion of space that can be sub-let. Based on current assessment the provision will be utilised within 10 years.

Other provisions relate to environmental and other liabilities, the magnitude and timing of utilisation of which are determined by a variety of factors.

23. Net cash

As at 31 March

All figures in £ million	2019			2018		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Current financial assets/(liabilities)						
Deferred financing costs	0.4	–	0.4	0.1	–	0.1
Available-for-sale investment	–	–	–	15.7	–	15.7
Finance lease	–	(0.7)	(0.7)	–	–	–
Derivative financial instruments	0.1	(1.1)	(1.0)	1.1	(2.6)	(1.5)
Total current financial assets/(liabilities)	0.5	(1.8)	(1.3)	16.9	(2.6)	14.3
Non-current assets/(liabilities)						
Deferred financing costs	0.9	–	0.9	–	–	–
Finance lease	–	(1.6)	(1.6)	–	–	–
Derivative financial instruments	–	(0.3)	(0.3)	0.3	(1.9)	(1.6)
Total non-current financial assets/(liabilities)	0.9	(1.9)	(1.0)	0.3	(1.9)	(1.6)
Total financial assets/(liabilities)	1.4	(3.7)	(2.3)	17.2	(4.5)	12.7
Cash	99.6	–	99.6	128.0	–	128.0
Cash equivalents	91.2	–	91.2	126.1	–	126.1
Total cash and cash equivalents	190.8	–	190.8	254.1	–	254.1
Total net cash as defined by the Group			188.5			266.8

At 31 March 2019 the Group held £2.8m (2018: £2.2m) of cash which is restricted in its use. The available for sale investment is a 'Libor-plus' investment fund investing in a portfolio of AAA and AA-rated asset backed securities and corporate floating rate notes.

Notes to the Financial Statements *continued*

24. Leases

Operating 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	2019	2018
Within one year	5.9	4.6
In the second to fifth years inclusive	13.1	10.1
Greater than five years	3.7	5.3
	22.7	20.0

Group as a lessee

All figures in £ million	2019	2018
Lease and sub-lease expense for the year	8.9	7.5

The Group has the following total future minimum operating lease payment commitments:

All figures in £ million	2019	2018
Within one year	8.5	7.5
In the second to fifth years inclusive	17.5	17.2
Greater than five years	3.3	3.5
	29.3	28.2

Operating lease payments represent rentals payable by the Group on certain property, plant and equipment. Principal operating leases are negotiated for a term of approximately 10 years.

Finance leases

Group as a lessee

The Group has the following total future minimum finance lease payment commitments:

All figures in £ million	2019	2018
Within one year	0.7	–
In the second to fifth years inclusive	0.7	–
Greater than five years	0.9	–
	2.3	–

The Group acquired three aircraft held under finance leases (expiring December 2021) as part of the EIS acquisition in the current year.

25. Financial risk management

The Group's international operations expose it to financial risks that include the effects of changes in foreign exchange rates, interest rates, credit risks and liquidity risks.

Treasury and risk management policies, which are set by the Board, specify guidelines on financial risks and the use of financial instruments to manage risk. The instruments and techniques used to manage exposures include foreign currency derivatives. Group treasury monitors financial risks and compliance with risk management policies during the year. There have been no changes in any risk management policies during the year or since the year end.

A) Fair values of financial instruments

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 – measured using quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – measured using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Level 2 derivatives comprise forward foreign exchange contracts which have been fair valued using forward exchange rates that are quoted in an active market

Level 3 – measured using inputs for the assets or liability that are not based on observable market data (i.e. unobservable inputs).

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 March 2019:

All figures in £ million	Note	Level 1	Level 2	Level 3	Total
Assets					
Current derivative financial instruments	23	–	0.1	–	0.1
Non-current derivative financial instruments	23	–	–	–	–
Liabilities					
Current derivative financial instruments	23	–	(1.1)	–	(1.1)
Non-current derivative financial instruments	23	–	(0.3)	–	(0.3)
Total		–	(1.3)	–	(1.3)

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 March 2018:

All figures in £ million	Note	Level 1	Level 2	Level 3	Total
Assets					
Available for sale investments	23	15.7	–	–	15.7
Current other investments	20	0.7	–	–	0.7
Current derivative financial instruments	23	–	1.1	–	1.1
Non-current derivative financial instruments	23	–	0.3	–	0.3
Liabilities					
Current derivative financial instruments	23	–	(2.6)	–	(2.6)
Non-current derivative financial instruments	23	–	(1.9)	–	(1.9)
Total		16.4	(3.1)	–	13.3

For cash and cash equivalents, trade and other receivables and bank and current borrowings, the fair value of the financial instruments approximate to their carrying value as a result of the short maturity periods of these financial instruments. For trade and other receivables, allowances are made within the carrying value for credit risk. For other financial instruments, the fair value is based on market value, where available. Where market values are not available, the fair values have been calculated by discounting cash flows to net present value using prevailing market-based interest rates translated at the year-end rates, except for unlisted fixed asset investments where fair value equals carrying value. There have been no transfers between levels.

All financial assets and liabilities had a fair value that is identical to book value at 31 March 2019 and 31 March 2018. Detailed analysis is provided in the following tables:

Notes to the Financial Statements *continued*

25. Financial risk management continued

As at 31 March 2019

All figures in £ million	Note	Available for sale	Financial assets at fair value profit and loss	Financial liabilities at amortised cost	Derivatives used as hedges	Total carrying value	Total fair value
Financial assets							
Non-current							
Derivative financial instruments	23	-	-	-	-	-	-
Deferred financing costs	23	-	-	0.9	-	0.9	0.9
Current							
Trade and other receivables (excluding prepayments)	19	-	189.3	-	-	189.3	189.3
Derivative financial instruments	23	-	-	-	0.1	0.1	0.1
Current asset investments	20	-	-	-	-	-	-
Available for sale investment	23	-	-	-	-	-	-
Deferred financing costs	23	-	-	0.4	-	0.4	0.4
Cash and cash equivalents	23	-	190.8	-	-	190.8	190.8
Total financial assets		-	380.1	1.3	0.1	381.5	381.5
Financial liabilities							
Non-current							
Trade and other payables (excluding contract liabilities)	21	-	-	(16.6)	-	(16.6)	(16.6)
Derivative financial instruments	23	-	-	-	(0.3)	(0.3)	(0.3)
Finance leases		-	-	(1.6)	-	(1.6)	(1.6)
Current							
Trade and other payables (excluding contract liabilities)	21	-	-	(223.0)	-	(223.0)	(223.0)
Derivative financial instruments	23	-	-	-	(1.1)	(1.1)	(1.1)
Finance leases		-	-	(0.7)	-	(0.7)	(0.7)
Total financial liabilities		-	-	(241.9)	(1.4)	(243.3)	(243.3)
Total		-	380.1	(240.6)	(1.3)	138.2	138.2

As at 31 March 2018

All figures in £ million	Note	Available for sale	Loans and receivables	Financial liabilities at amortised cost	Derivatives used as hedges	Total carrying value	Total fair value
Financial assets							
Non-current							
Derivative financial instruments	23	-	-	-	0.3	0.3	0.3
Current							
Trade and other receivables (excluding prepayments)	19	-	136.9	-	-	136.9	136.9
Derivative financial instruments	23	-	-	-	1.1	1.1	1.1
Current asset investments	20	0.7	-	-	-	0.7	0.7
Available for sale investment	23	15.7	-	-	-	15.7	15.7
Deferred financing costs	23	-	-	0.1	-	0.1	0.1
Cash and cash equivalents	23	-	254.1	-	-	254.1	254.1
Total financial assets		16.4	391.0	0.1	1.4	408.9	408.9
Financial liabilities							
Non-current							
Trade and other payables (excluding contract liabilities)	21	-	-	(12.6)	-	(12.6)	(12.6)
Derivative financial instruments	23	-	-	-	(1.9)	(1.9)	(1.9)
Current							
Trade and other payables (excluding contract liabilities)	21	-	-	(246.9)	-	(246.9)	(246.9)
Derivative financial instruments	23	-	-	-	(2.6)	(2.6)	(2.6)
Total financial liabilities		-	-	(259.5)	(4.5)	(264.0)	(264.0)
Total		16.4	391.0	(259.4)	(3.1)	144.9	144.9

B) Interest rate risk

The Group operates an interest rate policy designed to optimise interest costs and to reduce volatility in reported earnings. The Group's current policy is to require rates to be fixed for 30%–80% of the level of borrowings, which is achieved primarily through fixed-rate borrowings. Where there are significant changes in the level and/or structure of debt, policy permits borrowings to be 100% fixed, with regular Board reviews of the appropriateness of this fixed percentage. At 31 March 2019 and 31 March 2018 the Group had no borrowings.

Financial assets/(liabilities)
As at 31 March 2019

All figures in £ million	Financial assets		Financial liabilities	
	Floating	Non-interest bearing	Fixed or capped	Non-interest bearing
Sterling	159.1	0.1	–	(1.4)
US dollar	20.0	–	–	–
Euro	5.2	–	(2.3)	–
Australian dollar	1.5	–	–	–
Other	5.0	–	–	–
	190.8	0.1	(2.3)	(1.4)

As at 31 March 2018

All figures in £ million	Financial assets		Financial liabilities	
	Floating	Non-interest bearing	Fixed or capped	Non-interest bearing
Sterling	224.3	17.1	–	(4.5)
US dollar	20.5	–	–	–
Euro	7.3	–	–	–
Australian dollar	0.7	0.7	–	–
Other	1.3	–	–	–
	254.1	17.8	–	(4.5)

Floating-rate financial assets attract interest based on the relevant national LIBID equivalent. Floating-rate financial liabilities bear interest at the relevant national LIBOR equivalent. Trade and other receivables/payables and deferred finance costs are excluded from this analysis.

Interest rate risk management

The revolving credit facility (note 25E) is floating-rate and undrawn as at 31 March 2019.

C) Currency risk**Transactional currency exposure**

The Group is exposed to foreign currency risks arising from sales or purchases by businesses in currencies other than their functional currency. It is Group policy that when such a sale or purchase is certain, the net foreign exchange exposure is hedged using forward foreign exchange contracts. Hedge accounting documentation and effectiveness testing are undertaken for all the Group's transactional hedge contracts.

The table below shows the Group's currency exposures, being exposures on currency transactions that give rise to net currency gains and losses recognised in the income statement. Such exposures comprise the monetary assets and liabilities of the Group that are not denominated in the functional currency of the operating company involved.

Functional currency of the operating company

All figures in £ millions	Net foreign currency monetary assets/(liabilities)				
	US\$	Euro	A\$	Other	Total
31 March 2019 – Sterling	5.2	2.7	0.2	3.4	11.5
31 March 2018 – Sterling	2.3	3.5	0.2	0.9	6.9

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 2019 against Sterling are net US dollars bought of £4.9m (US\$4.6m), net Euros sold of £5.9m (€7.3m), net Canadian dollars sold £7.7m (C\$13.1m), net United Arab Emirates dirhams sold £4.7m (AED 22.5m), net Swiss Francs bought of £3.2m (CHF 3.9m) and net Swedish Krona bought of £11.3m (SEK 130.6m).

Notes to the Financial Statements *continued*

25. Financial risk management continued

Translational currency exposure

The Group has significant investments in overseas operations, particularly in the US. As a result, the Sterling value of the Group's balance sheet can be affected by movement in exchange rates. The Group does not hedge against translational currency exposure to overseas net assets.

D) Financial credit risk

The Group is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but does not currently expect any counterparties to fail to meet their obligations. Credit risk is mitigated by a Board-approved policy of only selecting counterparties with a strong investment grade long-term credit rating for cash deposits. In the normal course of business the Group operates notional cash pooling systems, where a legal right of set-off applies.

The maximum credit-risk exposure in the event of other parties failing to perform their obligations under financial assets, excluding trade and other receivables, totals £190.9m (2018: £271.9m). The Group held cash and cash equivalents of £190.8m at 31 March 2019 (2018: £254.1m), which represents the maximum credit exposure on these assets. The cash and cash equivalents were held with different financial institutions which were rated single A or better, although £91.2m (2018: £126.1m) was invested in AAA-rated money funds at the year end.

E) Liquidity risk

Borrowing facilities

As at 31 March 2019 the Group had a revolving credit facility (RCF) of £275m (2018: US\$100m and £166m). This facility has an initial term of five years with two one-year options to extend the final maturity to 27 September 2025 and is un-utilised as shown in the table below.

	Interest rate: LIBOR plus	Total £m	Drawn £m	Undrawn £m
Committed facilities 31 March 2019	0.55%	275.0	-	275.0
Freely available cash and cash equivalents				188.0
Available funds 31 March 2019				463.0
Committed facilities 31 March 2018	0.65%	237.3	-	237.3
Freely available cash and cash equivalents				251.9
Available funds 31 March 2018				489.2

Gross contractual cash flows for borrowings and other financial liabilities

The following are the contractual maturities of financial liabilities, including interest payments. The cash flows associated with derivatives that are cash flow hedges are expected to have an impact on profit or loss in the periods shown.

As at 31 March 2019

All figures in £ million	Book value	Contractual cash flows	1 year or less	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Trade and other payables (excluding contract liabilities)	(239.6)	(239.6)	(223.0)	(16.6)	-	-
Finance leases	(2.3)	(2.6)	(0.8)	(0.8)	(1.0)	-
Derivative financial liabilities						
Forward foreign currency contracts - cash flow hedges	(1.4)	(1.4)	(1.1)	(0.1)	(0.2)	-
	(243.3)	(243.6)	(224.9)	(17.5)	(1.2)	-

As at 31 March 2018

All figures in £ million	Book value	Contractual cash flows	1 year or less	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Trade and other payables (excluding contract liabilities)	(259.5)	(259.5)	(246.9)	(12.6)	-	-
Derivative financial liabilities						
Forward foreign currency contracts - cash flow hedges	(4.5)	(4.5)	(2.6)	(1.4)	(0.5)	-
	(264.0)	(264.0)	(249.5)	(14.0)	(0.5)	-

F) Derivative financial instruments

As at 31 March

	2019			2018		
	Asset gains	Liability losses	Net	Asset gains	Liability losses	Net
All figures in £ million						
Forward foreign currency contracts – cash flow hedges	0.1	(1.4)	(1.3)	1.4	(4.5)	(3.1)
Derivative assets/(liabilities) at the end of the year	0.1	(1.4)	(1.3)	1.4	(4.5)	(3.1)

As at 31 March

	2019			2018		
	Asset gains	Liability losses	Net	Asset gains	Liability losses	Net
All figures in £ million						
Expected to be recognised:						
In one year or less	0.1	(1.1)	(1.0)	1.1	(2.6)	(1.5)
Between one and two years	–	(0.1)	(0.1)	0.2	(1.4)	(1.2)
More than two years	–	(0.2)	(0.2)	0.1	(0.5)	(0.4)
Derivative assets/(liabilities) at the end of the year	0.1	(1.4)	(1.3)	1.4	(4.5)	(3.1)

G) Maturity of financial liabilities

As at 31 March 2019

	Trade and other payables ¹	Bank borrowings and loan notes	Derivative financial instruments and finance leases	Total
All figures in £ million				
Due in one year or less	223.0	(1.3)	1.8	223.5
Due in more than one year but not more than two years	16.6	–	0.8	17.4
Due in more than two years but not more than five years	–	–	1.1	1.1
	239.6	(1.3)	3.7	242.0

¹ Excluding contract liabilities

As at 31 March 2018

	Trade and other payables ¹	Bank borrowings and loan notes	Derivative financial instruments	Total
All figures in £ million				
Due in one year or less	246.9	(0.1)	2.6	249.4
Due in more than one year but not more than two years	12.6	–	1.4	14.0
Due in more than two years but not more than five years	–	–	0.5	0.5
	259.5	(0.1)	4.5	263.9

¹ Excluding contract liabilities

H) Sensitivity analysis

The Group's sensitivity to changes in foreign exchange rates and interest rates on financial assets and liabilities as at 31 March 2019 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.

Notes to the Financial Statements *continued*

25. Financial risk management continued

As at 31 March 2019

All figures in £ million	1% decrease in interest rates		10% weakening in Sterling	
	Equity ¹	Profit before tax	Equity	Profit before tax
Sterling	-	(1.6)	-	-
US dollar	-	(0.2)	1.8	-
Other	-	(0.1)	1.0	-

All figures in £ million	1% increase in interest rates		10% strengthening in Sterling	
	Equity ¹	Profit before tax	Equity	Profit before tax
Sterling	-	1.6	-	-
US dollar	-	0.2	(1.3)	-
Other	-	0.1	(1.0)	-

¹ This relates to the impact on items charged directly to equity and excludes the impact on profit/loss for the year flowing into equity.

As at 31 March 2018

All figures in £ million	1% decrease in interest rates		10% weakening in Sterling	
	Equity ¹	Profit before tax	Equity	Profit before tax
Sterling	-	(2.2)	-	-
US dollar	-	(0.2)	1.7	-
Other	-	(0.1)	1.1	-

All figures in £ million	1% increase in interest rates		10% strengthening in Sterling	
	Equity ¹	Profit before tax	Equity	Profit before tax
Sterling	-	2.2	-	-
US dollar	-	0.2	(1.4)	-
Other	-	0.1	(0.9)	-

¹ This relates to the impact on items charged directly to equity and excludes the impact on profit/loss for the year flowing into equity.

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 2019, 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 2019, 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.

26. Cash flows from operations

For the year ended 31 March

All figures in £ million	2019	2018
Profit after tax for the year	113.9	138.1
Adjustments for:		
Taxation expense	9.3	6.7
Net finance income	(8.3)	(3.8)
Gain on sale of investment	(1.1)	(0.6)
Gain on sale of property	(0.2)	(14.6)
Impairment of property, plant and equipment	6.4	-
Acquisition transaction costs	1.3	-
Pension past service cost	0.7	-
Amortisation of purchased or internally developed intangible assets	3.2	3.7
Amortisation of intangible assets arising from acquisitions	3.9	2.6
Depreciation of property, plant and equipment	29.4	25.6
(Profit)/loss on disposal of plant and equipment	(5.5)	2.9
Share of post-tax profit of equity accounted entities	(0.6)	(0.3)
Share-based payments charge	6.1	2.4
Retirement benefit contributions in excess of income statement expense	(1.8)	(12.4)
Net movement in provisions	(3.6)	(3.7)
	153.1	146.6
Increase in inventories	(0.5)	(10.8)
(Increase)/decrease in receivables	(48.7)	19.0
Increase/(decrease) in payables	21.7	(22.4)
Changes in working capital	(27.5)	(14.2)
Net cash flow from operations	125.6	132.4

Reconciliation of net cash flow from operations to underlying net cash flow from operations to free cash flow

All figures in £ million	2019	2018
Net cash flow from operations	125.6	132.4
Add back specific adjusting item: acquisition integration costs	0.7	-
Less specific adjusting items: proceeds from sale of intellectual property	-	(5.9)
Underlying net cash flow from operations	126.3	126.5
Add: proceeds from disposal of plant and equipment	6.9	-
Less: tax and net interest payments	(10.1)	(15.7)
Less: purchases of intangible assets and property, plant and equipment	(87.6)	(54.5)
Free cash flow	35.5	56.3

Underlying cash conversion ratio

All figures in £ million	2019	2018
Underlying operating profit – £ million	123.9	122.5
Underlying net cash flow from operations – £ million	126.3	126.5
Underlying cash conversion ratio – %	102%	103%

Notes to the Financial Statements *continued*

27. Share capital and other reserves

Shares allotted, called up and fully paid:

	Ordinary shares of 1p each (equity)		Special Share of £1 (non-equity)		Total	
	£	Number	£	Number	£	Number
At 1 April 2018 and 31 March 2019	5,717,571	571,757,121	1	1	5,717,572	571,757,122

Except as noted below all shares in issue at 31 March 2019 rank *pari-passu* in all respects.

Rights attaching to the Special Share

QinetiQ carries out activities which are important to UK defence and security interests. To protect these interests in the context of the ongoing commercial relationship between the MOD and QinetiQ, and to promote and reinforce the Compliance Principles, the MOD holds a Special Share in QinetiQ. QinetiQ obtained MOD consent to changes in its Special Shareholder rights, which were approved by shareholders at the 2012 AGM. The changes to the Special Share were disclosed in the 2012 Annual Report. Subsequent to the changes approved at the 2012 AGM the Special Share confers certain rights on the holder:

- a) to require the Group to implement and maintain the Compliance System (as defined in the Articles of Association) so as to make at all times effective its and each member of QinetiQ Controlled Group's application of the Compliance Principles, in a manner acceptable to the Special Shareholder
- b) to refer matters to the Board for its consideration in relation to the application of the Compliance Principles
- c) to require the Board to obtain Special Shareholder's consent:
 - i) if at any time when the chairman is not a British citizen, it is proposed to appoint any person to the office of chief executive, who is not a British citizen
 - ii) if at any time when the chief executive is not a British citizen, it is proposed to appoint any person to the office of chairman, who is not a British citizen
- d) to require the Board to take action to rectify any omission in the application of the Compliance Principles, if the Special Shareholder is of the opinion that such steps are necessary to protect the defence or security interests of the United Kingdom
- e) to demand a poll at any of QinetiQ's meetings (even though it may have no voting rights except those specifically set out in the Articles).

The Special Shareholder has an option to purchase defined Strategic Assets of the Group in certain circumstances. The Special Shareholder has, *inter alia*, the right to purchase any Strategic Assets which the Group wishes to sell. Strategic Assets are normally testing and research facilities (see note 30 for further details).

The Special Share may only be issued to, held by and transferred to HM Government (or as it directs). At any time the Special Shareholder may require QinetiQ to redeem the Special Share at par. If QinetiQ is wound up the Special Shareholder will be entitled to be repaid the capital paid up on the Special Share before other shareholders receive any payment. The Special Shareholder has no other right to share in the capital or profits of QinetiQ.

The Special Shareholder must give consent to a general meeting held on short notice.

The Special Share entitles the Special Shareholder to require certain persons who hold (together with any person acting in concert with them) a material interest in QinetiQ to dispose of some or all of their ordinary shares in certain prescribed circumstances on the grounds of national security or conflict of interest.

The Directors must register any transfer of the Special Share within seven days.

Other reserves

The translation reserve includes the cumulative foreign exchange difference arising on translation since the Group transitioned to IFRS. Movements on hedge instruments, where the hedge is effective, are recorded in the hedge reserve until the hedge ceases.

The capital redemption reserve, which was created following the redemption of preference share capital and the bonus issue of shares, cannot be distributed.

Own shares

Own shares represent shares in the Company that are held by independent trusts and include treasury shares and shares held by the employee share ownership plan. Included in retained earnings at 31 March 2019 are 6,946,678 shares (2018: 7,934,634 shares).

28. 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 £6.1m, of which £6.1m related to equity-settled schemes and nil related to cash-settled schemes (2018: £2.7m, of which £2.7m related to equity-settled schemes and nil to cash-settled schemes). The share-based payment charged to equity is £5.9m consisting of the £6.1m charge to the income statement offset by a £0.2m charge to equity in respect of dividends accruing on unvested awards.

Performance Share Plan (PSP)

During the year there were no further grants of PSP awards to employees as this scheme has been phased out. The awards vest after three years with 50% of the awards subject to TSR conditions and 50% subject to EPS conditions as detailed in the Report from the Remuneration Committee.

	2019 Number of shares	2018 Number of shares
Outstanding at start of the year	5,988,221	8,583,157
Granted during the year	–	102,136
Exercised during the year	(63,801)	(1,136,685)
Forfeited/lapsed during the year	(3,009,309)	(1,560,387)
Outstanding at end of the year	2,915,111	5,988,221

PSP awards are equity-settled awards and those outstanding at 31 March 2019 had an average remaining life of 0.3 years (2018: 0.8 years). There is no exercise price for these PSP awards. Monte Carlo modelling was used to fair value the TSR element of the awards at grant date. The average share price volatility of the FTSE comparator group during the year was nil (2018: 21%) and the average correlation to the comparator group was nil (2018: 58%). The weighted average fair value of grants made during the year was £nil (2018: £2.02). The weighted average share price at date of exercise was £2.14 (2018: £2.78). Of the options outstanding at the end of the year nil were exercisable (2018: nil).

Group Share Incentive Plan (SIP)

Under the QinetiQ SIP the Group offers UK employees the opportunity of purchasing up to £150 worth of shares a month at the prevailing market rate. The Group will make a matching share award of a third of the employee's payment. The Group's matching shares may be forfeited if the employee ceases to be employed by QinetiQ within three years of the award of the shares. There is no exercise price for these SIP awards.

	2019 Number of matching shares	2018 Number of matching shares
Outstanding at start of the year	853,512	828,448
Awarded during the year	289,748	342,413
Exercised during the year	(309,950)	(277,839)
Forfeited during the year	(50,948)	(39,510)
Outstanding at end of the year	782,362	853,512

SIP matching shares are equity-settled awards; those outstanding at 31 March 2019 had an average remaining life of 1.5 years (2018: 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 (2018: nil).

Bonus Banking Plan (BBP)

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

	2019 Number of matching shares	2018 Number of matching shares
Outstanding at start of the year	1,324,541	786,195
Granted during the year	740,122	709,755
Exercised during the year	(632,991)	(143,923)
Forfeited during the year	–	(27,486)
Outstanding at end of the year	1,431,672	1,324,541

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.

Notes to the Financial Statements *continued*

28. Share-based payments continued

The first awards (under 'Cycle 1' of the Plan) were in respect of the three years from 1 April 2014 and all awards were fully exercised in the current year.

At 31 March 2019 the awards had an average remaining life of 1.2 years (2018: 1.5 years). There is no exercise price for these awards. The fair value of the awards at 31 March 2019 was £3.01 (2018: £2.06) being the Group's closing share price as at 31 March. Of the awards outstanding at the end of the year nil were exercisable.

Deferred Share Plan (DSP)

During the year the Group granted DSP awards to certain employees.

	2019 Number of awards	2018 Number of awards
Outstanding at start of the year	2,518,384	–
Difference between actual awards in year and amount provisionally awarded in prior year	(219,315)	–
Lapsed during the year	(95,577)	–
Provisionally awarded during the year	2,554,593	2,518,384
Outstanding at end of the year	4,758,085	2,518,384
Provisional awards outstanding	2,554,593	2,518,384
Awards outstanding	2,203,492	–
Outstanding at end of the year	4,758,085	2,518,384

Early in the financial year QinetiQ's top 200 leaders are provisionally awarded contingent shares in the Company. The number of awards is dependent on the Group's performance during the year (specifically with respect to the level of non-UK revenue growth). This is provisionally quantified at year end based on Group performance and also the number of eligible employees in employment as at 31 March. Actual awards are made in the following June and the final number awarded will be slightly different to the number provisionally calculated. Awards are then subject to a three-year vesting period and a further two-year holding period. Vesting of the awards is contingent upon Group operating profit in the year prior to vesting being maintained at the level reported during the year prior to award. Refer to the Directors' Remuneration Report for further details.

At 31 March 2019 the awards had an average remaining life of 2.6 years (2018: 2.1 years). There is no exercise price for these awards. The fair value of the DSP's provisionally awarded at 31 March 2019 was £3.01 (2018: £2.06) being the Group's closing share price on 31 March. The fair value of DSP's awarded during the year was £2.68 being the Group's closing share price at the date of award (1 June 2018). Of the awards outstanding at the end of the year nil were exercisable.

Other performance incentives

During the year the Group granted 399,708 shares to 136 employees of Inzpire Limited as part of the acquisition deal. The Group issued share-based payment awards to all Inzpire employees on 30 November 2018 which is the grant date. The fair value of QinetiQ shares on grant date was £2.97 and the awards will vest after two years on 30 November 2020 subject to meeting certain vesting conditions.

	2019 Number of awards	2018 Number of awards
Outstanding at start of the year	–	–
Granted during the year	399,708	–
Outstanding at end of the year	399,708	–

Share-based awards - pricing

Share-based awards that vest based on non-market performance conditions have been valued at the share price at grant date.

29. Post-retirement benefits

Defined contribution plans

In the UK the Group operates two defined contribution plans for the majority of its UK employees: a Group Personal Pension Plan (GPP) and a defined contribution section of the QinetiQ Pension Scheme. These are both defined contribution schemes managed by Scottish Widows. A defined contribution plan is a pension plan under which the Group and employees pay fixed contributions to a third-party financial provider. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as an employee benefit expense when they are due. 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 plans

In the UK the Group operates the QinetiQ Pension Scheme (the Scheme) for a significant proportion of its UK employees. The Scheme closed to future accrual on 31 October 2013 and there is no on-going service cost. After this date, defined benefit members transferred to a defined contribution scheme. The Scheme is a final salary plan, which provides benefits to members in the form of a guaranteed level of pension payable for life.

The level of benefits provided depends on the members' length of service and their final pensionable earnings at closure to future accrual. In the Scheme, pensions in payment are generally updated in line with the Consumer Price Index (CPI). The benefit payments are made from Trustee-administered funds.

Plan assets held in trusts are governed by UK regulations as is the nature of the relationship between the Group and the Trustees and their composition. Responsibility for the governance of the Scheme – including investment decisions and contribution schedules – lies jointly with the Company and the Board of Trustees. The Board of Trustees must be composed of representatives of the Company and plan participants in accordance with the Scheme's regulations.

The asset recognised in the balance sheet in respect of defined benefit pension plans is the fair value of plan assets less the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated bi-annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

The Group has no further payment obligations once the agreed contributions have been paid. The expected employer cash contribution to the Scheme for the year ending 31 March 2020 is £2.7m.

Pension buy-in transaction

Prior to the year end the Scheme completed its first bulk annuity insurance buy-in for approximately £700m. This transaction has removed longevity risk, interest rate risk, and inflation risk for approximately one third of the Scheme and is in line with the Group's strategy of de-risking the pension liabilities. As a result of the transaction, the accounting pension surplus recorded on the Group's balance sheet reduced by an estimated £120m with no related cash impact.

Guaranteed minimum pensions

During the reporting period the High Court ruled on a case involving Lloyds Banking Group in respect of equalising (between men and women) Guaranteed Minimum Pensions ('GMPs'). QinetiQ's pension scheme has not been significantly impacted by this court ruling but an increase in liabilities of £0.7m has been recognised in the period, through a past service charge to operating profit. This is reported as a 'significant adjusting item' in the income statement in accordance with historical Group policy.

Triennial funding valuation

The most recent completed full actuarial valuation of the Scheme was undertaken as at 30 June 2017 and resulted in an actuarially assessed surplus of £139.7m (relative to the technical provisions i.e. the level of assets agreed by the Trustee and the Company as being appropriate to meet member benefits, assuming the Scheme continues as a going concern). The next triennial valuation will be performed as at 30 June 2020. The agreed recovery plan requires £2.7m per annum (at 2019 prices) distributions to the Scheme until 31 March 2032, indexed by reference to CPI. Such distributions are from the Group's Pension Funding Partnership.

QinetiQ's Pension Funding Partnership (PFP) structure

Following the 30 June 2011 valuation, a package of pension changes was agreed with the Trustees to provide stability to the Scheme. As part of the package of proposals, on 26 March 2012 QinetiQ established the QinetiQ PFP Limited Partnership (the 'Partnership') with the Scheme. Under this arrangement, properties to the capitalised value of £32.3m were transferred to the Partnership. The transfers were affected through a 20-year sale and leaseback agreement. The Scheme's interest in the Partnership entitles it to an annual distribution of approximately £2.5m (from 2012) for 20 years, indexed with reference to CPI. The Scheme's interest in the Partnership will revert back to QinetiQ Limited in 2032.

The Partnership is controlled by QinetiQ and its results are consolidated by the Group. Under IAS 19, the interest held by the Scheme in the Partnership does not qualify as a plan asset for the purposes of the Group's consolidated financial statements and is, therefore, not included within the fair value of plan assets. As a result, the Group's consolidated financial statements are unchanged by the Partnership. In addition, the value of the property transferred to the Partnership and leased back to QinetiQ remains on the balance sheet. QinetiQ retains the operational flexibility to substitute properties of equivalent value within the Partnership and has the option to settle outstanding amounts due under the interest before 2032 if it so chooses.

Other UK schemes

In the UK the Group has a small number of employees for whom benefits are secured through the Prudential Platinum Scheme. The net pension deficits of this scheme at 31 March 2019 amounted to £nil (2018: £nil). QinetiQ also offers employees access to a Group Self Invested Personal Pension Plan, but no Company contributions are paid to this arrangement.

Notes to the Financial Statements *continued*

29. Post-retirement benefits continued

QinetiQ Pension Scheme net pension asset

The fair value of the QinetiQ Pension Scheme assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the Scheme's liabilities, which are derived from cash flow projections over long periods, and thus inherently uncertain, were:

All figures in £ million	2019			2018		
	Quoted	Not quoted in an active market	Total	Quoted	Not quoted in an active market	Total
Equities	127.0	51.8	178.8	115.8	58.9	174.7
LDI investment*	690.8	–	690.8	1,050.9	–	1,050.9
Corporate bonds	96.0	–	96.0	311.3	–	311.3
Alternative bonds**	304.4	–	304.4	197.9	35.0	232.9
Property fund	145.6	–	145.6	138.7	–	138.7
Cash and cash equivalents	75.1	–	75.1	80.2	–	80.2
Insurance buy-in policy	566.4	–	566.4	–	–	–
Outstanding payment due in respect of buy-in	(96.0)	–	(96.0)	–	–	–
Derivatives	2.5	–	2.5	1.8	–	1.8
Total market value of assets	1,911.8	51.8	1,963.6	1,896.6	93.9	1,990.5
Present value of Scheme liabilities			(1,704.5)			(1,674.3)
Net pension asset before deferred tax			259.1			316.2
Deferred tax liability			(48.6)			(58.6)
Net pension asset after deferred tax			210.5			257.6

* The Scheme has assets invested in a Liability Driven Investment portfolio. As at 31 March 2019 this hedges against 93% of the interest rate and 100% of the inflation rate risk, as measured on the Trustees' gilt-funding basis.

** Includes allocations to high-yield bonds, secured loans and emerging market debt.

The Scheme's assets do not include any of the Group's own transferable financial instruments, property occupied by, or other assets used by the Group.

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.

Changes to the fair value of Scheme assets

All figures in £ million	2019	2018
Opening fair value of Scheme assets	1,990.5	1,926.3
Interest income on Scheme assets	51.2	49.8
Re-measurement (loss)/gain on Scheme assets	(35.2)	34.8
Contributions by the employer	2.7	13.4
Net benefits paid out and transfers	(44.7)	(32.8)
Administrative expenses	(0.9)	(1.0)
Closing fair value of Scheme assets	1,963.6	1,990.5

Changes to the present value of the defined benefit obligation

All figures in £ million	2019	2018
Opening defined benefit obligation	(1,674.3)	(1,770.3)
Interest cost	(43.0)	(45.6)
<i>Actuarial gain/(loss) on Scheme liabilities based on:</i>		
Change in demographic assumptions	43.9	70.4
Change in financial assumptions	(69.9)	31.8
Experience gains	(5.2)	6.6
Net benefits paid out and transfers	44.7	32.8
Past service cost	(0.7)	–
Closing defined benefit obligation	(1,704.5)	(1,674.3)

Changes to the net pension asset

All figures in £ million	2019	2018
Opening net pension asset	316.2	156.0
Net finance income	8.2	4.2
Net actuarial (loss)/gain	(66.4)	143.6
Administrative expenses	(0.9)	(1.0)
Past service cost	(0.7)	–
Contributions by the employer	2.7	13.4
Closing net pension asset	259.1	316.2

Total expense recognised in the income statement

All figures in £ million	2019	2018
Net finance income on the net pension asset	8.2	4.2
Past service cost	(0.7)	–
Administrative expenses	(0.9)	(1.0)
Total net income recognised in the income statement (gross of deferred tax)	6.6	3.2

Assumptions

The major assumptions used in the IAS 19 valuation of the Scheme were:

All figures in £ million	2019	2018
Discount rate applied to Scheme liabilities	2.45%	2.60%
CPI inflation assumption	2.35%	2.25%
Assumed life expectancies in years:		
Future male pensioners (currently aged 60)	87	88
Future female pensioners (currently aged 60)	89	90
Future male pensioners (currently aged 40)	89	90
Future female pensioners (currently aged 40)	91	92

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, because of the timescale covered, may not necessarily be borne out in practice. It is important to note that these assumptions are long term and, in the case of the discount rate and the inflation rate, are measured by external market indicators. The mortality assumptions as at 31 March 2019 and 31 March 2018 were 90% of S2PMA for males and 90% of S2PFA for females, based on year of birth making allowance for improvements in mortality in line with CMI_2018 Core Projections (2018: CMI_2016 Core Projections) and a long-term rate of improvement of 1.5% per annum.

The balance sheet net pension asset is a snapshot view which can be significantly influenced by short-term market factors. The calculation of the surplus or deficit depends, therefore, on factors which are beyond the control of the Group – principally the value at the balance sheet date of equity shares (and other assets) in which the Scheme has invested and long-term interest rates which are used to discount future liabilities. The funding of the Scheme is based on long-term trends and assumptions relating to market growth, as advised by qualified actuaries and investment advisors.

The weighted average duration of the defined benefit obligation is approximately 20 years.

Sensitivity analysis of the principal assumptions

Assumption	Change in assumption	Indicative impact on Scheme liabilities (before deferred tax)	Indicative impact on net pension asset
Discount rate	Increase by 0.1%	Decrease by £31m	Decrease by £15m
Rate of inflation	Increase by 0.1%	Increase by £30m	Increase by £13m
Life expectancy	Increase by one year	Increase by £59m	Decrease by £39m

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 2019 this hedges against approximately 93% of the interest rate and 100% of the inflation rate risk, as measured on the Trustees' gilt-funded basis.

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (projected unit credit method) has been applied as when calculating the pension liability recognised within the statement of financial position. The methods and types of assumption did not change.

Notes to the Financial Statements *continued*

29. Post-retirement benefits continued

Risks

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

Volatility in market conditions	Results under IAS 19 can change dramatically depending on market conditions. The defined benefit obligation is linked to yields on AA-rated corporate bonds, while many of the assets of the Scheme are invested in other assets. Changing markets in conjunction with discount rate volatility will lead to volatility in 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 defined benefit obligation (DBO) involves projecting future cash flows from the Scheme many years into the future. This means that the assumptions used can have a material impact on the balance sheet position and profit and loss charge. In practice future experience within the Scheme may not be in line with the assumptions adopted. For example, members could live longer than foreseen or inflation could be higher or lower than allowed for in the DBO calculation.

The accounting assumptions noted above are used to calculate the year end net pension asset 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.

30. 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 27. Transactions between the Group and the MOD are disclosed as follows:

Freehold land and buildings and surplus properties

Under the terms of the Group's acquisition of part of the business and certain assets of DERA from the MOD on 1 July 2001, the MOD retained certain rights in respect of the freehold land and buildings transferred.

Restrictions on transfer of title

The title deeds of those properties with strategic assets (see below) include a clause that prevents their transfer without the approval of the MOD. The MOD also has the right to purchase any strategic assets in certain circumstances.

MOD's generic compliance regime

Adherence to the generic compliance system is monitored by the Risk & CSR Committee. Refer to the Committee's report within the Corporate Governance Statement on page 74.

Strategic assets

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

- i) dispose of or destroy all or any part of a strategic asset; or
- ii) voluntarily undertake any closure of, or cease to provide a strategic capability by means of, all or any part of a strategic asset.

The net book value of assets identified as being strategic assets as at 31 March 2019 was £4.6m (2018: £5.5m).

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% (2018: 62%) of the Group's revenue comes directly from contracts with the MOD.

31. Contingent liabilities and assets

Subsidiary undertakings within the Group have given unsecured guarantees of £29.9m at 31 March 2019 (2018: £30.1m) 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.

32. Capital commitments

The Group had the following capital commitments for which no provision has been made:

All figures in £ million	2019	2018
Contracted	40.6	76.2

Capital commitments at 31 March 2019 include £20.6m (2018: £74.3m) in relation to property, plant and equipment that will be wholly funded by a third-party customer under long-term contract arrangements. These primarily relate to investments under the LTPA contract.

33. Subsidiaries and other related undertakings

In accordance with section 409 of the Companies Act 2006, a full list of subsidiaries and other related undertakings as at 31 March 2019 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
Subsidiaries¹		
BJ Trustee Limited	England & Wales	Farnborough ⁴
Boldon James Holdings Limited	England & Wales	Farnborough ⁴
Boldon James Limited	England & Wales	Farnborough ⁴
Commerce Decisions Limited	England & Wales	Farnborough ⁴
Commerce Decisions Pty Ltd	Australia	Level 33, 101 Collins Street, Melbourne, VIC 3000, Australia
CueSim Limited	England & Wales	Farnborough ⁴
Foster-Miller Canada Limited	Canada	318 Roxton Drive, Waterloo, Ontario, N2T 1R6, Canada
Foster-Miller Inc ²	US	350 2 nd Avenue, Waltham, Massachusetts, MA 02451 1104, USA
Graphics Research Corporation Limited	England & Wales	Farnborough ⁴
Gyldan 6 Limited	England & Wales	Farnborough ⁴
Gyldan 7 Limited	England & Wales	Farnborough ⁴
Gyldan 8 Limited	England & Wales	Farnborough ⁴
Inzpire Group Limited ^{1,7}	England & Wales	Farnborough ⁴
Inzpire Holdings Limited ^{1,7}	England & Wales	Landmark House West, Unit 1b, Alpha Court, Kingsley Road, Lincoln, Lincolnshire, LN6 3TA
Inzpire Limited ^{1,7}	England & Wales	Landmark House West, Unit 1b, Alpha Court, Kingsley Road, Lincoln, Lincolnshire, LN6 3TA
Leading Technology Limited	England & Wales	Farnborough ⁴
Metrix UK Limited	England & Wales	Farnborough ⁴
Optasense Canada Limited ²	Canada	4 Robert Speck Parkway, Suite 1600, Mississauga ON LAZ 1S1, Canada
Optasense Holdings Limited	England & Wales	Farnborough ⁴
Optasense Inc ²	US	5885 Trinity Parkway, Suite 130, Centreville, Virginia 20120-1969, USA
Optasense Limited	England & Wales	Farnborough ⁴
Precis (2187) Limited	England & Wales	Farnborough ⁴
Precis (2188) Limited	England & Wales	Farnborough ⁴
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

Notes to the Financial Statements *continued*

33. Subsidiaries and other related undertakings continued

Name of company	Country of incorporation	Registered office
QinetiQ Consulting Pty Ltd	Australia	Unit 5 (Level 1), 8 Brindabella Circuit, Brindabella Business Park, Majura NSW 2609, Australia
QinetiQ Estates Limited	England & Wales	Farnborough ⁴
QinetiQ GmbH	Germany	Flughafenstraße 65, 41066, Mönchengladbach, Germany
QinetiQ GP Limited	Scotland	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, Scotland
QinetiQ Group Canada Inc. ²	Canada	5300 Commerce Court West, 199 Bay Street, Toronto ON M5L 1A9, Canada
QinetiQ Group Holdings Limited	England & Wales	Farnborough ⁴
QinetiQ Holdings Limited	England & Wales	Farnborough ⁴
QinetiQ Inc ²	US	5885 Trinity Parkway, Suite 130, Centreville, Virginia 20120-1969, USA
QinetiQ Insurance PCC Limited	Guernsey	Mill Court, La Charroterie, St Peter Port, GY1 4ET Guernsey
QinetiQ Limited	England & Wales	Farnborough ⁴
QinetiQ Novare Pty Ltd	Australia	Petrie House, level 6, 80 Petrie Terrace, Brisbane QLD 400, Australia
QinetiQ Overseas Holdings (2) Limited	England & Wales	Farnborough ⁴
QinetiQ Overseas Holdings Limited	England & Wales	Farnborough ⁴
QinetiQ Overseas Trading Limited	England & Wales	Farnborough ⁴
QinetiQ Pension Scheme Trustee Limited	England & Wales	Farnborough ⁴
QinetiQ PFP Limited Partnership ⁵	Scotland	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, Scotland
QinetiQ Philippines Company, Inc	Philippines	22 nd Floor Corporate Centre, 139 Valero Street, Salcedo Village, Makati City, Philippines
QinetiQ Pty Ltd	Australia	Level 33, 101 Collins Street, Melbourne, VIC 3000, Australia
QinetiQ Services Holdings Pty Ltd	Australia	Level 33, 101 Collins Street, Melbourne, Victoria 3000, Australia
QinetiQ Solutions Sdn. Bhd.	Malaysia	Suite 6.01, 6 th Floor, Plaza See Hoy Chan, Jalan Raja Chulan 50200, Kuala Lumpur, W.P. Kuala Lumpur, Malaysia
QinetiQ Space N.V.	Belgium	Hogenakkerhoekstraat, 9, 9150 Kruikebeke, Belgium
QinetiQ Sweden AB	Sweden	Advokatfirman Delphi, Box 1432, Stockholm, Sweden
QinetiQ Target Services Limited	England & Wales	Farnborough ⁴
QinetiQ Target Systems Limited	England & Wales	Farnborough ⁴
QinetiQ US Holdings, Inc.	US	5885 Trinity Parkway, Suite 130, Centreville, Virginia 20120-1969, USA
Redu Operational Services S.A. ¹	Belgium	Rue Devant les Hetres, 2B, 6890 Transinne, Belgium
RubiKon Group Pty Limited	Australia	Level 33, 101 Collins Street, Melbourne, Victoria 3000, Australia
Sensoptics Limited	England & Wales	Farnborough ⁴
Tarsier Limited	England & Wales	Farnborough ⁴
Trusted Experts Limited	England & Wales	Farnborough ⁴
TSG International LLC	US	350 Second Avenue, Waltham, Massachusetts 02451, USA
Associates³		
Redu Space Services S.A. ⁷	Belgium	Rue Devant les Hetres, 2B, 6890 Transinne, Belgium
Joint venture⁶		
BQ Solutions QSTP-LLC ⁷	Qatar	Qatar Science & Technology Park, Innovation Centre Building, Office 307, Doha, Qatar
Houbara Defence & Security LLC ⁷	United Arab Emirates	503 Al Wahda Commercial Tower, Abu Dhabi, PO box 128220
QinetiQ Dar Massader QDM Limited ⁷	Saudi Arabia	Al Nakhla Tower, 3026-Prince Saud Bin Mohamed Bin Muqin Road, PO Box 2985, Riyadh 13321, Kingdom of Saudi Arabia

¹ As at 31 March 2019 the Group owned 100% of the ordinary shares of these subsidiary undertakings except for Redu Operational Services S.A. (52%), Inzpire Group Limited (85%), Inzpire Holdings Limited (85%) and Inzpire Limited (85%)

² The class of shares is 'common share'

³ As at 31 March 2019 the Group owned 48% of Redu Space Services S.A.

⁴ Cody Technology Park, Ively Road, Farnborough, Hampshire, GU14 0LX

⁵ Limited partnership. The partners are all wholly-owned Group companies

⁶ As at 31 March 2019 the Group owned 49% of BQ Solutions QSTP-LLC, 49% of Houbara Defence & Security LLC and 49% of QinetiQ Dar Massader QDM Limited.

⁷ The financial year end of each undertaking is 31 March other than BQ Solutions QSTP-LLC (31 December), Houbara Defence & Security LLC (31 December), QinetiQ Dar Massader QDM Limited (31 December), Inzpire Group Limited (31 August), Inzpire Holdings Limited (31 August) and Inzpire Limited (31 August).

34. Related parties

During the year ended 31 March 2019 there were sales to associates and joint ventures of £10.1m (2018: £10.4m). At the year-end there were outstanding receivables from associates and joint ventures of £1.4m (2018: £4.5m).

Company balance sheet

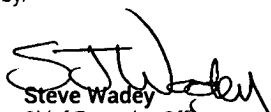
For the year ended 31 March

All figures in £ million	Note	2019	2018
Fixed assets			
Investments in subsidiary undertaking	2	475.0	468.9
		475.0	468.9
Current assets			
Debtors	3	13.2	9.2
		13.2	9.2
Current liabilities			
Creditors: amounts falling due within one year	4	(91.8)	(73.0)
Net current liabilities		(78.6)	(63.8)
Total assets less current liabilities		396.4	405.1
Net assets		396.4	405.1
Capital and reserves			
Called up equity share capital	5	5.7	5.7
Capital redemption reserve		40.8	40.8
Share premium account		147.6	147.6
Profit and loss account		202.3	211.0
Capital and reserves attributable to shareholders		396.4	405.1

The profit for the year ended 31 March 2019 was £21.8m (2018: profit of £161.7m).

The financial statements of QinetiQ Group plc (company number 4586941) were approved by the Board of Directors and authorised for issue on 23 May 2019 and were signed on its behalf by:


Mark Elliott
 Chairman


Steve Wadey
 Chief Executive Officer


David Smith
 Chief Financial Officer

Company statement of changes in equity

For the year ended 31 March

All figures in £ million	Issued share capital	Capital redemption reserve	Share premium	Profit and loss	Total equity
At 1 April 2018	5.7	40.8	147.6	211.0	405.1
Profit for the year	-	-	-	21.8	21.8
Purchase of own shares	-	-	-	(0.7)	(0.7)
Dividend paid	-	-	-	(35.7)	(35.7)
Share-based payments	-	-	-	5.9	5.9
At 31 March 2019	5.7	40.8	147.6	202.3	396.4
At 1 April 2017	5.7	40.8	147.6	81.8	275.9
Profit for the year	-	-	-	161.7	161.7
Purchase of own shares	-	-	-	(0.7)	(0.7)
Dividend paid	-	-	-	(34.5)	(34.5)
Share-based payments	-	-	-	2.7	2.7
At 31 March 2018	5.7	40.8	147.6	211.0	405.1

The capital redemption reserve is not distributable and was created following redemption of preference share capital.

Notes to the Company Financial Statements

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK Accounting Standards. As permitted by section 408(4) of the Companies Act 2006, a separate profit and loss account dealing with the results of the Company has not been presented.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (Adopted IFRSs), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

- A cash flow statement and related notes
- Disclosures in respect of capital management
- The effects of new but not yet effective IFRSs
- Disclosures in respect of the compensation of key management personnel
- IAS 24 in respect of related party transactions entered into between two or more members of a group
- IFRS 2 Share Based Payments in respect of Group-settled share-based payments
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7.

Investments

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less any impairment in value.

Share-based payments

The cost of share-based payments in respect of employees of Group subsidiaries is charged to those subsidiary undertakings. In the Company financial statements the recoverable from subsidiaries is credited directly to equity. The fair value of equity-settled awards for share-based payments is determined on grant and expensed in subsidiary undertakings (and credited to equity in the Company) on a straight line basis over the period from grant to the date of earliest unconditional exercise. The charges for equity-settled share-based payments are updated annually for non-market-based vesting conditions. Further details of the Group's share-based payment charge are disclosed in note 28 to the Group financial statements.

2. Investment in subsidiary undertakings

As at 31 March

All figures in £ million	2019	2018
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	50.7	44.6
	475.0	468.9

The increase in investments in subsidiary undertakings in 2019 relates to £6.1m of equity-settled schemes during the year.

A list of all subsidiary undertakings of QinetiQ Group plc is disclosed in note 33 to the Group financial statements.

3. Debtors

As at 31 March

All figures in £ million	2019	2018
Amounts owed by Group undertakings	13.2	9.2

Notes to the Company Financial Statements

continued

4. Creditors: amounts falling due within one year

As at 31 March

All figures in £ million	2019	2018
Amounts owed to Group undertakings	91.8	73.0

Amounts owed to Group undertakings are unsecured, repayable on demand and bear no interest.

5. Share capital

The Company's share capital is disclosed in note 27 to the Group financial statements.

6. Share-based payments

The Company's share-based payment arrangements are set out in note 28 to the Group financial statements.

7 Other information

Directors' emoluments, excluding Company pension contributions, were £4.5m (2018: £3.7m). These emoluments were all in relation to services provided on behalf of the QinetiQ Group with no amount specifically relating to their work for the Company. Details of the Directors' emoluments, share schemes and entitlements under money purchase pension schemes are disclosed in the Remuneration Report.

The remuneration of the Company's auditor for the year to 31 March 2019 was £0.1m (2018: £0.2m), which was for audit of the Group's annual accounts and audit related assurance services. No other services were provided by the auditor to the Company.

Five-year record

For the years ended 31 March (unaudited)		2019	2018	2017	2016	2015
EMEA Services	£m	687.7	651.4	613.5	616.4	625.6
Global Products	£m	223.4	181.6	169.6	139.3	138.2
Revenue – continuing operations	£m	911.1	833.0	783.1	755.7	763.8
Discontinued operations (US Services)	£m	–	–	–	–	55.7
Revenue – total Group	£m	911.1	833.0	783.1	755.7	819.5
EMEA Services	£m	96.3	94.3	92.7	93.8	93.0
Global Products	£m	27.6	28.2	23.6	15.1	18.3
Underlying operating profit¹ – continuing operations	£m	123.9	122.5	116.3	108.9	111.3
Discontinued operations (US Services)	£m	–	–	–	–	1.2
Underlying operating profit¹ – total Group	£m	123.9	122.5	116.3	108.9	112.5
Profit before tax	£m	123.2	144.8	131.5	97.7	92.9
Profit attributable to equity shareholders	£m	113.9	138.1	123.3	106.1	104.7
Underlying basic EPS ¹	Pence	19.7	19.3	18.1	16.3	15.3
Basic EPS	Pence	20.1	24.4	21.5	18.1	16.6
Diluted EPS	Pence	20.0	24.3	21.3	18.0	16.5
Dividend per share	Pence	6.6	6.3	6.0	5.7	5.4
Underlying net cash flow from operations ¹	£m	126.3	126.5	111.9	133.4	145.7
Net cash	£m	188.5	266.8	221.9	274.5	195.5
Average number of employees		5,994	6,143	6,114	6,266	6,454
Continuing operations²						
Orders excluding LTPA amendment and including share of JVs	£m	776.4	587.2	675.3	659.8	613.6
Underlying operating margin ¹	%	13.6	14.7	14.9	14.4	14.6
Underlying profit before tax ¹	£m	124.0	122.1	116.1	108.7	107.8
Profit before tax	£m	123.2	144.8	131.5	90.2	105.4
Profit after tax	£m	113.9	138.1	123.3	98.6	117.4
Underlying basic EPS ¹	Pence	19.7	19.3	18.1	16.3	15.2
Basic EPS	Pence	20.1	24.4	21.5	16.8	18.6
Underlying net cash flow from operations ¹	£m	126.3	126.5	111.9	133.4	143.9

¹ Underlying measures are stated before specific adjusting items. Definitions of underlying measures of performance are provided in the glossary on page 159. 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 1 and note 4 of the financial statements.

² Continuing operations excludes the financial results of the US Services business disposed in 2015.

A UMS Skeldar V-200 coming in for landing. QinetiQ is providing vertical take-off Unmanned Air Systems, based on the UMS Skeldar V-200, to the Canadian Armed Forces to improve Intelligence, Surveillance, Target Acquisition and Reconnaissance.

Image Caption

Lorem ipsum dolor sit amet, consectetur adipiscing elit. Ut sit amet volutpat diam. Vestibulum iaculis pulvinar lacus in luctus. Praesent tempor eros ac.

Additional information

158 Additional financial information
159 Glossary
160 Shareholder information

Obsidian

A live testing of our counter drone technology, Obsidian, at our site in Malvern, UK. Obsidian is specifically designed to detect, identify and track small and micro drones.

Additional financial information

Foreign exchange

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

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 2019	12 months to 31 March 2018
£/US\$ – opening	1.40	1.25
£/US\$ – average	1.31	1.33
£/US\$ – closing	1.30	1.40
£/A\$ – opening	1.83	1.64
£/A\$ – average	1.80	1.71
£/A\$ – closing	1.83	1.83

Treasury policy

The Group treasury department works within a framework of policies and procedures approved by the Audit Committee. As part of these policies and procedures, there is strict control on the use of financial instruments. Speculative trading in financial instruments is not permitted. The policies are established to manage and control risk in the treasury environment and to align the treasury goals, objectives and philosophy of the Group.

Tax risk management

QinetiQ's tax strategy is to ensure compliance with all relevant tax legislation, wherever we do business, whilst managing our effective tax rates and tax cash flows. Tax is managed in alignment with our corporate responsibility strategy in that we strive to be responsible in all our business dealings. These principles are applied in a consistent and transparent manner in pursuing the tax strategy and in all dealings with tax authorities around the world.

- Tax planning – QinetiQ manages both effective tax rate (ETR) and cash tax impacts in line with the Board-endorsed tax strategy. External advice and consultation are sought on potential changes in tax legislation in the UK, the US and elsewhere as necessary, enabling the Group to plan for and mitigate potential changes. QinetiQ does not make use of 'off-shore' entities or tax structures to focus taxable profits in jurisdictions that legislate for low tax rates
- Relationships with tax authorities – QinetiQ is committed to building constructive working relationships with tax authorities based on a policy of full disclosure in order to remove uncertainty in its business transactions and allow the authorities to review possible risks. In the UK, QinetiQ seeks to be open and transparent in its engagement with the tax authorities by sharing with HMRC the methodologies adopted in its tax returns
- Transfer pricing – The Group does not currently have a significant level of cross-border activity but this is likely to increase as the Group pursues its policy of expanding around the globe, however,



As a UK-listed company, the Group is required to adopt EU endorsed IFRS and comply with the Companies Act 2006."

where it does have such transactions, 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 and submits its "Country by Country" report in line with the tax authority regulations and OECD guidelines

- Governance – The Board has approved this approach. The Audit Committee oversees the tax affairs and risks through periodic reviews. The governance framework is used to manage tax risks, establish controls and monitor their effectiveness. The Head of Tax is responsible for ensuring that appropriate policies, processes and systems are in place and that the tax team has the required skills and support to implement this approach

QinetiQ's corporate tax contribution – QinetiQ is liable to pay tax in the countries in which it operates, principally the UK, the US, Australia, Canada, Belgium and now Germany. Changes in tax legislation in these countries could have an adverse impact on the level of tax paid on profits generated by the Group. A significant majority of the Group's profit before tax is generated in the UK. This reflects the fact that the majority of the Group's business is undertaken, and employees are based, in the UK. Total corporation tax payments in the year to 31 March 2019 were £10.7m.

The differential between the taxation expense and the tax paid in the year relates primarily to the timing of the recovery of research and development expenditure credits for which the cash is recovered in the year following the year of account. There is also an impact of deferred tax movements, whereby the income statement bears charges and credits (e.g. in respect of accelerated capital allowances) but for which there is no corporation tax paid in the year. Together, these result in the cash paid being £1.4m greater than the total expense charged to the income statement.

Accounting standards

As a UK-listed company, the Group is required to adopt EU endorsed IFRS and comply with the Companies Act 2006. The effect of changes to financial reporting standards in the year is disclosed in note 1 to the financial statements.

Glossary

AGM	Annual General Meeting	FCA	Financial Conduct Authority	OHSAS	Occupational Health and Safety Advisory Services
BBP	Bonus Banking Plan	FMI	Foster-Miller, Inc. – the legal entity through which the QNA business operates	PDR	Performance development review
CAGR	Compound Annual Growth Rate			PBT	Profit before tax
C4ISR	Command, control, communications, computers, intelligence, surveillance and reconnaissance	Funded order backlog	The expected future value of revenue from contractually committed and funded customer orders	PSP	Performance Share Plan
COTS	Commercial off the shelf	GHG	Greenhouse gas	QNA	QinetiQ North America
CPI	Consumer Price Index	IAS	International Accounting Standards	QSOS	QinetiQ Share Option Scheme
CR	Corporate Responsibility	IBDM	International Berthing and Docking Mechanism	QTS	QinetiQ Target Systems
CRC	Carbon Reduction Commitment	IFRS	International Financial Reporting Standards	R&D	Research and development
CSR	Corporate Social Responsibility	IRAD	Internal research and development	RDEC	Research and development expenditure credit
DE&S	MOD's Defence, Equipment and Support organisation	KPI	Key Performance Indicator	SE	Strategic Enterprise
DHS	US Department of Homeland Security	LDP	Leadership development programme	SPA	Special protection area
DSP	Deferred Share Plan	LIBID	London inter-bank bid rate	SSRO	Single Source Regulations Office
DoD	US Department of Defense	LIBOR	London inter-bank offered rate	SSSI	Site of Special Scientific Interest
EBITDA	Earnings before interest, tax, depreciation and amortisation	LTI	Lost time incident	STEM	Science, Technology, Engineering and Maths
ED&I	Equality, diversity and inclusion	LTPA	Long Term Partnering Agreement – 25-year contract established in 2003 to manage the MOD's test and evaluation ranges	T&E	Test and evaluation
EDP	Engineering Delivery Partner	MDP	Modernising Defence Programme	T&R	Training and rehearsal
EEG	Employee Engagement Group	MOD	UK Ministry of Defence	TSR	Total shareholder return
EMEA	Europe, Middle East and Australasia	MSCA	Maritime Strategic Capability Agreement	UAV	Unmanned aerial vehicle
EPS	Earnings per share	NCSISS	Naval Combat System Integration Support Services	UK	Guidelines of the Financial Reporting Council to address the principal aspects of corporate governance in the UK
ESA	European Space Agency			UK Corporate Governance Code	
ESOS	Energy Savings Opportunity Scheme			UK GAAP	UK Generally Accepted Accounting Practice
EST	Engineering, Science and Technical				
FAR	Federal Acquisition Regulations				

Alternative performance measures (APMs)

The Group uses various non-statutory measures of performance, or APMs. Such APMs are used by management internally to monitor and manage the Group's performance and also allow the reader to obtain a proper understanding of performance (in conjunction with statutory financial measures of performance). The APMs used by QinetiQ are set out below:

Measure	Explanation	Note
Organic growth	The level of year-on-year growth, expressed as a percentage, calculated at constant prior year foreign exchange rates, adjusting for business acquisitions and disposals to reflect equivalent composition of the Group	Note 2
Underlying operating profit	Operating profit as adjusted to exclude 'specific adjusting items'	Note 3
Underlying operating margin	Underlying operating profit expressed as a percentage of revenue	Note 3
Underlying net finance income/expense	Net finance income/expense as adjusted to exclude 'specific adjusting items'	Note 6
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 8
Underlying basic and diluted EPS	Basic and diluted earnings per share as adjusted to exclude 'specific adjusting items'	Note 12
Orders	The level of new orders (and amendments to existing orders) booked in the year. Includes share of orders won by joint ventures.	N/A
Backlog, funded backlog or order book	The expected future value of revenue from contractually committed and funded customer orders	N/A
Book to bill ratio	Ratio of funded orders received in the year to revenue for the year, adjusted to exclude revenue from the 25-year LTPA contract due to significant size and timing differences of LTPA order and revenue recognition which may distort the ratio calculation	N/A
Underlying net cash flow from operations	Net cash flow from operations before cash flows of specific adjusting items.	Note 26
Underlying operating cash conversion or cash conversion ratio	The ratio of underlying net cash from operations to underlying operating profit	Note 26
Free cash flow	Underlying net cash flow from operations less net tax and interest payments less purchases of intangible assets and property, plant and equipment. Plus proceeds from disposal of plant and equipment.	Note 26
Net cash	Net cash as defined by the Group combines cash and cash equivalents with other financial assets and liabilities, primarily available for sale investments and derivative financial instruments.	Note 23
Specific adjusting items	Amortisation of intangible assets arising from acquisitions; impairment of property; gains/losses on disposal of property, investments and intellectual property; net pension finance income; pension past service costs; acquisition costs; tax impact of the preceding items and significant non-recurring deferred tax movements.	Note 4

Shareholder Information

Registrar: Equiniti Limited
www.shareview.co.uk
Tel: 0371 384 2021

Shareholding enquiries

The Company's registrar is Equiniti. Enquiries regarding your shareholding, including the following administrative matters, should be addressed to Equiniti:

- Change of personal details such as change of name or address
- Lost share certificates
- Dividend payment enquiries
- Direct dividend payments. You can have your dividends paid directly into a UK bank or building society account by completing a dividend mandate form. The associated dividend confirmation will still be sent to your registered address. If you live outside the UK, Equiniti offers a global payments service which is available in certain countries and could enable you to receive your dividends direct into your bank account in your local currency

Contact details for registrar

By post:
Equiniti Limited, Aspect House, Spencer Road Lancing, West Sussex BN99 6DA

By telephone:
0371 384 2021* for UK calls, +44 (0)121 415 7576
for calls from outside the UK.

* Lines are open 8.30am to 5.30pm (UK time), Monday to Friday (excluding public holidays in England and Wales).

By email:
You can send an email enquiry securely from Equiniti's website, at help.shareview.co.uk.

Online:

Equiniti's website at help.shareview.co.uk (Shareview) includes answers to frequently asked questions and provides key forms for download. Shareview also offers online access to your shareholding where you can manage your account, register for electronic communications, see details of balance movements and complete certain amendments online, such as changes to dividend mandate instructions. You can register at www.shareview.co.uk, click on 'Register' and follow the steps.

Electronic communications

The Company offers shareholders the option to receive documentation and communications electronically, via the Company's website. The wider use of electronic communications enables fast receipt of documents, reduces the Company's printing, paper and postal costs and reduces the Company's environmental impact. Shareholders can register for electronic communications at www.shareview.co.uk and may also cast their vote for the 2019 Annual General Meeting online quickly and easily using the Sharevote service by visiting www.sharevote.co.uk.

Donating shares to charity – ShareGift

Small parcels of shares, which may be uneconomic to sell on their own, can be donated to ShareGift, the share donation charity (registered charity no. 1052686). ShareGift transfers these holdings into their name, aggregates them, and uses the proceeds to support a wide range of UK charities based on donor suggestion. If you would like further details about ShareGift, please visit www.sharegift.org, email help@sharegift.org or telephone them on 020 7930 3737.

Share price

Details of current and historical share prices can be found on the Company's website at www.QinetiQ.com/investors.

Analysis of share register at 31 March 2019

By type of holder	Total number of holdings	Percentage of holders	Total number of shares	Percentage issued capital
Individual	5,708	88.35%	5,436,128	0.95%
Institutions and others	753	11.65%	566,320,993	99.05%
Total	6,461	100%	571,757,121	100%
By size of holding				
1-500	4,315	66.79%	837,692	0.15%
501-1,000	533	8.25%	427,997	0.07%
1,001-2,500	628	9.72%	1,100,363	0.19%
2,501-5,000	342	5.29%	1,236,203	0.22%
5,001-10,000	162	2.51%	1,188,453	0.21%
10,001-100,000	220	3.41%	7,770,925	1.36%
Over 100,000	261	4.04%	559,195,488	97.80%
Total	6,461	100%	571,757,121	100%

Share fraud reporting:
www.fca.org.uk/scams
 FCA Consumer Helpline:
 0800 111 6768

Beware of share fraud

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

How to avoid share fraud

1. Keep in mind that firms authorised by the FCA are unlikely to contact you out of the blue with an offer to buy or sell shares.
2. Do not get into a conversation, note the name of the person and firm contacting you and then end the call.
3. Check the Financial Services Register from www.fca.org.uk to see if the person and firm contacting you is authorised by the FCA.
4. Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
5. Use the firm's contact details listed on the Register if you want to call it back.
6. Call the FCA on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date.
7. Search the list of unauthorised firms to avoid at www.fca.org.uk/scams.
8. Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme.
9. Think about getting independent financial and professional advice before you hand over any money.
10. Remember: if it sounds too good to be true, it probably is!

Report a scam

11. If you are approached by fraudsters please tell the FCA using the share fraud reporting form at www.fca.org.uk/scams, where you can find out more about investment scams. You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

Key dates

24 July 2019	Trading update
24 July 2019	Annual General Meeting
1 August 2019	Ordinary shares marked ex-dividend
2 August 2019	Final 2019 dividend record date
30 August 2019	Final 2019 dividend payment date
30 September 2019	Half-year financial period end
14 November 2019	Half-year results announcement
February 2020	Trading update (provisional date)
31 March 2020	Financial year end
May 2020	Preliminary results announcement (provisional date)

Cautionary statement

All statements other than statements of historical fact included in this Annual Report, including, without limitation, those regarding the financial condition, results, operations and businesses of QinetiQ and its strategy, plans and objectives and the markets and economies in which it operates, are forward-looking statements. Such forward-looking statements, which reflect management's assumptions made on the basis of information available to it at this time, involve known and unknown risks, uncertainties and other important factors which could cause the actual results, performance or achievements of QinetiQ or the markets and economies in which QinetiQ operates to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Nothing in this Annual Report should be regarded as a profit forecast.

This Annual Report is intended to provide information to shareholders and is not designed to be relied upon by any other party. The Company and its Directors accept no liability to any other person other than under English law.

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