Financial Statements

Consolidated income statement
For the year ended 31 March

		FY23			FY22^		
All figures in £ million	Note	Underlying*	Specific adjusting Items*	Total	Underlying*	Specific adjusting Items*	Total
Revenue	2, 3	**1,580.7**	**-**	**1,580.7**	**1,320.4**	**-**	**1,320.4**
Operating costs excluding depreciation and amortisation		(1,353.4)	(29.5)	(1,382.9)	(1,140.7)	(8.7)	(1,149.4)
Other income	2	28.0	21.6	49.6	16.0	0.7	16.7
EBITDA (earnings before interest, tax, depreciation and amortisation)		**255.3**	**(7.9)**	**247.4**	**195.7**	**(8.0)**	**187.7**
Depreciation and impairment of property, plant and equipment	3, 16	(51.5)	-	(51.5)	(46.7)	(1.2)	(47.9)
Amortisation of intangible assets	3, 4, 15	(7.5)	(15.6)	(23.1)	(5.4)	(10.7)	(16.1)
Operating profit/(loss)	3	**196.3**	**(23.5)**	**172.8**	**143.6**	**(19.9)**	**123.7**
Gain/(loss) on business divestments	4, 13	-	15.9	15.9	-	(0.9)	(0.9)
Finance income	7	6.8	9.9	16.7	0.5	4.5	5.0
Finance expense	7	(13.4)	-	(13.4)	(1.9)	-	(1.9)
Profit/(loss) before tax	8	**189.7**	**2.3**	**192.0**	**142.2**	**(16.3)**	**125.9**
Taxation charge	9	(36.8)	(0.8)	(37.6)	(24.1)	(11.8)	(35.9)
Profit/(loss) for the year		**152.9**	**1.5**	**154.4**	**118.1**	**(28.1)**	**90.0**
Profit/(loss) is attributable to							
Owners of the parent company		152.9	1.5	154.4	118.1	(28.1)	90.0
Non-controlling interests		-	-	-	-	-	-
Profit/(loss) for the year		**152.9**	**1.5**	**154.4**	**118.1**	**(28.1)**	**90.0**

Earnings per share for profit attributable to the owners of the parent company		FY23		FY22	
All figures in pence	Note	Underlying	Total	Underlying	Total
Basic	10	26.5	26.8	20.6	15.7
Diluted	10	26.3	26.5	20.4	15.5

^ Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 38 for details.
* Alternative performance measures are used to supplement the statutory figures. These are additional financial indicators used by management internally to assess the underlying performance of the Group. Definitions can be found on page 233. Also refer to notes 4 and 36 for details of 'specific adjusting items'.

Consolidated comprehensive income statement

For the year ended 31 March

All figures in £ million	Note	FY23	FY22
Profit for the year		**154.4**	**90.0**
Items that will not be reclassified to profit or loss:			
Actuarial (loss)/gain recognised in defined benefit pension schemes	28	(253.9)	144.0
Tax on items that will not be reclassified to profit and loss		63.5	(47.6)
Total items that will not be reclassified to profit or loss		**(190.4)**	**96.4**
Items that may be reclassified to profit or loss:			
Foreign currency translation (losses)/gains on foreign operations		(6.5)	5.6
Movement in deferred tax on foreign currency translation		(0.5)	(0.8)
Increase in the fair value of hedging derivatives		7.8	0.6
Movement in deferred tax on hedging derivatives		(1.6)	(0.1)
Total items that may be reclassified to profit or loss		**(0.8)**	**5.3**
Other comprehensive (expense)/income for the year, net of tax		**(191.2)**	**101.7**
Total comprehensive (expense)/income for the year		**(36.8)**	**191.7**
Total comprehensive (expense)/income is attributable to:			
Owners of the parent company		(36.8)	191.5
Non-controlling interests		-	0.2
Total comprehensive (expense)/income for the year		**(36.8)**	**191.7**

Consolidated statement of changes in equity

For the year ended 31 March

All figures in £ million	Share capital	Capital redemption reserve	Share premium	Hedge reserve	Translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Note	29								
At 31 March 2022 – previously reported	5.8	40.8	147.6	0.1	1.9	847.0	**1,043.2**	0.2	**1,043.4**
Change in accounting policy^ (note 38)	-	-	-	-	-	(2.0)	**(2.0)**	-	**(2.0)**
At 1 April 2022 - restated^	5.8	40.8	147.6	0.1	1.9	845.0	**1,041.2**	0.2	**1,041.4**
Profit for the year	-	-	-	-	-	154.4	**154.4**	-	**154.4**
Other comprehensive income/ (expense) for the year, net of tax	-	-	-	6.2	(7.0)	(190.4)	**(191.2)**	-	**(191.2)**
Purchase of own shares	-	-	-	-	-	(0.8)	**(0.8)**	-	**(0.8)**
Share-based payment	-	-	-	-	-	5.7	**5.7**	-	**5.7**
Tax on share-based payments (note 9)	-	-	-	-	-	0.7	**0.7**	-	**0.7**
Movements on business divestment	-	-	-	-	0.9	-	**0.9**	(0.2)	**0.7**
Dividends	-	-	-	-	-	(42.6)	**(42.6)**	-	**(42.6)**
At 31 March 2023	**5.8**	**40.8**	**147.6**	**6.3**	**(4.2)**	**772.0**	**968.3**	**-**	**968.3**
At 31 March 2021 – previously reported	5.7	40.8	147.6	(0.4)	(2.9)	693.8	**884.6**	0.3	**884.9**
Change in accounting policy^(note 38)	-	-	-	-	-	(2.0)	**(2.0)**	-	**(2.0)**
At 1 April 2021 - restated^	5.7	40.8	147.6	(0.4)	(2.9)	691.8	**882.6**	0.3	**882.9**
Profit for the year	-	-	-	-	-	90.0	**90.0**	-	**90.0**
Other comprehensive income for the year, net of tax	-	-	-	0.5	4.8	96.4	**101.7**	-	**101.7**
Purchase of own shares	-	-	-	-	-	(0.8)	**(0.8)**	-	**(0.8)**
Issues of new shares	0.1	-	-	-	-	-	**0.1**	-	**0.1**
Share-based payments	-	-	-	-	-	7.4	**7.4**	-	**7.4**
Tax on share-based payments (note 9)	-	-	-	-	-	(0.3)	**(0.3)**	-	**(0.3)**
Fair value adjustment in respect of equity-based contingent consideration	-	-	-	-	-	0.7	**0.7**	-	**0.7**
Dividends	-	-	-	-	-	(40.2)	**(40.2)**	(0.1)	**(40.3)**
At 31 March 2022	**5.8**	**40.8**	**147.6**	**0.1**	**1.9**	**845.0**	**1,041.2**	**0.2**	**1,041.4**

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

Consolidated balance sheet
As at 31 March

All figures in £ million	Note	31 March 2023	31 March 2022^	31 March 2021^
Non-current assets				
Goodwill	14	409.0	149.4	145.5
Intangible assets	15	343.0	140.3	133.1
Property, plant and equipment	16	477.8	414.5	397.2
Other financial assets	24	6.2	0.5	0.8
Financial assets at fair value through profit and loss		-	-	0.9
Equity accounted investments	17	1.4	2.6	4.2
Net pension asset	28	119.8	362.2	214.3
Deferred tax asset	18	32.6	21.0	11.7
		1,389.8	**1,090.5**	**907.7**
Current assets				
Inventories	20	68.8	54.9	54.4
Other financial assets	24	5.7	0.6	0.9
Trade and other receivables	21	452.6	373.2	338.5
Current tax asset	19	4.0	1.4	0.7
Cash and cash equivalents	24	151.2	248.1	190.1
		682.3	**678.2**	**584.6**
Total assets		**2,072.1**	**1,768.7**	**1,492.3**
Current liabilities				
Trade and other payables	22	(575.2)	(474.7)	(424.3)
Current tax payable	19	(4.6)	(5.9)	(3.7)
Provisions	23	(19.7)	(21.1)	(4.2)
Other financial liabilities	24	(8.2)	(6.9)	(7.0)
		(607.7)	**(508.6)**	**(439.2)**
Non-current liabilities				
Deferred tax liability	18	(112.0)	(156.7)	(89.7)
Provisions	23	(7.1)	(6.0)	(7.8)
Borrowings and other financial liabilities	24	(361.8)	(17.2)	(20.7)
Other payables	22	(15.2)	(38.8)	(52.0)
		(496.1)	**(218.7)**	**(170.2)**
Total liabilities		**(1,103.8)**	**(727.3)**	**(609.4)**
Net assets		**968.3**	**1,041.4**	**882.9**
Equity				
Ordinary shares	29	5.8	5.8	5.7
Capital redemption reserve		40.8	40.8	40.8
Share premium account		147.6	147.6	147.6
Hedging reserve		6.3	0.1	(0.4)
Translation reserve		(4.2)	1.9	(2.9)
Retained earnings		772.0	845.0	691.8
Capital and reserves attributable to shareholders of the parent company		**968.3**	**1,041.2**	**882.6**
Non-controlling interest		-	0.2	0.3
Total equity		**968.3**	**1,041.4**	**882.9**

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

The financial statements on pages 172 to 229 were approved by the Board of Directors and authorised for issue on 25 May 2023 and were signed on its behalf by:

Steve Wadey
Group Chief Executive Officer

Carol Borg
Group Chief Financial Officer

Consolidated cash flow statement

For the year ended 31 March

All figures in £ million	Note	FY23	FY22^*
Underlying net cash inflow from operations	25	**270.1**	**220.7**
Less specific adjusting items	25	(29.5)	(5.6)
Net cash inflow from operations	25	**240.6**	**215.1**
Tax paid		(30.2)	(25.4)
Interest received		5.5	0.5
Interest paid		(9.9)	(1.5)
Net cash inflow from operating activities		**206.0**	**188.7**
Purchases of intangible assets	15	(13.8)	(21.4)
Purchases of property, plant and equipment	16	(95.2)	(62.9)
Proceeds from sale of property		2.4	1.5
Proceeds from disposal of business		28.1	-
Dividends from joint ventures and associates		-	2.0
Acquisition of businesses	12	(385.9)	(0.8)
Net cash outflow from investing activities		**(464.4)**	**(81.6)**
Purchase of own shares		(0.8)	(0.8)
Dividends paid to shareholders	11	(42.6)	(40.2)
Payment of bank facility arrangement fee		(2.7)	-
Capital element of lease payments		(7.4)	(6.2)
Drawdown of new borrowings		481.1	-
Repayment of borrowings		(140.0)	-
Repayment of acquired borrowings		(117.9)	-
Cash flow relating to intercompany loan hedges		(10.0)	(3.1)
Transaction with non-controlling interests		-	(0.1)
Net cash inflow/(outflow) from financing activities		**159.7**	**(50.4)**
(Decrease)/increase in cash and cash equivalents		**(98.7)**	**56.7**
Effect of foreign exchange changes on cash and cash equivalents		1.8	1.3
Cash and cash equivalents at beginning of the year		248.1	190.1
Cash and cash equivalents at end of the year	24	**151.2**	**248.1**

Reconciliation of movement in net (debt)/cash for the year ended 31 March

All figures in £ million	Note	FY23	FY22^*
(Decrease)/increase in cash and cash equivalents in the year		**(98.7)**	**56.7**
Add back net cash flows not impacting net (debt)/cash		(331.0)	6.2
Movement in net (debt)/cash resulting from cash flows		(429.7)	62.9
Lease liabilities derecognised on disposal		1.4	-
Lease liabilities recognised on acquisition		(15.1)	-
Net increase in lease obligations		(1.6)	(1.3)
Net movement in derivative financial instruments		9.8	(1.3)
Other movements including foreign exchange		3.2	0.7
Movement in net (debt)/cash as defined by the Group		(432.0)	61.0
Net cash as defined by Group at the beginning of the year		225.1	164.1
Net (debt)/cash as defined by the Group at the end of the year	24	**(206.9)**	**225.1**
Less: total net financial liabilities	24	358.1	23.0
Total cash and cash equivalents	24	**151.2**	**248.1**

^ Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 38 for details.
* To be consistent with FY23, the prior year has been re-presented in respect of the cash flow impact of intercompany loan hedging. See note 38 for details.

Notes to the Consolidated Financial Statements
For the year ended 31 March

1. Significant changes in the current reporting period

The financial position and performance of the Group was particularly affected by the following events and transactions during the reporting period:

1. The acquisitions of Avantus and Air Affairs (note 12) and the associated debt financing (note 27);
2. The divestment of the Space NV business (note 13);
3. A decrease in the value of the Group's defined benefit pension scheme (note 28)
4. The change in accounting policy for Research and Development Expenditure Credits (RDEC) (note 38), together with the release of the liability for MoD appropriation of RDEC following the determination made by the SSRO during the year (note 4)

For a detailed discussion of the Group's performance and financial position refer to the Strategic Report on pages 1 to 89.

2. Revenue from contracts with customers and other income

Revenue and other income is analysed as follows:

Revenue by category
For the year ended 31 March

All figures in £ million	FY23	FY22
Services contracts with customers	1,481.4	1,234.4
Sale of goods contracts with customers	96.1	82.9
Royalties and licences	3.2	3.1
Total revenue	**1,580.7**	**1,320.4**
Less: adjust current year for acquired businesses^	(91.1)	-
Less: adjust prior year for disposed businesses^	-	(17.7)
Adjust to constant prior year exchange rates	(31.9)	-
Total revenue on an organic, constant currency basis*	**1,457.7**	**1,302.7**
Organic revenue growth at constant currency*	***12%***	***5%***

^ For the period of which there was no contribution in the equivalent period in the comparator year which was pre-ownership (for acquisitions) or post-ownership (for disposals) by the Group
* Alternative performance measures are used to supplement the statutory figures. See page 233.

Other income

All figures in £ million	FY23	FY22^
Share of associates' and joint ventures' profit after tax	0.8	0.3
Research and development expenditure credits (RDEC)	17.4	6.2
Other income	9.8	9.5
Underlying other income	**28.0**	**16.0**
Specific adjusting item: gain on sale of property (note 4)	2.0	0.7
Specific adjusting item: release of RDEC MoD appropriation liability (note 4)	19.6	-
Total other income	**49.6**	**16.7**

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

Revenue and profit after tax of associates and joint ventures was £11.3m and £1.0m respectively (FY22: revenue of £12.2m and profit after tax of £0.4m). The figures in the table above represent the Group share of this profit after tax.

Other income is in respect of property rentals and the recovery of other related property costs.

Revenue by customer geographic location

All figures in £ million	FY23	FY22
United Kingdom (UK)	1,045.7	961.9
United States of America (US)	301.0	153.0
Australia	124.1	98.2
Home countries	**1,470.8**	**1,213.1**
Europe	69.4	76.9
Rest of world	40.5	30.4
Total revenue	**1,580.7**	**1,320.4**
Home countries revenue %	***93%***	***92%***
International (non-UK) revenue %	***34%***	***27%***

Revenue by major customer type

All figures in £ million	FY23	FY22
UK government	969.4	881.7
US government	230.8	104.7
Other	380.5	334.0
Total revenue	**1,580.7**	**1,320.4**

'Other' does not contain any customers with revenue in excess of 10% of total Group revenue.

The following table shows the aggregate amount of revenue allocated to performance obligations that are unsatisfied (or partially satisfied) as at the end of the reporting period:

All figures in £ million	FY24	FY25	FY26	FY27+	Total
Total forecast revenue allocated to unsatisfied performance obligations	**1,124.6**	**601.3**	**467.9**	**876.5**	**3,070.3**

Management expects that 37% (£1,124.6m) of revenue allocated to un-satisfied contracts as of 31 March 2023 will be recognised as revenue during the next reporting period.

The following table shows the aggregate amount of revenue allocated to performance obligations that were unsatisfied (or partially satisfied) as at the end of the prior reporting period:

All figures in £ million	FY23	FY24	FY25	FY26+	Total
Total forecast revenue allocated to unsatisfied performance obligations	**897.8**	**564.7**	**426.0**	**940.3**	**2,828.8**

Revenue of £157.2m was recognised during the year that was previously unrecognised as at the previous year end and reported as a contract liability.

3. Segmental analysis

The analysis by business segment is presented in accordance with IFRS 8 Operating Segments, on the basis of those reportable segments whose operating results are regularly reviewed by the Board (the Chief Operating Decision Maker as defined by IFRS 8) and are aligned with the Group's strategic direction, determined with reference to the products and services they provide, as follows:

EMEA Services provides technical assurance, test and evaluation and training services, underpinned by long-term contracts. EMEA Services comprises the following business units which are not considered reportable segments as defined by IFRS 8: UK Defence, UK Intelligence and the Australia sector.

Global Products combines all other business units not aggregated within EMEA Services, including the QinetiQ US sector and EMEA Products (which includes QinetiQ Target Systems). Generally these business units (which are not considered reportable segments as defined by IFRS 8) deliver innovative solutions and products which includes contract-funded research and development and developing intellectual property in partnership with key customers and through internal funding with potential for new revenue streams.

Operating segments

	FY23		FY22^	
All figures in £ million	**Revenue from external customers**	**Underlying operating profit[1,2]**	Revenue from external customers	**Underlying operating profit[1,2]**
EMEA Services	1,179.3	137.1	1,059.2	135.6
Global Products	401.4	41.8	261.2	1.8
Operating profit from segments[1,2]	**1,580.7**	**178.9**	**1,320.4**	**137.4**
Research and development expenditure credits (RDEC)		17.4		6.2
Underlying operating profit[2]		**196.3**		**143.6**
Operating profit margin from segments [2]		**11.3%**		**10.4%**

1 The measure of profit presented to the Chief Operating Decision Maker is Operating profit from segments, stated before specific adjusting items and research and development expenditure credits. The specific adjusting items are detailed in note 4.
2 Definitions of the Group's 'Alternative performance measures' can be found on page 233.
^ Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 38 for details.

Notes to the Consolidated Financial Statements continued
For the year ended 31 March

3. Segmental analysis (continued)

No measure of segmental assets and liabilities is reported as this information is not regularly provided to the Chief Operating Decision Maker. Transactions between segments are included within the operating profit and revenue of each segment as appropriate.

Reconciliation of segmental results to total profit

All figures in £ million	Note	FY23	FY22^
Operating profit from segments[1,2]		178.9	137.4
Research and development expenditure credits (RDEC)		17.4	6.2
Underlying operating profit[2]		**196.3**	**143.6**
Specific adjusting items operating loss	4	(23.5)	(19.9)
Operating profit		**172.8**	**123.7**
Gain/(loss) on business divestments	13	15.9	(0.9)
Net finance income	7	3.3	3.1
Profit before tax		**192.0**	**125.9**
Taxation expense	9	(37.6)	(35.9)
Profit for the year		**154.4**	**90.0**

1 The measure of profit presented to the Chief Operating Decision Maker is Operating profit from segments, stated before specific adjusting items and research and development expenditure credits. The specific adjusting items are detailed in note 4.
2 Definitions of the Group's 'Alternative performance measures' can be found on page 233.
^ Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 38 for details.

Non-current assets* by geographic location

All figures in £ million	UK	US	Australia	Germany	Rest of world	Total
Year ended 31 March 2023	**519.3**	**598.8**	**45.4**	**52.8**	**13.5**	**1,229.8**
Year ended 31 March 2022	491.7	129.8	10.4	47.8	24.5	704.2

* Excluding deferred tax, financial instruments and net pension asset.

Depreciation, impairment and amortisation by business segment – excluding specific adjusting items
For the year ended 31 March 2023

All figures in £ million	EMEA Services	Global Products	Total
Depreciation of property, plant and equipment	44.7	6.8	51.5
Amortisation of purchased or internally developed intangible assets	5.2	2.3	7.5
	49.9	**9.1**	**59.0**

For the year ended 31 March 2022

All figures in £ million	EMEA Services	Global Products	Total
Depreciation and impairment of property, plant and equipment	39.9	6.8	46.7
Amortisation of purchased or internally developed intangible assets	3.4	2.0	5.4
	43.3	**8.8**	**52.1**

4. Specific adjusting items

In the income statement, the Group presents specific adjusting items separately. In the judgement of the Directors, for the reader to obtain a proper understanding of the financial information, specific adjusting items need to be disclosed separately because of their size and nature. Further explanation of this rationale is provided in note 36 (Accounting Policies). Underlying measures of performance exclude specific adjusting items. The following specific adjusting items have been (charged)/credited in the consolidated income statement:

All figures in £ million	Note	FY23	FY22
Acquisition and disposal costs		(16.4)	(3.7)
Acquisition related remuneration costs*		(0.3)	(1.3)
Acquisition integration costs		(2.0)	-
Pension past service cost		-	(2.4)
Digital investment		(5.8)	(1.9)
Restructuring costs		(5.0)	-
Release of RDEC MOD appropriation liability		19.6	-
Fair value adjustment in respect of contingent consideration		-	0.6
Gain on sale of property		2.0	0.7
Specific adjusting items loss before interest, tax, depreciation and amortisation		**(7.9)**	**(8.0)**
Impairment of property		-	(1.2)
Amortisation of intangible assets arising from acquisitions		(15.6)	(10.7)
Specific adjusting items operating loss		**(23.5)**	**(19.9)**
Gain/(loss) on disposal of businesses	13	15.9	(0.9)
Defined benefit pension scheme net finance income	28	9.9	4.5
Specific adjusting items gain/(loss) before tax		**2.3**	**(16.3)**
Specific adjusting items – tax	9	3.8	4.1
Deferred tax impact of change in future UK corporation tax rate	9	(4.6)	(15.9)
Total specific adjusting items gain/(loss) after tax		**1.5**	**(28.1)**

Reconciliation of underlying profit for the year to total profit for the year

All figures in £ million	FY23	FY22
Underlying profit after tax – total Group	**152.9**	**118.1**
Total specific adjusting items gain/(loss) after tax	1.5	(28.1)
Total profit for the year	**154.4**	**90.0**

* In FY22 bonuses awarded post acquisition to key employees within the Avantus business acquired in November 2022. In FY22, bonuses awarded on to key employees within the US MTEQ business (now the C5ISR business) acquired in December 2019.

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

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

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

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

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

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

5. Analysis of employee costs and numbers

The largest component of operating expenses is employee costs. The year-end and average monthly number of persons employed by the Group, including Executive Directors, analysed by business segment, were:

	As at 31 March		Monthly average	
	2023 Number	2022 Number	FY23 Number	FY22 Number
EMEA Services	6,437	6,036	6,158	5,992
Global Products	1,831	879	1,275	919
Total employees	**8,268**	**6,915**	**7,433**	**6,911**

The aggregate payroll costs of these persons were as follows:

All figures in £ million	Note	FY23	FY22
Wages and salaries		456.9	369.7
Social security costs		47.3	37.9
Other pension costs		55.2	49.4
Share-based payments costs	30	7.9	7.8
Total employee costs		**567.3**	**464.8**

6. Directors and other senior management personnel

The Directors and other senior management personnel of the Group during the year to 31 March 2023 comprise the Board of Directors and the QinetiQ Leadership Team and their remuneration and benefits are summarised below:

All figures in £ million	FY23	FY22
Short-term employee remuneration including benefits	9.5	9.2
Post-employment benefits	0.1	0.1
Share-based payments costs	1.9	1.7
Total	**11.5**	**11.0**

Short-term employee remuneration and benefits include salary, bonus and benefits. Post-employment benefits relate to pension amounts.

The highest paid director is the Group Chief Executive Officer, details of whose remuneration is provided on page 133 of the Directors' Remuneration Report.

7. Finance income and expense

All figures in £ million	FY23	FY22
Receivable on bank deposits	6.8	0.5
Finance income before specific adjusting items	**6.8**	**0.5**
Amortisation of deferred financing costs	(0.8)	(0.4)
Bank interest and commitment fees	(10.6)	(0.5)
Lease expense	(1.1)	(1.0)
Unwinding of discount on financial liabilities	(0.1)	-
Other interest	(0.8)	-
Finance expense	**(13.4)**	**(1.9)**
Underlying net finance expense	**(6.6)**	**(1.4)**
Plus: specific adjusting items – defined benefit pension scheme net finance income	9.9	4.5
Net finance income	**3.3**	**3.1**

8. Profit before tax

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

All figures in £ million	FY23	FY22
Fees payable to the auditors and its associates:		
Audit of the Group's annual accounts	1.1	0.5
Audit of the accounts of subsidiaries of the Company	0.7	0.6
Total audit fees	**1.8**	**1.1**
Audit-related assurance services (Interim financial statements)	0.1	0.1
Other assurance services – M&A	-	0.5
Other assurance services – other	0.1	0.1
Total non-audit fees	**0.2**	**0.7**
Total auditors' remuneration	**2.0**	**1.8**

The following items have also been charged in arriving at profit before tax:

All figures in £ million	FY23	FY22
Cost of inventories expensed	55.2	47.1
Owned assets: depreciation	45.3	40.3
Leased assets: depreciation	6.2	5.9
Foreign exchange gain	(0.6)	(0.7)
Research and development expenditure – customer funded contracts	313.8	287.5
Research and development expenditure – Group funded	14.6	14.6

9. Taxation charge

	FY23			FY22^		
All figures in £ million	Underlying	Specific adjusting items	Total	Underlying	Specific adjusting Items	Total
Analysis of charge						
Current UK tax expense/(income)	23.8	(0.4)	23.4	26.8	(0.2)	26.6
Current UK tax in respect of prior years	0.4	-	0.4	(4.0)	-	(4.0)
Overseas corporation tax						
Current year	2.6	-	2.6	4.0	(0.2)	3.8
In respect of prior years	0.1	-	0.1	-	-	-
Current tax expense/(income)	**26.9**	**(0.4)**	**26.5**	**26.8**	**(0.4)**	**26.4**
Deferred tax expense/(income)	12.3	(3.4)	8.9	(4.0)	(3.7)	(7.7)
Deferred tax impact of change in rates	-	4.6	4.6	0.3	15.9	16.2
Deferred tax in respect of prior years	(2.4)	-	(2.4)	1.0	-	1.0
Deferred tax expense/(income)	**9.9**	**1.2**	**11.1**	**(2.7)**	**12.2**	**9.5**
Taxation expense	**36.8**	**0.8**	**37.6**	**24.1**	**11.8**	**35.9**
Factors affecting tax expense in the year						
Principal factors reducing the Group's current year tax charge below the UK statutory rate are explained below:						
Profit/(loss) before tax	189.7	2.3	192.0	142.2	(16.3)	125.9
Tax on profit/(loss) before tax at 19% (FY22: 19%)	**36.0**	**0.5**	**36.5**	**27.0**	**(3.1)**	**23.9**
Effect of:						
Expenses not deductible for tax purposes and non-taxable items	1.1	(1.8)	(0.7)	(1.3)	-	(1.3)
Tax in respect of prior years	(1.9)	-	(1.9)	(3.0)	-	(3.0)
Recognition of deferred tax asset	-	-	-	3.3	-	3.3
Deferred tax impact of change in rates	-	4.6	4.6	0.3	15.9	16.2
Different tax rates in overseas jurisdictions	1.6	(2.5)	(0.9)	(2.2)	(1.0)	(3.2)
Taxation expense	**36.8**	**0.8**	**37.6**	**24.1**	**11.8**	**35.9**
Effective tax rate	**19.4%**		**19.6%**	**16.9%**		**28.5%**

^ Prior year comparatives (profit before tax, current UK tax expense, current tax expense, total taxation and the effective tax rate) have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 38 for details. RDEC is no longer a reconciling item in the tax proof and has been removed accordingly.

Notes to the Consolidated Financial Statements continued

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9. Taxation charge (continued)

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

Tax on specific adjusting items

The total specific adjusting items tax charge was £0.8m (FY22 charge: £11.8m). The tax charge includes the UK statutory rate change to 25% from 1 April 2023 (£4.6m) and a taxable Research and Development Allowances clawback (£1.2m), offset by non-taxable profit on sale of QinetiQ Space NV (£3.0m) and overseas rate differences (£2.5m).

Amounts recognised directly in equity

Current and deferred tax not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity were:

All figures in £ million	FY23	FY22
Current tax: share-based payments	(0.3)	(0.4)
Deferred tax : share-based payments	(0.4)	0.7
Total: share-based payments	**(0.7)**	**0.3**

Factors affecting future tax charges

The effective tax rate is expected to remain above the UK statutory rate, subject to the impact of any tax legislation changes and the geographic mix of profits. The OECD has released model rules for Pillar II of the Base Erosion and Profit Shifting regulations covering application of a Global Minimum Tax. The Group is monitoring progress of these rules and will engage with advisers to assess any potential future impact on the tax charge.

Changes in tax rates

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

Tax risk management and tax cash

For details of the Group's approach to tax risk management and discussion of tax cash paid in the year see 'Additional Financial Information'.

10. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity shareholders by the weighted average number of ordinary shares in issue during the year. The weighted average number of shares used excludes those shares bought by the Group and held as own shares (see note 29). For diluted earnings per share the weighted average number of shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares arising from unvested share-based awards including share options.

Weighted average and diluted number of shares

		FY23	FY22
Weighted average number of shares	**Million**	**575.9**	**573.2**
Effect of dilutive securities	Million	6.4	6.4
Diluted number of shares	**Million**	**582.3**	**579.6**

Underlying basic earnings per share figures are presented below, in addition to the basic and diluted earnings per share, because the Directors consider this gives a more relevant indication of underlying business performance and reflects the adjustments to basic earnings per share for the impact of specific adjusting items (see note 4) and tax thereon.

Underlying EPS

		FY23	FY22
Profit attributable to the owners of the Company	£ million	154.4	90.0
Remove (profit)/loss after tax in respect of specific adjusting items	£ million	(1.5)	28.1
Underlying profit after taxation	**£ million**	**152.9**	**118.1**
Weighted average number of shares	Million	575.9	573.2
Underlying basic EPS	**Pence**	**26.5**	**20.6**
Diluted number of shares	Million	582.3	579.6
Underlying diluted EPS	**Pence**	**26.3**	**20.4**

Basic and diluted EPS

		FY23	FY22
Profit attributable to the owners of the Company	£ million	154.4	90.0
Weighted average number of shares	Million	575.9	573.2
Basic EPS – total Group	**Pence**	**26.8**	**15.7**
Diluted number of shares	Million	582.3	579.6
Diluted EPS – total Group	**Pence**	**26.5**	**15.5**

11. Dividends

An analysis of the dividends paid and proposed in respect of the years ended 31 March 2023 and 31 March 2022 is provided below:

	Pence per share	£m	Date paid/ payable
Interim 2023	2.4	13.8	Feb 2023*
Final 2023 (proposed)	5.3	30.6	Aug 2023
Total for the year ended 31 March 2023	**7.7**	**44.4**	
Interim 2022	2.3	13.2	Feb 2022
Final 2022	5.0	28.8	Aug 2022*
Total for the year ended 31 March 2022	**7.3**	**42.0**	

* Total cash paid in the year to 31 March 2023 was £42.6m (FY22: £40.2m).

The proposed final dividend in respect of the year ending 31 March 2023 will be paid on 24 August 2023. The ex-dividend date is 27 July 2023 and the record date is 28 July 2023.

12. Business combinations

Acquisitions cash flow in the year to 31 March 2023

All figures in £ million	Date acquired	Total consideration	Goodwill	Fair value of net assets acquired	Contribution post-acquisition: Revenue	Contribution post-acquisition: Operating profit
Avantus Federal LLC	23 November 2022	392.2	264.6	127.6	82.9	8.9
Air Affairs Australia	1 December 2022	12.6	3.1	9.5	8.2	0.5
Total		**404.8**	**267.7**	**137.1**	**91.1**	**9.4**
Less: deferred consideration		(4.0)				
Less: cash acquired		(14.9)				
Net cash outflow for the year		**385.9**				

Total acquisition costs of £16.4m relating to the two acquisitions, as well as an aborted disposal, are included within operating profit as a specific adjusting item (see note 4). A further £2.3m of integration costs and acquisition related remuneration costs, both relating to Avantus, are also included within operating profit as a specific adjusting item (see note 4).

Avantus Federal LLC

On 23 November 2022, the Group acquired 100% of the issued share capital of Avantus for an enterprise value of $590m, on a cash-free, debt-free valuation basis. Avantus is a leading provider of mission-focused cyber, data analytics and software development solutions to the US Department of Defense, Intelligence Community, Department of Homeland Security and other Federal civilian agencies. The Avantus acquisition will significantly enhance our US offering and provide a strong platform from which to further grow our US operations. Avantus has a track record of high growth at attractive margins and is well-positioned across priority areas for key defence and intelligence customers in the US.

Avantus forms part of QinetiQ's US Sector and is reported within the Global Products segment. If the acquisition had occurred on the first day of the financial year, Group revenue for the period would have been £1,740.6m and the Group profit before tax £209.7m. There would also have been an additional amortisation of the acquisition intangibles of £8.5m if the acquisition had occurred on the first day of the financial year.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

12. Business combinations (continued)

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition, at fair value and in accordance with Group accounting policies. The fair values remain provisional, but will be finalised within 12 months of acquisition.

All figures in £ million	Note	Fair value at acquisition
Intangible assets	15	209.2
Property, plant and equipment	16	8.3
Trade and other receivables		39.0
Cash and cash equivalents		14.5
Trade and other payables		(34.3)
Lease liabilities		(7.2)
Borrowings		(104.9)
Deferred tax	18	6.0
Other assets and liabilities		(3.0)
Net assets acquired		**127.6**
Goodwill	14	264.6
Total consideration		**392.2**

The consideration of £392.2m was satisfied entirely in cash in the financial year, with no deferred consideration. The borrowings of £104.9m were repaid as part of the acquisition, which is presented separately in the cash flow statement. The fair value adjustments include £171.9m in relation to the step-up in value and recognition of acquired intangible assets. £163.1m relates to the step up in value of customer relationship assets, £2.2m relates to the recognition of existing technology assets and £6.6m relates to recognition of the Avantus trading name asset. These fair value adjustments will unwind as the assets themselves are amortised, over 16 years for the customer relationships and five years for the existing technology and trade name.

There has been no adjustment to the fair value of acquired receivables given the low credit risk of the customers. The gross contractual and net amounts of receivables acquired were the same and there was no allowance for credit loss recognised at acquisition. Customer relationships have been valued based on an income approach using an excess earnings method. The key assumptions are the revenue and profit projections, customer contract retention/attrition assumptions, discount rate and contributory asset charges. Existing technology has been valued using a replacement cost approach and the trade name has been valued using a relief from royalty method.

The goodwill is attributable mainly to the skills, technical talent and security clearances of Avantus' work force and the synergies expected to be achieved from integrating the company into the existing US business. The goodwill recognised on acquisition is tax deductible over a 15 year period as the purchase is as an asset deal rather than a share purchase for tax purposes.

Air Affairs Australia pty

On 1 December 2022, the Group acquired 100% of the issued share capital of the Air Affairs Australia group of companies for an enterprise value of A$53.0m, on a cash-free, debt-free valuation basis. Air Affairs is an Australian defence services company - a leader in air threat representation, Test and Evaluation, unmanned targets and mission rehearsal. Air Affairs provides targets and training services, and electronic warfare capabilities to the Australian Defence Force, as well as aerial surveillance and reconnaissance in support of government firefighting efforts. It owns and operates a fleet of special mission aircraft and maintains an advanced manufacturing and engineering facility providing design, manufacture and certification operations. Air Affairs employs c.180 people, headquartered in Nowra, New South Wales.

The acquisition of Air Affairs further establishes QinetiQ as a long-term, strategic partner to the Australian Defence Force and underpins QinetiQ's strategic position as market leader in test & evaluation and air threat representation, now with a significant presence across the UK, Canada and Australia, and training and special operations in Germany.

Air Affairs forms part of QinetiQ's Australia business unit and is reported within the EMEA Services segment. If the acquisition had occurred on the first day of the financial year, Group revenue for the period would have been £1,599.3m and the Group profit before tax would have been £192.8m.

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition, at fair value and in accordance with Group accounting policies. The fair values remain provisional, but will be finalised within 12 months of acquisition.

All figures in £ million	Note	Fair value at acquisition
Intangible assets	15	2.4
Property, plant and equipment	16	29.8
Inventory		3.2
Trade and other receivables		5.1
Cash and cash equivalents		0.4
Trade and other payables		(8.8)
Lease liabilities		(7.9)
Borrowings		(13.0)
Current tax		(0.1)
Deferred tax	18	(1.6)
Net assets acquired		**9.5**
Goodwill	14	3.1
Total consideration		**12.6**

The consideration of £12.6m includes £8.6m which was satisfied by cash in the financial year, and £4.0m of deferred consideration which is expected to be settled within one year. The borrowings of £13.0m were repaid as part of the acquisition, which is presented separately in the cash flow statement. There has been no adjustment to the fair value of acquired receivables given the low credit risk of the customers. The gross contractual and net amounts of receivables acquired were the same and there was no allowance for credit loss recognised at acquisition.

The most significant asset on the opening balance sheet is the PPE (Property, Plant and Equipment). A fair value uplift of £5.5m has been applied to the aircraft, increasing the book value of £13.2m to £18.7m. The aircraft were valued based on a desktop exercise performed by professional specialists. The key assumption relates to the market value of the aircraft. The fair value adjustments to PPE also include a step-down to the value of leasehold improvements.

The fair value adjustments also include £2.4m in relation to the step-up in value and recognition of acquired intangible assets. £2.3m relates to the recognition of existing technology assets and £0.1m relates to recognition of the Air Affairs trading name asset. These fair value adjustments will unwind as the assets themselves are amortised, over ten years for the existing technology and three years for the trade name. Deferred tax of £0.7m was recognised on the intangibles.

Existing technology has been valued using a replacement cost approach and the trade name has been valued using a relief from royalty method. The goodwill is attributable mainly to the skills and technical talent of Air Affairs' work force and the synergies expected to be achieved from integrating the company into the Australia sector and wider existing business. The goodwill recognised on acquisition is not tax deductible.

Acquisitions in the year to 31 March 2022

There were no acquisitions in the year to 31 March 2022. Deferred consideration of £0.8m was paid in the year to 31 March 2022 in respect of the acquisition of QinetiQ Training & Simulation Limited (formerly known as Newman & Spurr Consultancy Limited) in the year to 31 March 2021.

13. Gain/(loss) on business divestments

All figures in £ million	FY23	FY22
Space NV business (comprising QinetiQ Space NV, Redu Operational Services SA and associate Redu Space Services SA)	15.9	-
Commerce Decisions business (comprising Commerce Decisions Limited and Commerce Decisions Pty Ltd)	-	(0.9)
Gain/(loss) on business divestments	**15.9**	**(0.9)**

The gain on business divestments relates to the sale of the Space NV for disposal proceeds of £32.3m (€37.0m). The enterprise value was €32.0m. Proceeds received in the period, net of transaction costs of £1.2m and £3.0m of cash divested with the businesses, were £28.1m. All consideration is settled entirely in cash.

Deferred consideration of £1.5m was potentially receivable in respect of the Commerce Decisions business, contingent on performance of the disposed business in the year to 31 March 2022. The fair value of which had been estimated at £0.9m as at 31 March 2021. The required performance was not achieved, nil deferred consideration became due and the receivable has been written off to the income statement in the prior year, classified as a specific adjusting item.

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For the year ended 31 March

14. Goodwill

All figures in £ million	31 March 2023	31 March 2022
Cost		
At 1 April	296.1	287.6
Acquisitions	267.7	-
Disposals	(5.6)	-
Foreign exchange	4.5	8.5
At 31 March	**562.7**	**296.1**
Accumulated impairment		
At 1 April	(146.7)	(142.1)
Foreign exchange	(7.0)	(4.6)
At 31 March	**(153.7)**	**(146.7)**
Net book value at 31 March	**409.0**	**149.4**

Goodwill analysed by cash-generating unit (CGU)

Goodwill is allocated across six cash-generating units within the EMEA Services segment and four CGUs within the Global Products segment. The full list of CGUs that have goodwill allocated to them is as follows:

All figures in £ million	Primary reporting segments	31 March 2023	31 March 2022
US Technology Solutions	Global Products	44.1	41.5
US C5ISR	Global Products	36.8	34.6
Target Systems	Global Products	24.5	24.7
Space Products	Global Products	-	5.6
Avantus Federal LLC	Global Products	257.8	-
QinetiQ Germany	EMEA Services	2.7	2.6
Inzpire	EMEA Services	11.7	11.7
QinetiQ Training & Simulation	EMEA Services	7.8	7.8
Naimuri	EMEA Services	14.8	14.8
Australia	EMEA Services	5.8	6.1
Air Affairs Australia	EMEA Services	3.0	-
Net book value at 31 March		**409.0**	**149.4**

Goodwill is attributable to the excess of consideration over the fair value of net assets acquired and includes expected synergies, future growth prospects and employee knowledge, expertise and security clearances. The Group tests each CGU for impairment annually, or more frequently if there are indications that goodwill might be impaired. Impairment testing is dependent on management's estimates and judgements, particularly as they relate to the forecasting of future cash flows, the discount rates selected and expected long-term growth rates. As a result of impairment in prior years, QinetiQ Germany has limited headroom and a critical sensitivity is discussed further below. For all other CGUs, management considers that there are no likely variations in the key assumptions which would lead to an impairment being recognised.

Key assumptions

Cash flows

The value-in-use calculations generally use discounted future cash flows based on financial plans approved by the Board covering a five-year period (aligned with the Group's Integrated Strategic Business Plan process and the longer-term viability assessment period). These are 'bottom-up' forecasts based on detailed analysis by contract for the revenue under contract and by opportunity for the pipeline. Pipeline opportunities are categorised as 'base case' and 'high case' by management and only 'base case' opportunities are included in the financial plans used for the value-in-use calculations.

Cash flows beyond these periods are extrapolated based on the last year of the plans, with a terminal growth-rate assumption applied. Whilst the Group will likely be impacted by climate change in the future to an extent, the impacts on future cash flows used in the value-in-use calculations are not considered to be material.

Terminal growth rates and discount rates

The specific plans for each of the CGUs have been extrapolated using the terminal growth rates as detailed in the following table. Growth rates are based on management's estimates which take into consideration the long-term nature of the industry in which the CGUs operate and external forecasts as to the likely growth of the industry in the longer term. The discount rates used are calculated based on the weighted average cost of capital of a portfolio of comparable companies, adjusted for risks specific to the market characteristics of each CGU, on a pre-tax basis. This is considered an appropriate estimate of a market participant discount rate.

All figures % 31 March 2023: (2022)	US Technology Solutions	Target Systems	US Avantus	US C5ISR	Inzpire	Australia	Air Affairs Australia	QinetiQ Germany	QinetiQ Training & Simulation	Naimuri
Terminal growth rate	2.3 (2.3)	2.2 (2.1)	2.3 (n/a)	2.3 (2.3)	2.2 (2.1)	2.3 (2.3)	2.3 (n/a)	2.2 (1.6)	2.2 (2.1)	2.2 (2.1)
Pre-tax discount rate	11.1 (10.8)	10.9 (11.6)	11.2 (n/a)	11.2 (10.8)	12.0 (12.2)	12.9 (9.4)	12.9 (n/a)	8.9 (9.1)	10.9 (11.5)	11.8 (12.2)

Sensitivity analysis shows that the value of the terminal year cash flow, the discount rate and the terminal growth rates have a significant impact on the value of the discounted cash flows. Sensitivities are provided below for each of the CGUs.

Significant CGUs

US Technology Solutions

The carrying value of the goodwill for the US Technology Solutions CGU was £44.1m as at 31 March 2023 (2022: £41.5m). The recoverable amount of this CGU as at 31 March 2023, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £111.7m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. These cash flows include certain assumptions around growth of new product lines in development, with clear market opportunity, and winning identified future government contracts. US organic revenue grew by 25% compared to prior year, following a year of decline in FY22 which was impacted by the US defence budget being constrained by the extended Continuing Resolution.

Confidence remains in continued growth into FY24 having secured significant growth in order intake in H2 FY22 and FY23 which, coupled with the new leadership team provides a strong foundation for delivery of our strategy in the US. An increase in the discount rate of 1%, a decrease in the terminal growth rate of 1% or a decrease in the terminal year cash flows of $2.0m, all of which are reasonably possible changes, would not cause the net operating assets to exceed their recoverable amount.

US C5ISR

The carrying value of the goodwill for the US C5ISR CGU as at 31 March 2023 was £36.8m (2022: £34.6m). The recoverable amount of this CGU as at 31 March 2023, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £88.9m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate of 1%, a decrease in the terminal growth rate of 1% or a decrease in the terminal year cash flows of $2.0m, all of which are reasonably possible changes, would not cause the net operating assets to exceed their recoverable amount.

Target Systems

The carrying value of the goodwill for the Target Systems CGU as at 31 March 2023 was £24.5m (2022: £24.7m). The recoverable amount of this CGU as at 31 March 2023, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £88.6m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate of 1%, a decrease in the terminal growth rate of 1% or a decrease in the terminal year cash flows of £2.0m, all of which are reasonably possible changes, would not cause the net operating assets to exceed their recoverable amount.

Germany

The carrying value of the goodwill for the Germany CGU as at 31 March 2023 was £2.7m (2022: £2.6m). The current forecasts result in the recoverable amount based on the value in use calculations being £6.4m higher than the carrying value of assets. Confidence remains in the business prospects over the next five years, with a new leadership team on board and a healthy pipeline of opportunities.

The key sensitivity impacting on the value in use calculations is the terminal year cash flows. These cash flows include certain assumptions around utilisation of aircraft, renewal of existing contracts and successful winning of new business opportunities. A reduction in the terminal value year cash flows of €3m, which would be a reasonably possible change, would lead to an impairment of the £2.7m carrying value of goodwill together with an impairment charge against the carrying value of intangible assets of approximately £12.8m. An increase in the discount rate of 1% or a decrease in the terminal growth rate of 1%, both of which are also reasonably possible changes, would result in an impairment of £4.1m and £2.1m respectively.

Inzpire

The carrying value of the goodwill for the Inzpire CGU as at 31 March 2023 was £11.7m (2022: £11.7m). The recoverable amount of this CGU as at 31 March 2023, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £23.3m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate of 1%, a decrease in the terminal growth rate of 1% or a decrease in the terminal year cash flows of £1.0m, all of which are reasonably possible changes, would not cause the net operating assets to exceed their recoverable amount.

Naimuri

The carrying value of the goodwill for the Naimuri CGU as at 31 March 2023 was £14.8m (2022: £14.8m). The recoverable amount of this CGU as at 31 March 2023, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £25.3m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate of 1%, a decrease in the terminal growth rate of 1% or a decrease in the terminal year cash flows of £1.0m, all of which are reasonably possible changes, would not cause the net operating assets to exceed their recoverable amount.

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For the year ended 31 March

14. Goodwill (continued)

Australia

The carrying value of the goodwill for the Australia CGU, as at 31 March 2023 was £5.8m (2022: £6.1m). The recoverable amount of this CGU as at 31 March 2023, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £10.8m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate of 1%, a decrease in the terminal growth rate of 1% or a decrease in the terminal year cash flows of A$2.0m, all of which are reasonably possible changes, would not cause the net operating assets to exceed their recoverable amount.

Avantus

The carrying value of the goodwill for the Avantus CGU, which was acquired during the year, as at 31 March 2023 was £257.8m. The recoverable amount of this CGU as at 31 March 2023, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £431.1m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate of 1%, a decrease in the terminal growth rate of 1% or a decrease in the terminal year cash flows of $2.0m, all of which are reasonably possible changes, would not cause the net operating assets to exceed their recoverable amount.

Air Affairs Australia

The carrying value of the goodwill for the Air Affairs Australia CGU, which was acquired during the year, as at 31 March 2023 was £3.0m. The recoverable amount of this CGU as at 31 March 2023, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £35.9m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate of 1% or a decrease in the terminal growth rate of 1% or a decrease in the terminal year cash flows of A$1.0m, all of which are reasonably possible changes, would not cause the net operating assets to exceed their recoverable amount.

QinetiQ Training & Simulation

The carrying value of the goodwill for the QinetiQ Training and Simulation CGU as at 31 March 2023 was £7.8m (2022: £7.8m). The recoverable amount of this CGU as at 31 March 2023, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £14.1m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate of 1%, a decrease in the terminal growth rate of 1% or a decrease in the terminal year cash flows of £1.0m, all of which are reasonably possible changes, would not cause the net operating assets to exceed their recoverable amount.

15. Intangible assets

For the year ended 31 March 2023

	Acquired intangibles				
All figures in £ million	Customer relationships	Other acquired	Development costs	Other internally generated^	Total
Cost					
At 1 April 2022	114.5	81.5	31.6	72.0	299.6
Reclassifications from PPE	-	-	5.0	0.5	5.5
Reclassifications between categories	-	-	0.2	(0.2)	-
Additions – internally developed	-	-	1.6	8.7	10.3
Additions – purchased	-	-	1.1	2.4	3.5
Disposals	-	-	(0.2)	(1.9)	(2.1)
Amounts recognised on business acquisitions	197.5	11.1	0.9	2.1	211.6
Amounts derecognised on business disposal	(2.5)	-	(2.8)	(2.0)	(7.3)
Foreign exchange	(1.0)	3.4	(0.1)	0.9	3.2
At 31 March 2023	**308.5**	**96.0**	**37.3**	**82.5**	**524.3**
Accumulated amortisation and impairment					
At 1 April 2022	(49.1)	(55.4)	(18.9)	(35.9)	(159.3)
Amortisation charge for year	(11.0)	(4.6)	(3.5)	(4.0)	(23.1)
Disposals	-	-	0.2	1.8	2.0
Amounts derecognised on business disposal	2.5	-	-	1.9	4.4
Foreign exchange	(1.8)	(3.1)	(0.1)	(0.3)	(5.3)
At 31 March 2023	**(59.4)**	**(63.1)**	**(22.3)**	**(36.5)**	**(181.3)**
Net book value at 31 March 2023	**249.1**	**32.9**	**15.0**	**46.0**	**343.0**

^ Includes Assets In Course Of Construction of closing net book value of £20.9m as at 31 March 2023 (2022: £14.0m).

'Other' consists primarily of intellectual property and existing technology arising on acquisition of businesses. The acquisition of Avantus resulted in the recognition of £197.5m of customer relationship intangible assets and £8.8m of other intangible assets (£2.2m of existing technology and £6.6m relating to the trade name).

The acquisition of Air Affairs resulted in the recognition of a £2.3m intangible asset relating to existing technology. Other significant individual assets from past acquisitions include: customer relationships associated with US C5ISR, Germany and QinetiQ Training & Simulation Limited (NBV: £14.3m; £21.5m; £2.9m respectively) with remaining amortisation periods of approximately 7 years, 9 years and 9 years respectively, and acquired technology associated with US C5ISR, Germany, and QinetiQ Training & Simulation Limited (£12.3m; £3.7m; £1.8m respectively) all with remaining amortisation periods of approximately 7 years.

For the year ended 31 March 2022

All figures in £ million	Acquired intangibles: Customer relationships	Acquired intangibles: Other acquired	Development costs	Other internally generated	Total
Cost					
At 1 April 2021	112.5	82.8	28.2	54.9	278.4
Reclassifications from PPE	-	-	(0.1)	6.0	5.9
Additions – internally developed*	-	-	3.4	5.8	9.2
Additions – purchased*	-	-	-	6.4	6.4
Disposal	-	(4.0)	-	(1.7)	(5.7)
Foreign exchange	2.0	2.7	0.1	0.6	5.4
At 31 March 2022	**114.5**	**81.5**	**31.6**	**72.0**	**299.6**
Accumulated amortisation and impairment					
At 1 April 2021	(40.1)	(54.4)	(16.8)	(34.0)	(145.3)
Amortisation charge for year	(8.0)	(2.7)	(2.1)	(3.3)	(16.1)
Disposal	-	4.0	-	1.7	5.7
Foreign exchange	(1.0)	(2.3)	-	(0.3)	(3.6)
At 31 March 2022	**(49.1)**	**(55.4)**	**(18.9)**	**(35.9)**	**(159.3)**
Net book value at 31 March 2022	**65.4**	**26.1**	**12.7**	**36.1**	**140.3**

* Additions per the table above are different to the capital expenditure included in the cash flow statement due to the relative timing of cash payments compared to the recognition of balance sheet assets.

16. Property, plant and equipment

For the year ended 31 March 2023

All figures in £ million	Owned assets: Land and buildings	Owned assets: Plant, machinery and vehicles	Owned assets: Computers and office equipment	Owned assets: Assets under construction	Right of use assets: Land and buildings	Right of use assets: Plant, machinery and vehicles	Right of use assets: Computers and office equipment	Total
Cost								
At 1 April 2022	350.6	274.5	102.8	94.5	56.5	16.6	0.4	895.9
Reclassifications to intangibles	-	-	-	(5.5)	-	-	-	(5.5)
Reclassifications/transfers	13.8	7.4	16.2	(37.4)	-	-	-	-
Additions – purchased*	4.6	12.4	5.4	63.1	1.5	-	-	87.0
Additions – recognised on acquisitions	0.5	20.8	2.1	0.7	14.0	-	-	38.1
Disposals	(0.7)	(4.5)	(2.2)	(0.2)	(3.9)	(7.7)	-	(19.2)
Business divestments	(3.5)	(2.3)	-	-	(1.8)	(2.5)	-	(10.1)
Foreign exchange	0.4	1.0	-	0.3	2.4	0.1	-	4.2
At 31 March 2023	**365.7**	**309.3**	**124.3**	**115.5**	**68.7**	**6.5**	**0.4**	**990.4**
Accumulated depreciation and impairment								
At 1 April 2022	(204.5)	(164.8)	(56.7)	(0.4)	(39.1)	(15.5)	(0.4)	(481.4)
Charge	(12.0)	(17.9)	(15.4)	-	(5.9)	(0.3)	-	(51.5)
Disposals	0.4	4.3	1.9	0.4	3.9	7.6	-	18.5
Business divestments	1.0	1.9	-	-	0.9	2.0	-	5.8
Foreign exchange	(0.5)	(1.2)	(0.6)	-	(1.7)	-	-	(4.0)
At 31 March 2023	(215.6)	(177.7)	(70.8)	-	(41.9)	(6.2)	(0.4)	(512.6)
Opening net book value	**146.1**	**109.7**	**46.1**	**94.1**	**17.4**	**1.1**	**-**	**414.5**
Closing Net Book value	**150.1**	**131.6**	**53.5**	**115.5**	**26.8**	**0.3**	**-**	**477.8**

* Additions per the table above are different to the capital expenditure included in the cash flow statement due to the relative timing of cash payments compared to the recognition of balance sheet assets.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

16. Property, plant and equipment (continued)

During the year a £2.0m gain was recognised on the sale of property which had a carrying value of nil. This gain is included within other income as a specific adjusting item (see note 4). Whilst the Group will likely be impacted by climate change in the future to an extent, the impact on the carrying value of property, plant and equipment is not considered to be material.

For the year ended 31 March 2022

	Owned assets				Right of use assets			
All figures in £ million	Land and buildings	Plant, machinery and vehicles	Computers and office equipment	Assets under construction	Land and buildings	Plant, machinery and vehicles	Computers and office equipment	Total
Cost								
At 1 April 2021	353.8	248.9	81.9	76.9	54.8	16.9	0.4	833.6
Reclassifications to intangibles	(4.6)	-	(1.2)	(0.1)	-	-	-	(5.9)
Reclassifications/transfers	1.0	4.3	20.2	(26.9)	-	-	-	(1.4)
Additions – purchased*	0.5	23.0	2.5	47.3	1.3	0.5	-	75.1
Disposals	(0.6)	(2.5)	(1.0)	(2.9)	(1.5)	(0.7)	-	(9.2)
Foreign exchange	0.5	0.8	0.4	0.2	1.9	(0.1)	-	3.7
At 31 March 2022	**350.6**	**274.5**	**102.8**	**94.5**	**56.5**	**16.6**	**0.4**	**895.9**
Accumulated depreciation and impairment								
At 1 April 2021	(193.8)	(150.8)	(44.0)	-	(33.0)	(14.4)	(0.4)	(436.4)
Charge	(10.5)	(16.7)	(13.1)	-	(4.7)	(1.2)	-	(46.2)
Reclassifications/transfers	-	1.4	-	-	-	-	-	1.4
Disposals	0.2	2.1	0.9	-	1.2	-	-	4.4
Impairment	-	-	(0.1)	(0.4)	(1.2)	-	-	(1.7)
Foreign exchange	(0.4)	(0.8)	(0.4)	-	(1.4)	0.1	-	(2.9)
At 31 March 2022	**(204.5)**	**(164.8)**	**(56.7)**	**(0.4)**	**(39.1)**	**(15.5)**	**(0.4)**	**(481.4)**
Net book value at 31 March 2022	**146.1**	**109.7**	**46.1**	**94.1**	**17.4**	**1.1**	**-**	**414.5**

* Additions per the table above are different to the capital expenditure included in the cash flow statement due to the relative timing of cash payments compared to the recognition of balance sheet assets.

17. Equity accounted investments

As at 31 March

	31 March 2023		31 March 2022	
All figures in £ million	JV's and associates financial results	Group net share of JV's and associates	JV's and associates financial results	Group net share of JV's and associates
Non-current assets	1.4	0.7	0.6	0.3
Current assets	5.8	3.6	9.1	5.1
	7.2	**4.3**	**9.7**	**5.4**
Current liabilities	(4.7)	(2.3)	(4.3)	(2.1)
Non-current liabilities	(1.2)	(0.6)	(1.4)	(0.7)
	(5.9)	**(2.9)**	**(5.7)**	**(2.8)**
Net assets of joint ventures and associates	**1.3**	**1.4**	**4.0**	**2.6**
Net assets of joint ventures		1.4		0.9
Net assets of associate		-		1.7
Net assets of joint ventures and associates		**1.4**		**2.6**

The profit from the Group's share of joint ventures and associate for the year ended 31 March 2023 was £0.8m (FY22: £0.3m).

18. Deferred tax

For the year ended 31 March 2023

Deferred tax asset

All figures in £ million	Short-term timing differences	Carried forward interest expense	Lease liabilities	Tax losses	Total
At 1 April 2022	14.7	-	4.0	21.7	40.4
(Charged)/Credited to income statement	(1.2)	-	3.1	8.2	10.1
Charged to other comprehensive income	(2.1)	-	-	-	(2.1)
Credited to equity	0.4	-	-	-	0.4
Acquired in business combination	5.1	-	-	-	5.1
Foreign exchange	0.6	-	0.3	0.7	1.6
Gross deferred tax asset at 31 March 2023	**17.5**	**-**	**7.4**	**30.6**	**55.5**
Less: liability available for offset					(22.9)
Net deferred tax asset at 31 March 2023					**32.6**

Deferred tax liability

All figures in £ million	Pension surplus	Owned property, plant & equipment	Right of use assets	Acquisition intangibles	Total
At 1 April 2022	(96.4)	(54.3)	(3.4)	(22.0)	(176.1)
Charged to income statement	(2.5)	(11.5)	(6.3)	(0.9)	(21.2)
Credited to other comprehensive income	63.5	-	-	-	63.5
Acquired in business combination	-	-	-	(0.7)	(0.7)
Foreign exchange	-	0.1	-	(0.5)	(0.4)
Gross deferred tax liability at 31 March 2023	**(35.4)**	**(65.7)**	**(9.7)**	**(24.1)**	**(134.9)**
Less: asset available for offset					22.9
Net deferred tax liability at 31 March 2023					**(112.0)**

Deferred tax has been calculated at the rate at which the timing difference is expected to reverse using enacted future statutory rates. Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority.

At 31 March 2023 the Group had unused tax losses and US carried forward interest expense of £175.6m (31 March 2022: £128.1m) which are available for offset against future taxable profits. Deferred tax assets are recognised on the balance sheet of £22.7m in respect of £88.0m of US net operating losses, £5.4m in respect of £21.5m of Canadian net operating losses and £2.5m in respect of £8.3m of German trade losses. No deferred tax asset is recognised in respect of the £57.8m of US interest deductions due to uncertainty over the timing and extent of their utilisation. Full recognition of the US carried forward interest expense would increase the deferred tax asset by £15.6m.

The Group has £32.4m of time-limited US net operating losses of which £22.9m will expire in 2035 and £9.5m in 2036. The Group made overseas losses in the period ended 31 March 2023 and recognition of deferred tax assets is dependent on future forecast taxable profits. The Group has reviewed the latest forecasts for these businesses which incorporate the unsystematic risks of operating in the defence business. In the period beyond the 5 year forecast we have reviewed the terminal period profits and based on these and our expectations for these businesses it is probable the losses, with the exception of the interest deductions, will be fully utilised. Based on the current forecasts the losses will be fully utilised over the next 4-7 years. A 10% change in the forecast profits would alter the utilisation period by 1 year.

There are no material temporary differences associated with investments in subsidiaries or interests in joint ventures for which deferred tax liabilities have not been recognised.

For the year ended 31 March 2022

Deferred tax asset

All figures in £ million	Short-term timing differences	Carried forward interest expense	Lease liabilities	Tax losses	Total
At 1 April 2021	12.7	1.4	5.1	8.5	27.7
Credited/(charged) to income statement	3.1	(1.4)	(1.2)	12.5	13.0
Charged to other comprehensive income	(0.9)	-	-	-	(0.9)
Charged to equity	(0.7)	-	-	-	(0.7)
Transferred to current tax	(0.2)	-	-	-	(0.2)
Foreign exchange	0.7	-	0.1	0.7	1.5
Gross deferred tax asset at 31 March 2022	**14.7**	-	**4.0**	**21.7**	**40.4**
Less: liability available for offset					(19.4)
Net deferred tax asset at 31 March 2022					**21.0**

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

18. Deferred tax (continued)

Deferred tax liability

All figures in £ million	Pension surplus	Owned property, plant & equipment	Right of use assets	Acquisition intangibles	Total
At 1 April 2021	(45.5)	(33.5)	(4.7)	(22.0)	(105.7)
(Charged)/credited to income statement	(3.3)	(20.7)	1.4	0.1	(22.5)
Charged to other comprehensive income	(47.6)	-	-	-	(47.6)
Foreign exchange	-	(0.1)	(0.1)	(0.1)	(0.3)
Gross deferred tax liability at 31 March 2022	**(96.4)**	**(54.3)**	**(3.4)**	**(22.0)**	**(176.1)**
Less: asset available for offset					19.4
Net deferred tax liability at 31 March 2022					**(156.7)**

19. Current tax

As at 31 March

All figures in £ million	31 March 2023	31 March 2022^
Current tax receivable	4.0	1.4
Current tax payable	(4.6)	(5.9)
Net current tax payable	**(0.6)**	**(4.5)**

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

20. Inventories

As at 31 March

All figures in £ million	31 March 2023	31 March 2022
Raw materials	36.2	32.5
Work in progress	9.1	6.2
Finished goods	23.5	16.2
Total inventory	**68.8**	**54.9**

21. Trade and other receivables

As at 31 March

All figures in £ million	31 March 2023	31 March 2022^
Trade receivables	215.0	154.4
Contract assets	158.0	145.8
Other receivables	43.3	38.8
Prepayments	36.3	34.2
Total trade and other receivables	**452.6**	**373.2**

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

Trade and other receivables includes assets that are realised as part of the business's normal operating cycle, including amounts of £4.0m (2022: £2.3m) that are not expected to be realised within 12 months of the year end. Credit risk is limited as a result of the high percentage of revenue derived from UK and US government agencies. Accordingly, the Directors believe that no credit provision in excess of the allowance for doubtful debts is required. As at 31 March 2023 the Group carried a loss allowance in respect of expected credit risk of £1.6m (2022: £2.7m).

Contract assets increased in year due to acquisition of Avantus. Contract assets represents unbilled amounts recoverable under customer contracts (refer to accounting policies note 36).

Ageing of receivables and associated loss allowance for expected credit risk

As at 31 March 2023

	Current	Up to 30 days past due	30-120 days past due	>120 days past due	Total
Gross carrying amount - trade receivables (£m)	174.5	28.1	8.5	5.5	216.6
Gross carrying amount - contract assets (£m)	158.0	-	-	-	158.0
Expected loss rate (%)	0.1%	-	1.2%	23.6%	0.4%
Loss allowance (£m)	0.2	-	0.1	1.3	1.6

As at 31 March 2022

	Current	Up to 30 days past due	30-120 days past due	>120 days past due	Total
Gross carrying amount - trade receivables (£m)	136.7	7.9	6.8	5.7	157.1
Gross carrying amount - contract assets (£m)	145.8	-	-	-	145.8
Expected loss rate (%)	-	-	-	47.4%	0.9%
Loss allowance (£m)	-	-	-	2.7	2.7

Movements in the provision for expected credit loss

		FY23		FY22
All figures in £ million	Trade receivables	Contract assets	Trade receivables	Contract assets
At 1 April	2.7	-	1.8	1.8
Increase in loss allowance recognised in income statement	0.5	-	1.8	-
Unutilised amount reversed through income statement	(0.7)	-	(0.9)	(1.8)
Utilised (receivables written off)	(0.9)	-	-	-
At 31 March	**1.6**	**-**	**2.7**	**-**

The maximum exposure to credit risk in relation to trade and other receivables at the reporting date is the fair value of trade and other receivables. The Group does not hold any collateral as security.

22. Trade and other payables

As at 31 March

All figures in £ million	31 March 2023	31 March 2022^
Trade payables	135.9	76.1
Other tax and social security	55.7	64.6
Contract liabilities	216.9	182.5
Accrued expenses and other payables	166.7	151.5
Total current trade and other payables	**575.2**	**474.7**
Contract liabilities	14.0	15.2
Other payables	1.2	23.6
Total non-current trade and other payables	**15.2**	**38.8**
Total trade and other payables	**590.4**	**513.5**

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

Current other payables includes nil (2022 restated: £19.6m) of Research and Development Expenditure Credits (RDEC) payable to MOD. This was subject to a determination from the SSRO which established that RDEC is retained by the Company, as such the liability has been reversed to the income statement through specific adjusting items. Contract liabilities increased during the year due to the timing of revenue recognition and invoicing on contracts, as well as a small balance acquired with Avantus.

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For the year ended 31 March

23. Provisions

For the year ended 31 March 2023

All figures in £ million	Property	Other	Total
At 1 April 2022	7.3	19.8	27.1
Acquisitions	-	2.4	2.4
Created in year	0.5	0.6	1.1
Released in year	(0.1)	-	(0.1)
Unwinding of discount	0.1	-	0.1
Utilised in year	(1.2)	(2.6)	(3.8)
At 31 March 2023	**6.6**	**20.2**	**26.8**
Current liability	3.2	16.5	19.7
Non-current liability	3.4	3.7	7.1
At 31 March 2023	**6.6**	**20.2**	**26.8**

Property provisions relate to dilapidations and under-utilised properties. The under-utilised property provision is affected by the timing of when properties can be sub-let and the proportion of space that can be sub-let. Based on current assessment the provision will be utilised within 5 years. Other provisions includes £14.2m (2022: £16.0m) in respect of a civil liability for the Pendine incident. This is offset in Other Receivables for an insurance recoverable. There is uncertainty around the timing of the utilisation of this balance although this will not impact cash or the P&L. The remaining balance relates to environmental and other liabilities, the magnitude and timing of utilisation of which are determined by a variety of factors.

For the year ended 31 March 2022

All figures in £ million	Property	Other	Total
At 1 April 2021	8.0	4.0	12.0
Created in year	1.0	16.5	17.5
Released in year	(0.5)	(0.5)	(1.0)
Utilised in year	(1.2)	(0.2)	(1.4)
At 31 March 2022	**7.3**	**19.8**	**27.1**
Current liability	2.8	18.3	21.1
Non-current liability	4.5	1.5	6.0
At 31 March 2022	**7.3**	**19.8**	**27.1**

24. Net (debt)/cash

As at 31 March

	31 March 2023			31 March 2022		
All figures in £ million	Assets	Liabilities	Net	Assets	Liabilities	Net
Current financial assets/(liabilities)						
Deferred financing costs	1.3	-	1.3	0.4	-	0.4
Lease liabilities	-	(7.6)	(7.6)	-	(5.5)	(5.5)
Derivative financial instruments	4.4	(0.6)	3.8	0.2	(1.4)	(1.2)
Total current financial assets/(liabilities)	**5.7**	**(8.2)**	**(2.5)**	**0.6**	**(6.9)**	**(6.3)**
Non-current assets/(liabilities)						
Deferred financing costs	1.5	-	1.5	0.5	-	0.5
Borrowings – Term loan	-	(337.6)	(337.6)	-	-	-
Lease liabilities	-	(23.7)	(23.7)	-	(16.6)	(16.6)
Derivative financial instruments	4.7	(0.5)	4.2	-	(0.6)	(0.6)
Total non-current financial assets/(liabilities)	**6.2**	**(361.8)**	**(355.6)**	**0.5**	**(17.2)**	**(16.7)**
Total financial assets/(liabilities)	**11.9**	**(370.0)**	**(358.1)**	**1.1**	**(24.1)**	**(23.0)**
Cash	89.1	-	89.1	65.7	-	65.7
Cash equivalents	62.1	-	62.1	182.4	-	182.4
Total cash and cash equivalents	**151.2**	**-**	**151.2**	**248.1**	-	**248.1**
Total net (debt)/cash as defined by the Group			**(206.9)**			**225.1**

At 31 March 2023 the Group held £0.4m (2022: £0.2m) of cash which is restricted in its use. The term loan was issued at floating rates as Tranche A GBP 273.3m and Tranche B USD 79.6m. A proportion of Tranche A has been converted to fixed rate using interest rate swaps. Further analysis of the terms and maturity dates for financial liabilities are set out in note 27.

25. Cash flows from operations

All figures in £ million	FY23	FY22^
Profit after tax for the year	**154.4**	**90.0**
Adjustments for:		
Taxation expense	37.6	35.9
Net finance income	(3.3)	(3.1)
(Gain)/loss on disposal of businesses	(15.9)	0.9
Gain on sale of property	(2.0)	(0.7)
Loss on disposal of plant and equipment	0.2	-
Impairment of plant and equipment	-	0.5
Impairment of property	-	1.2
Amortisation of purchased or internally developed intangible assets	7.5	5.4
Amortisation of intangible assets arising from acquisitions	15.6	10.7
Depreciation of property, plant and equipment	51.5	46.2
Share of post-tax profit of equity accounted entities	(0.8)	(0.3)
Share-based payments charge	6.1	7.4
Retirement benefit contributions in excess of income statement expense	(1.6)	(1.8)
Pension past service cost	-	2.4
Fair value adjustment in respect of contingent consideration	-	(0.6)
Net movement in provisions	(1.0)	(1.0)
	248.3	**193.1**
(Increase)/Decrease in inventories	(9.6)	1.4
Increase in receivables	(56.7)	(13.0)
Increase in payables	58.6	33.6
Changes in working capital	**(7.7)**	**22.0**
Net cash flow from operations	**240.6**	**215.1**

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

The working capital movements in the cash flow statement do not agree directly to the balance sheet due to impact of business acquisitions and disposals, foreign exchange movements, deferred consideration, accrued interest and the timing of capex payments.

Reconciliation of net cash flow from operations to underlying net cash flow from operations to free cash flow

All figures in £ million	FY23	FY22^
Net cash flow from operations	**240.6**	**215.1**
Add back specific adjusting item: digital investment	5.8	1.9
Add back specific adjusting item: restructuring costs	5.0	-
Add back specific adjusting item: acquisition integration and remuneration costs	2.3	-
Add back specific adjusting item: acquisition transaction costs	16.4	3.7
Underlying net cash flow from operations	**270.1**	**220.7**
Less: tax and net interest payments	(34.6)	(26.4)
Less: purchases of intangible assets and property, plant and equipment	(109.0)	(84.3)
Free cash flow	**126.5**	**110.0**

Underlying cash conversion ratio

	FY23	FY22^
Underlying EBITDA – £ million	255.3	195.7
Underlying net cash flow from operations – £ million	270.1	220.7
Underlying cash conversion ratio – %	**106%**	**113%**

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

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For the year ended 31 March

26. Leases

Group as a lessor
The Group receives rental income on certain properties. Primarily these are properties partially occupied by Group companies, with vacant space sub-let to third-party tenants. The Group had contracted with tenants for the following future minimum lease payments:

All figures in £ million	31 March 2023	31 March 2022
Within one year	5.7	5.7
In the second to fifth years inclusive	7.7	9.3
Greater than five years	1.8	0.5
Total future minimum lease payments	**15.2**	**15.5**

Group as a lessee
Amounts recognised in the balance sheet
The balance sheet shows the following amounts relating to leases:

Right-of-use assets (included within Property, Plant & Equipment – see note 16)

All figures in £ million	31 March 2023	31 March 2022
Land and buildings	26.8	17.4
Plant, machinery and vehicles	0.3	1.1
Computers and office equipment	-	-
Total right of use assets net book value	**27.1**	**18.5**

Lease liabilities (included within Net cash – see note 24)

All figures in £ million	31 March 2023	31 March 2022
Current	7.6	5.5
Non-current	23.7	16.6
Total lease liabilities	**31.3**	**22.1**

Additions to the right-of-use assets during FY23 were £15.5m, including £14.0m due to acquisitions. The total cash outflow for leases in FY23 was £8.5m. The Group had no expense relating to variable lease payments not included in the measurement of lease liabilities.

Amounts recognised in the consolidated income statement
The consolidated income statement includes the following amounts relating to leases:

All figures in £ million	FY23	FY22
Depreciation charge		
Land and buildings	5.9	4.7
Plant, machinery and vehicles	0.3	1.2
Total depreciation charge	**6.2**	**5.9**
Interest expense (included in finance cost - see note 7)	1.1	1.0
Expense relating to short-term leases (included in operating costs)	1.6	1.3
Expense relating to low value leases (included in operating costs)	0.1	0.2
Total lease and sub-lease expense charged to profit before tax	**9.0**	**8.4**

Minimum lease payment commitments
The Group has the following total future minimum lease payment commitments:

All figures in £ million	31 March 2023	31 March 2022
Within one year	7.6	5.5
In the second to fifth years inclusive	19.6	13.4
Greater than five years	4.1	3.2
Total future minimum lease payment commitments	**31.3**	**22.1**

Lease payments represent capital and interest payable by the Group on certain property, plant and equipment. Principal leases are negotiated for a term of approximately 10 years.

The Group's international operations expose it to financial risks that include the effects of changes in foreign exchange rates, interest rates, credit risks and liquidity risks.

Treasury and risk management policies, which are set by the Board, specify guidelines on financial risks and the use of financial instruments to manage risk. The instruments and techniques used to manage exposures include foreign currency and interest rate swap derivatives. Group treasury monitors financial risks and compliance with risk management policies during the year. There have been no changes in any risk management policies during the year or since the year end. For details of the Group's Treasury policy and management of financial instruments see 'Additional Financial Information' on page 231.

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity. The Group has a revolving credit facility and floating rate term loan with its relationship banks with a requirement for the half yearly testing period that the ratio of Net Debt to EBITDA will not exceed 3.5:1 and the ratio of EBITDA to net finance charges will not be less than 4:1. The Group complied with both covenants during the year. As at 31 March 2023, the ratio of Net Debt to EBITDA was 0.8:1 and the ratio of EBITDA to net finance charges was 46.2:1. The revolving credit facility is undrawn at the year end and matures in 2025. The floating rate term loan is repayable in 2025 but has 2 one year extension options.

A) Fair values of financial instruments

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 – measured using quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – measured using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Level 2 derivatives comprise forward foreign exchange contracts which have been fair valued using forward exchange rates that are quoted in an active market; and interest rate swaps which have been fair valued using interest rates that are quoted in an active market;

Level 3 – measured using inputs for the assets or liability that are not based on observable market data (i.e. unobservable inputs).

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 March 2023:

All figures in £ million	Note	Level 1	Level 2	Level 3	Total
Assets					
Current derivative financial instruments	24	-	4.4	-	4.4
Non-current derivative financial instruments	24	-	4.7	-	4.7
Liabilities					
Current derivative financial instruments	24	-	(0.6)	-	(0.6)
Non-current derivative financial instruments	24	-	(0.5)	-	(0.5)
Total		**-**	**8.0**	**-**	**8.0**

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 March 2022:

All figures in £ million	Note	Level 1	Level 2	Level 3	Total
Assets					
Current derivative financial instruments	24	-	0.2	-	0.2
Non-current derivative financial instruments	24	-	-	-	-
Liabilities					
Current derivative financial instruments	24	-	.(1.4)	-	(1.4)
Non-current derivative financial instruments	24	-	(0.6)	-	(0.6)
Total		-	**(1.8)**	-	**(1.8)**

For cash and cash equivalents, trade and other receivables and bank and current borrowings, the fair value of the financial instruments approximate to their carrying value as a result of the short maturity periods of these financial instruments. For trade and other receivables, allowances are made within the carrying value for credit risk. For other financial instruments, the fair value is based on market value, where available. Where market values are not available, the fair values have been calculated by discounting cash flows to net present value using prevailing market-based interest rates translated at the year-end rates, except for unlisted fixed asset investments where fair value equals carrying value. There have been no transfers between levels.

All financial assets and liabilities had a fair value that is identical to book value at 31 March 2023 and 31 March 2022. Detailed analysis is provided in the following tables:

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For the year ended 31 March

27. Financial risk management (continued)

As at 31 March 2023

All figures in £ million	Note	Financial assets at fair value profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost	Derivatives used as hedges	Other	Total carrying value and fair value
Financial assets							
Non-current							
Derivative financial instruments	24	-	-	-	4.7	-	4.7
Deferred financing costs	24	-	1.5	-	-	-	1.5
Current							
Trade receivables and similar items		-	229.2	-	-	-	229.2
Derivative financial instruments	24	-	-	-	4.4	-	4.4
Deferred financing costs	24	-	1.3	-	-	-	1.3
Cash and cash equivalents	24	151.2	-	-	-	-	151.2
Total financial assets		**151.2**	**232.0**	**-**	**9.1**	**-**	**392.3**
Financial liabilities							
Non-current							
Bank borrowings	24	-	-	(337.6)	-	-	(337.6)
Derivative financial instruments	24	-	-	-	(0.5)	-	(0.5)
Lease liabilities		-	-	-	-	(23.7)	(23.7)
Current							
Trade payables and similar items		-	-	(281.8)	-	-	(281.8)
Derivative financial instruments	24	-	-	-	(0.6)	-	(0.6)
Lease liabilities		-	-	-	-	(7.6)	(7.6)
Total financial liabilities		**-**	**-**	**(619.4)**	**(1.1)**	**(31.3)**	**(651.8)**
Total		**151.2**	**232.0**	**(619.4)**	**8.0**	**(31.3)**	**(259.5)**

As at 31 March 2022

All figures in £ million	Note	Financial assets at fair value profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost	Derivatives used as hedges	Other	Total carrying value and fair value
Financial assets							
Non-current							
Deferred financing costs	24	-	0.5	-	-	-	0.5
Current							
Trade receivables and similar items		-	170.3	-	-	-	170.3
Derivative financial instruments	24	-	-	-	0.2	-	0.2
Deferred financing costs	24	-	0.4	-	-	-	0.4
Cash and cash equivalents	24	248.1	-	-	-	-	248.1
Total financial assets		**248.1**	**171.2**	**-**	**0.2**	-	**419.5**
Financial liabilities							
Non-current							
Bank borrowings	24	-	-	-	-	-	-
Derivative financial instruments	24	-	-	-	(0.6)	-	(0.6)
Lease liabilities		-	-	-	-	(16.6)	(16.6)
Current							
Trade payables and similar items		-	-	(205.3)	-	-	(205.3)
Derivative financial instruments	24	-	-	-	(1.4)	-	(1.4)
Lease liabilities		-	-	-	-	(5.5)	(5.5)
Total financial liabilities		**-**	**-**	**(205.3)**	**(2.0)**	**(22.1)**	**(229.4)**
Total		**248.1**	**171.2**	**(205.3)**	**(1.8)**	**(22.1)**	**190.1**

B) Interest rate risk

The Group's objective is to manage its exposure to interest rate fluctuations on borrowings through varying the proportion of fixed rate debt relative to floating rate debt with debt-related derivative financial instruments, including interest rate and cross-currency swaps.

The Group operates an interest rate policy designed to optimise interest costs and to reduce volatility in reported earnings. The Group's current policy is to require rates to be fixed for 30%–80% of the level of borrowings, which is achieved primarily through fixed-rate borrowings or debt-related derivative financial instruments. Where there are significant changes in the level and/or structure of debt, the policy permits borrowings to be 100% fixed, with regular Board reviews of the appropriateness of this fixed percentage.

At 31 March 2023, the Group had 80% (2022: N/A) of fixed rate debt and 20% (2022: N/A) of floating rate debt based on gross debt of £337.6m (2022: nil) after including the impact of debt-related derivative financial assets (interest rate swaps).

Financial assets/(liabilities)

As at 31 March 2023

All figures in £ million	Financial assets Fixed or capped	Floating	Non-interest bearing	Financial liabilities Fixed or capped	Floating	Non-interest bearing
Sterling	8.1	116.7	1.0	(4.8)	(273.3)	(0.9)
US dollar	-	24.0	-	(17.5)	(64.3)	-
Euro	-	0.1	-	-	-	-
Australian dollar	-	6.7	-	(9.0)	-	-
Other	-	3.7	-	(0.2)	-	-
Total	**8.1**	**151.2**	**1.0**	**(31.5)**	**(337.6)**	**(0.9)**

As at 31 March 2022

All figures in £ million	Financial assets Fixed or capped	Floating	Non-interest bearing	Financial liabilities Fixed or capped	Floating	Non-interest bearing
Sterling	-	214.8	0.2	(5.7)	-	(2.0)
US dollar	-	11.6	-	(13.1)	-	-
Euro	-	14.5	-	(1.6)	-	-
Australian dollar	-	4.9	-	(1.6)	-	-
Other	-	2.3	-	(0.1)	-	-
Total	**-**	**248.1**	**0.2**	**(22.1)**	**-**	**(2.0)**

Floating rate financial assets attract interest based on the relevant reference rate. Floating rate financial liabilities bear interest at the relevant reference rate. Trade and other receivables/payables and deferred finance costs are excluded from this analysis.

For the fixed or capped rate financial assets and liabilities, the average interest rates (including the relevant marginal cost of borrowing) and the average period for which the rates are fixed are:

	31 March 2023 Fixed or capped £m	Weighted average interest rate %	Weighted average years to maturity	31 March 2022 Fixed or capped £m	Weighted average interest rate %	Weighted average years to maturity
Financial assets:						
Sterling	8.1	3.1	3.2	-	-	-
Financial liabilities:						
Sterling	(4.8)	4.3	4.5	(5.7)	4.3	5.1
US dollar	(17.5)	4.5	5.5	(13.1)	4.5	4.9
Euro	-	-	-	(1.6)	2.2	4.8
Australian dollar	(9.0)	4.5	5.0	(1.6)	3.9	2.8
Other	(0.2)	3.7	4.4	(0.1)	3.1	1.2
Total financial liabilities	**(31.5)**	**4.4**	**5.2**	**(22.1)**	**4.2**	**4.7**

Sterling assets consist of debt-related derivative financial instruments. Sterling liabilities consist primarily of finance leases with the weighted average interest rate reflecting the internal rate of return of those leases.

Interest rate risk management

The revolving credit facility (note 27E) is floating-rate and undrawn as at 31 March 2023.

As at 31 March 2023, the majority of the Group's floating rate bank borrowings were fixed through interest rate swaps which swap the Sterling floating rate interest payable into fixed rate Sterling. The notional principal amount of the outstanding interest rate swap contracts as at 31 March 2023 is £270m (31 March 2022: £nil). The swaps have the economic effect of converting floating rate borrowings into fixed rate borrowings and are accounted for as cash flow hedges.

Notes to the Consolidated Financial Statements continued

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27. Financial risk management (continued)

C) Currency risk

Transactional currency exposure

The Group is exposed to foreign currency risks arising from sales or purchases by businesses in currencies other than their functional currency. It is Group policy that when such a sale or purchase is certain, the net foreign exchange exposure is hedged using forward foreign exchange contracts. Hedge accounting documentation and effectiveness testing are undertaken for all the Group's transactional hedge contracts.

The table below shows the Group's currency exposures (based on functional currency of the operating company), being exposures on currency transactions that give rise to net currency gains and losses recognised in the income statement. Such exposures comprise the monetary assets and liabilities of the Group that are not denominated in the functional currency of the operating company involved.

	Net foreign currency monetary assets/(liabilities)				
All figures in £ millions	US$	Euro	A$	Other	Total
31 March 2023 – Sterling	**17.7**	**3.3**	**0.9**	**4.1**	**26.0**
31 March 2022– Sterling	3.2	2.4	0.6	3.8	10.0

The amounts shown in the table take into account the effect of the forward contracts entered into to manage these currency exposures. The Group enters into forward foreign currency contracts to hedge the currency exposures that arise on sales and purchases denominated in foreign currencies, as the transaction occurs. The principal contract amounts of the outstanding forward currency contracts as at 31 March 2023 against Sterling are net US dollars sold of £65.4m (USD 79.6m), net Euros sold £35.5m (EUR 41.3m), net Canadian dollars sold £14.7m (CAD 25.6m), net United Arab Emirate dirhams sold £1.3m (AED 5.7m), net Swiss Francs bought of £0.4m (CHF 0.5m), net Swedish Krona sold of £3.4m (SEK 43.1m), and net Australian dollars sold £21.5m (AUD 39.6m).

Translational currency exposure

The Group has significant investments in overseas operations, particularly in the US. As a result, the Sterling value of the Group's balance sheet can be affected by movement in exchange rates. The Group does not hedge against translational currency exposure to overseas net assets.

D) Financial credit risk

The Group is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but does not currently expect any counterparties to fail to meet their obligations. Credit risk is mitigated by a Board-approved policy of only selecting counterparties with a strong investment grade long-term credit rating for cash deposits. In the normal course of business the Group operates notional cash pooling systems, where a legal right of set-off applies.

The maximum credit-risk exposure in the event of other parties failing to perform their obligations under financial assets, excluding trade and other receivables, totals £160.3m (31 March 2022 restated*: £248.3m). This balance includes cash and cash equivalents and derivative financial assets. The cash and cash equivalents of £151.2m at 31 March 2023 (2022: £248.1m) represents the maximum credit exposure on these assets. The cash and cash equivalents were held with different financial institutions which were rated single A or better. Cash equivalents comprise £62.1m (31 March 2022: £182.4m) invested in AAA-rated money market funds.

* This balance has been restated to exclude lease liabilities which had been included as at 31 March 2022.

E) Liquidity risk

Borrowing facilities

As at 31 March 2023 the Group had a revolving credit facility (RCF) of £275.0m (2022: £275.0m) and floating rate term loans of £337.6m (2022: nil). The RCF, which is unutilised, has an initial term of five years and will mature on 27 September 2025. The term loan has an initial term of 3 years and will mature on 27 September 2025. Total available funds, comprising the RCF, term loan and the Group's freely available cash and cash equivalents, are shown in the table below:

	Interest rate: Reference rate* plus	Total £m	Drawn £m	Undrawn £m
As at 31 March 2023				
Committed facilities - RCF	0.53%	275.0	-	275.0
Committed facilities – term loan	1.10%	337.6	337.6	-
Freely available cash and cash equivalents			-	149.6
Available funds 31 March 2023				**424.6**
As at 31 March 2022				
Committed facilities - RCF	0.53%	275.0	-	275.0
Committed facilities – term loan		-	-	-
Freely available cash and cash equivalents				246.7
Available funds 31 March 2022				**521.7**

* Reference rate refers to SONIA for GBP and SOFR for USD.

Gross contractual cash flows for borrowings and other financial liabilities

The following are the contractual maturities of financial liabilities, including interest payments. The cash flows associated with derivatives that are cash flow hedges are expected to have an impact on profit or loss in the periods shown.

The £337.6m term loan is repayable on 27 September 2025, with two one-year extension options available, with interest periods set to three months. The loan bears interest at a variable margin over the relevant reference rate of between 1.00% and 2.50% dependent on the ratio of Net Debt to EBITDA.

As at 31 March 2023

All figures in £ million	Book value	Contractual cash flows	1 year or less	1–2 years	2–5 years	More than 5 years
Non-derivative financial liabilities						
Term loan	(337.6)	(375.8)	(16.0)	(16.4)	(343.4)	-
Revolving credit facility	-	-	-	-	-	-
Trade payables and similar items	(281.8)	(281.8)	(281.8)	-	-	-
Leases	(31.3)	(32.0)	(7.6)	(6.5)	(13.1)	(4.8)
Derivative financial liabilities						
Forward foreign currency contracts – cash flow hedges	(0.9)	(0.9)	(0.6)	(0.3)	-	-
Interest rate swaps	(0.2)	(0.2)	-	-	(0.2)	-
Total	**(651.8)**	**(690.7)**	**(306.0)**	**(23.2)**	**(356.7)**	**(4.8)**

As at 31 March 2022

All figures in £ million	Book value	Contractual cash flows	1 year or less	1–2 years	2–5 years	More than 5 years
Non-derivative financial liabilities						
Revolving credit facility	-	-	-	-	-	-
Trade payables and similar items	(205.3)	(205.3)	(205.3)	-	-	-
Leases	(22.1)	(24.1)	(6.3)	(5.3)	(9.5)	(3.0)
Derivative financial liabilities						
Forward foreign currency contracts – cash flow hedges	(2.0)	(2.0)	(1.4)	(0.6)	-	-
Total	**(229.4)**	**(231.4)**	**(213.0)**	**(5.9)**	**(9.5)**	**(3.0)**

F) Derivative financial instruments

The Group has the following derivative financial instruments on the balance sheet, reported within the 'Other financial assets' line items.

	31 March 2023			31 March 2022		
All figures in £ million	Asset gains	Liability losses	Net	Asset gains	Liability losses	Net
Forward foreign currency contracts – cash flow hedges	1.0	(0.9)	0.1	0.2	(2.0)	(1.8)
Interest rate swaps	8.1	(0.2)	7.9	-	-	-
Derivative assets/(liabilities) at the end of the year	**9.1**	**(1.1)**	**8.0**	**0.2**	**(2.0)**	**(1.8)**

The maturity of these derivative financial instruments is as follows:

	31 March 2023			31 March 2022		
All figures in £ million	Asset gains	Liability losses	Net	Asset gains	Liability losses	Net
Expected to be recognised:						
In one year or less	4.4	(0.6)	3.8	0.2	(1.4)	(1.2)
Between one and two years	2.5	(0.3)	2.2	-	(0.6)	(0.6)
More than two years	2.2	(0.2)	2.0	-	-	-
Derivative assets/(liabilities) at the end of the year	**9.1**	**(1.1)**	**8.0**	**0.2**	**(2.0)**	**(1.8)**

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27. Financial risk management (continued)

The effects of these derivatives on the Group's financial position and performance are as follows:

	31 March 2023			31 March 2022		
All figures in £ million	Cash flow hedges	Interest rate swaps	Total	Cash flow hedges	Interest rate swaps	Total
Notional amount (gross)	327.7	270.0	597.7	228.6	-	228.6
Carrying value (current and non-current assets and (liabilities))	0.1	7.9	8.0	(1.8)	-	(1.8)
Maturity date	2023-2027	2025-2027	2023-2027	2022-2024	-	2022-2024
Hedge ratio	1:1	1:1	1:1	1:1	-	1:1
Change in fair value of outstanding hedging instruments in the year	1.9	7.9	9.8	(1.3)	-	(1.3)
Change in value of hedged item used to determine hedge effectiveness	1.9	7.9	9.8	(1.3)	-	(1.3)
Weighted average hedged rate for the year*	1.23	3.1%		1.32	-	

* The weighted average hedged rate for the year for cash flow hedges is based on GBP:USD, being the most significant currency pair. The Group also has cash flow hedges relating to a number of other currency pairs aligned to its global operations.

G) Maturity of financial liabilities

The contractual maturity of the Group's financial liabilities is shown below:

As at 31 March 2023

All figures in £ million	Trade payables and similar items payables	Bank borrowings and loan notes	Derivative financial instruments	Lease liabilities	Total
Due in one year or less	281.8	-	0.6	7.6	290.0
Due in more than one year but not more than two years	-	-	0.3	6.5	6.8
Due in more than two years but not more than five years	-	337.6	0.2	13.1	350.9
Due in five years or more	-	-	-	4.1	4.1
Total	**281.8**	**337.6**	**1.1**	**31.3**	**651.8**

As at 31 March 2022

All figures in £ million	Trade payables and similar items payables	Bank borrowings and loan notes	Derivative financial instruments	Lease liabilities	Total^
Due in one year or less	205.3	-	1.4	5.5	212.2
Due in more than one year but not more than two years	-	-	0.6	4.7	5.3
Due in more than two years but not more than five years	-	-	-	8.7	8.7
Due in five years or more	-	-	-	3.2	3.2
Total	**205.3**	**-**	**2.0**	**22.1**	**229.4**

H) Sensitivity analysis

The Group's sensitivity to changes in foreign exchange rates and interest rates on financial assets and liabilities as at 31 March 2023 is set out in the following table. The impact of a weakening in Sterling on the Group's financial assets and liabilities would be more than offset in equity and income by its impact on the Group's overseas net assets and earnings respectively. Sensitivity on Group's assets other than financial assets and liabilities is not included in this analysis.

As at 31 March 2023

	1% decrease in interest rates		10% weakening in Sterling	
All figures in £ million	Equity[1]	Profit before tax	Equity	Profit before tax
Sterling	(0.1)	1.6	-	-
US dollar	-	0.4	0.1	0.1
Other	-	(0.1)	0.5	-

All figures in £ million	1% increase in interest rates		10% strengthening in Sterling	
	Equity*	Profit before tax	Equity	Profit before tax
Sterling	0.1	(1.6)	-	-
US dollar	-	(0.4)	(0.3)	(0.1)
Other	-	0.1	(0.4)	-

* This relates to the impact on items charged directly to equity and excludes the impact on profit/loss for the year flowing into equity.

As at 31 March 2022

All figures in £ million	1% decrease in interest rates		10% weakening in Sterling	
	Equity*	Profit before tax	Equity	Profit before tax
Sterling	-	(2.1)	-	-
US dollar	-	(0.1)	2.6	-
Other	-	(0.2)	2.4	-

All figures in £ million	1% increase in interest rates		10% strengthening in Sterling	
	Equity*	Profit before tax	Equity	Profit before tax
Sterling	-	2.1	-	-
US dollar	-	0.1	(2.2)	-
Other	-	0.2	(1.9)	-

* This relates to the impact on items charged directly to equity and excludes the impact on profit/loss for the year flowing into equity.

The amounts generated from the sensitivity analysis are forward-looking estimates of market risk assuming that certain market conditions occur. Actual results in the future may differ materially from those projected as a result of developments in global financial markets that may cause fluctuations in interest and exchange rates to vary from the hypothetical amounts disclosed in the previous tables, which should not, therefore, be considered to be a projection of likely future events and losses.

The estimated changes for interest rate movements are based on an instantaneous decrease or increase of 1% (100 basis points) in the specific rate of interest applicable to each class of financial instruments from the levels effective at 31 March 2023, with all other variables remaining constant. The estimated changes for foreign exchange rates are based on an instantaneous 10% weakening or strengthening in Sterling against all other currencies from the levels applicable at 31 March 2023, with all other variables remaining constant. Such analysis is for illustrative purposes only – in practice market rates rarely change in isolation. The impact of transactional risk on the Group's monetary assets/liabilities that are not held in the functional currency of the entity holding those assets/liabilities is minimal.

28. Post-retirement benefits

Defined contribution plans

The Group operates a number of defined contribution pension arrangements, the largest of which is in the UK and provided by the Mercer Master Trust. A defined contribution plan is a pension plan under which the Group and employees pay fixed contributions to a third-party financial provider. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as an employee benefit expense when they are due. The expense incurred during the year was £55.2m (FY22: £49.4m). Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Defined benefit pension plan

In the UK the Group operates the QinetiQ Pension Scheme ('the Scheme') for approximately one fifth of its UK employees. The Scheme closed to future accrual on 31 October 2013 and there is no on-going service cost. The Scheme is a final salary plan, which provides benefits to members in the form of a guaranteed level of pension payable for life.

The level of benefits provided depends on the members' length of service and their final pensionable earnings at closure to future accrual. In the Scheme, pensions in payment are generally updated in line with the Consumer Price Index (CPI). The benefit payments are made from Trustee-administered funds.

Plan assets held in trusts are governed by UK regulations as is the nature of the relationship between the Group and the Trustees and their composition. Responsibility for the governance of the Scheme – including investment decisions and contribution schedules – lies with the Board of Trustees with consultation with the Company as needed. The Board of Trustees must be composed of representatives of the Company and plan participants in accordance with the Scheme's rules.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

28. Post-retirement benefits (continued)

The asset recognised in the balance sheet in respect of the defined benefit pension plan is the fair value of plan assets less the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated bi-annually by independent actuaries using the projected unit credit method. Future cash flows of the Scheme which are subject to inflation are calculated using a CPI inflation assumption for the majority of the cash flows, with a small proportion of cash flows linked to RPI. IAS 19 requires the inflation assumptions to be market-based assumptions, as opposed to being based on economic forecasts.

The present value of the defined benefit obligation is determined by discounting the estimated, inflated future cash outflows using interest rates of high quality corporate bonds and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

The Group has no further payment obligations once the agreed contributions have been paid. The expected employer cash contribution to the Scheme for the year ending 31 March 2024 is £3.4m.

Triennial funding valuation

The most recent completed full actuarial valuation of the Scheme was undertaken as at 30 June 2020 and resulted in an actuarially assessed surplus of £176.5m (relative to the technical provisions i.e. the level of assets agreed by the Trustee and the Company as being appropriate to meet member benefits, assuming the Scheme continues as a going concern). The next triennial valuation will be performed as at 30 June 2023. The agreed recovery plan requires £2.8m per annum (at 2021 prices) distributions to the Scheme until 31 March 2032, indexed by reference to CPI. Such distributions are from the Group's Pension Funding Limited Partnership, see below.

QinetiQ's Pension Funding Partnership (PFP) structure

On 26 March 2012 QinetiQ established the QinetiQ PFP Limited Partnership (the 'Partnership') with the Scheme. Under this arrangement, properties to the capitalised value of £32.3m were transferred to the Partnership. The transfers were effected through a 20-year sale and leaseback agreement. The Scheme's interest in the Partnership entitles it to an annual distribution of approximately £2.5m (from 2012) for 20 years, indexed with reference to CPI. The Scheme's interest in the Partnership will revert back to QinetiQ Limited in 2032.

The Partnership is controlled by QinetiQ and its results are consolidated by the Group. Under IAS 19, the interest held by the Scheme in the Partnership does not qualify as a plan asset for the purposes of the Group's consolidated financial statements and is, therefore, not included within the fair value of plan assets. As a result, the Group's consolidated financial statements are unchanged by the Partnership. In addition, the value of the property transferred to the Partnership and leased back to QinetiQ remains on the balance sheet. QinetiQ retains the operational flexibility to substitute properties of equivalent value within the Partnership and has the option to settle outstanding amounts due under the interest before 2032 if it so chooses.

Other UK schemes

In the UK the Group has a small number of employees for whom benefits are secured through the Prudential Platinum Scheme ('PPS'). The PPS scheme is always fully funded and has a very small surplus at year end. QinetiQ also offers employees access to a Group Self Invested Personal Pension Plan, but no Company contributions are paid to this arrangement.

Defined benefit pension plan ('Scheme') net pension asset

The Scheme is in a net asset position with the market value of assets in excess of the present value of Scheme liabilities. These have the values set out below as at 31 March of each year end.

All figures in £ million	31 March 2023	31 March 2022
Total market value of assets – see table below for analysis by category of asset	1,355.2	2,065.7
Present value of Scheme liabilities	(1,235.4)	(1,703.5)
Net pension asset before deferred tax	**119.8**	**362.2**
Deferred tax liability	(35.4)	(96.4)
Net pension asset after deferred tax	**84.4**	**265.8**

The balance sheet net pension asset is a snapshot view which can be significantly influenced by short-term market factors. The calculation of the net asset depends on factors which are beyond the control of the Group – principally the value of the various categories of assets in which the Scheme has invested and long-term interest rates and inflation rates used to value the Scheme's liabilities. This is particularly pertinent at current times whilst markets are highly volatile. Sensitivities and risks are described on page 207.

The key driver for the decrease in the net pension asset since the March 2022 year end was the turmoil in financial markets following the Government's 'mini-budget' in September 2022, particularly a sharp increase in gilt yields (and reduced gilt prices). Prior to the 'mini-budget' the Scheme was 100% hedged on both interest rate and inflation risk, and significant levels of collateral were required to maintain such hedging levels. The spike in gilt yields in October 2022 eroded the collateral required to be held in the LDI portfolio to such an extent that the hedges needed to be reduced to a lower level, covering approximately 65% of the interest rate risk and 80% of the inflation rate risk. Subsequent falls in gilt yields meant that, as interest rate risk was then 35% unhedged, the Scheme suffered a loss in value.

This reduced level of hedging was maintained through to 31 March 2023, as measured on the Trustees' gilt-funded basis. Over the course of the year, the fall in value of assets across the whole investment portfolio (primarily LDI-related collateral) was in excess of the reduction in Scheme liabilities (which also fell substantially, primarily due to an increase in the discount rate).

Total expense recognised in the income statement

All figures in £ million	FY23	FY22
Net finance income	9.9	4.5
Past service cost	-	(2.4)
Administrative expenses	(1.4)	(1.1)
Total net income recognised in the income statement (gross of deferred tax)	**8.5**	**1.0**

Movement in the net pension asset

The movement in the net pension asset (before deferred tax) is set out below:

All figures in £ million	FY23	FY22
Opening net pension asset	362.2	214.3
Net finance income	9.9	4.5
Net actuarial (loss)/gain	(253.9)	144.0
Administrative expenses	(1.4)	(1.1)
Past service cost	-	(2.4)
Contributions by the employer	3.0	2.9
Closing net pension asset	**119.8**	**362.2**

Fair value of Scheme assets by type of asset

The fair value of the Scheme's assets, which are not intended to be realised in the short term and may be subject to significant changes before they are realised, were:

	31 March 2023			31 March 2022		
All figures in £ million	Quoted	Not quoted in an active market	Total	Quoted	Not quoted in an active market	Total
Equities	177.4	32.9	210.3	176.1	44.7	220.8
Liability Driven Investment	227.2	-	227.2	291.8	-	291.8
Asset backed security investments[1]	4.3	-	4.3	501.7	-	501.7
Alternative bonds[2]	-	256.4	256.4	-	208.6	208.6
Corporate bonds[3]	-	117.6	117.6	-	97.4	97.4
Property funds	-	-	-	-	29.5	29.5
Cash and cash equivalents	-	17.2	17.2	-	78.5	78.5
Derivatives	-	6.7	6.7	-	(8.5)	(8.5)
Insurance buy-in policies	-	515.5	515.5	-	645.9	645.9
Total market value of assets	**408.9**	**946.3**	**1,355.2**	**969.6**	**1,096.1**	**2,065.7**

1 Asset backed securities are used as collateral for the LDI. As gilt yields spiked during the year, the LDI drew down on significant levels of security, causing the year on year drop shown above.
2 Primarily private market debt investments.
3 Unlisted corporate bonds with commercial property held as security.

The Scheme's assets do not include any of the Group's own transferable financial instruments, property occupied by, or other assets used by the Group.

The insurance policies obtained by the pension scheme can only be used to pay or fund employee benefits under the Company's defined benefit plan. They are not available to the Company's own creditors and cannot be paid to another entity. These are the requirements of IAS 19 paragraph 7 and hence our determination is that the insurance policies are qualifying insurance policies and require classification as a plan asset. The policies were issued by insurers that are not a related party.

Per the Scheme rules the Company has an unconditional right to a refund of any surplus, assuming gradual settlement of all liabilities over time. Such surplus may arise on cessation of the Scheme in the context of IFRIC 14 paragraphs 11(b) and 12 and therefore the full net pension asset can be recognised on the Group's balance sheet and the Group's minimum funding commitments to the Scheme do not give rise to an additional balance sheet liability.

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For the year ended 31 March

28. Post-retirement benefits (continued)
Changes to the fair value of Scheme assets

All figures in £ million	FY23	FY22
Opening fair value of Scheme assets	2,065.7	2,071.8
Interest income on Scheme assets	55.8	43.0
Re-measurement loss on Scheme assets	(716.3)	(5.9)
Contributions by the employer	3.0	2.9
Net benefits paid out and transfers	(51.6)	(45.0)
Administrative expenses	(1.4)	(1.1)
Closing fair value of Scheme assets	**1,355.2**	**2,065.7**

Changes to the present value of Scheme liabilities
The present value of the Scheme's liabilities, which are derived from cash flow projections over long periods, and thus inherently uncertain, were:

All figures in £ million	FY23	FY22
Opening present value of Scheme liabilities	(1,703.5)	(1,857.5)
Interest cost	(45.9)	(38.5)
Actuarial gain/(loss) on Scheme liabilities based on:		
Change in demographic assumptions	45.8	5.9
Change in financial assumptions	588.0	107.5
Experience (losses)/gains	(171.4)	36.5
Past service cost	-	(2.4)
Net benefits paid out and transfers	51.6	45.0
Closing present value of Scheme liabilities	**(1,235.4)**	**(1,703.5)**

The net actuarial gains are primarily due to a decrease in value of the financial assumption for the discount rate (see Assumptions section below).

Assumptions
The major assumptions used in the IAS 19 valuation of the Scheme's liabilities were:

	31 March 2023		31 March 2022	
All figures in £ million	Insured members	Uninsured members	Insured members	Uninsured members
Discount rate applied to Scheme liabilities	4.80%	4.65%	2.80%	2.70%
CPI inflation assumption	2.55%	2.70%	3.00%	2.90%
Net rate (discount rate less inflation)	2.25%	1.95%	(0.20%)	(0.20%)
Assumed life expectancies in years:				
At 60 for males currently aged 40	n/a	27.9	n/a	28.4
At 60 for females currently aged 40	n/a	30.3	n/a	30.7
At 60 for males currently aged 60	n/a	26.2	n/a	26.7
At 60 for females currently aged 60	n/a	28.2	n/a	28.6
At 65 for males currently aged 65	21.6	n/a	22.0	n/a
At 65 for females currently aged 65	23.3	n/a	23.7	n/a

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, because of the timescale covered, may not necessarily be borne out in practice. It is important to note that these assumptions are long term and, in the case of the discount rate and the inflation rate, are measured by reference to external market indicators. The discount rate is based on observable yields on corporate bonds but there is no direct, observable market rate for CPI. A 'market approach' to deriving CPI involves adjusting a market-based RPI rate downward by an 'inflation risk premium' and an RPI-CPI adjustment factor (determined from relevant market yield curves). This market-based approach is required by IAS 19 and results in a CPI inflation rate significantly in excess of the Bank of England long term target and also in excess of a consensus view of CPI (based on surveys of economists). However, adopting an economic consensus approach to setting CPI inflation is not acceptable under accounting standards.

The mortality assumptions for both the current and prior year were based on the S3 Normal Lives base tables, with various scaling factors based on sex and status. For the 31 March 2023 assumptions each of the various scaling factors were 8ppts higher than as at 31 March 2022, reflecting the negative impact of COVID-19 on future life expectancy. Allowance, in both years, was made for improvements in mortality in line with CMI_2021 Core Projections and a long-term rate of improvement of 1.25% per annum.

The funding of the Scheme is based on long-term trends and assumptions relating to market growth, as advised by qualified actuaries and investment advisors. The weighted average duration of the defined benefit obligation is approximately 20 years.

The sensitivity of the Scheme liabilities to each of the key assumptions is shown in the following table.

Sensitivity analysis of the principal assumptions

Assumption	Indicative impact on Scheme assets	Indicative impact on Scheme liabilities	Indicative impact on net pension asset
Increase discount rate by 0.1%	Decrease by £7.0m	Decrease by £21.7m	Decrease by £14.7m
Increase rate of inflation by 0.1%	Increase by £5.5m	Increase by £20.6m	Increase by £15.1m
Increase life expectancy by one year	Increase by £14.3m	Increase by £34.0m	Decrease by £19.7m

The impact of movements in Scheme liabilities will, to an extent, be offset by movements in the value of Scheme assets as the Scheme has assets invested in a Liability Driven Investment portfolio. As at 31 March 2022 this portfolio hedged against approximately 95% of the interest rate risk and also 95% of the inflation rate risk, as measured on the Trustees' gilt-funded basis. During the current financial year, due to the increased volatility in gilt yields and reflecting increased liquidity requirements for Schemes running LDI portfolios, the hedges have been amended to cover approximately 65% of the interest rate risk and 80% of the inflation rate risk as at 31 March 2023, as measured on the Trustees' gilt-funded basis.

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (projected unit credit method) has been applied as when calculating the pension liability recognised within the statement of financial position. The methods and types of assumption did not change.

In addition to the sensitivity of the liability side of the net pension asset (which will impact the value of the net pension asset) the net pension asset is also exposed to significant variation due to changes in the fair value of Scheme assets. A specific sensitivity on assets has not been included in the above table but any change in valuation of assets flows straight through to the value of the net pension asset e.g. if equities fall by £10m then the net pension asset falls by £10m. The values of unquoted assets assume that an available buyer is willing to purchase those assets at that value. For the Group's portfolio of assets, the unquoted alternative bonds of £256.4m; the unquoted corporate bonds of £117.6m and the unquoted equities of £32.9m are the assets with most uncertainty as to valuation as at 31 March 2023.

The accounting assumptions noted are used to calculate the year end net pension asset in accordance with the relevant accounting standard, IAS 19 (revised) 'Employee Benefits'. Changes in these assumptions have no impact on the Group's cash payments into the Scheme. The payments into the Scheme are reassessed after every triennial valuation. The triennial valuations are calculated on a funding basis and use a different set of assumptions, as agreed with the pension Trustees. The key assumption that varies between the two methods of valuation is the discount rate. The funding basis valuation uses the risk-free rate from UK gilts as the base for calculating the discount rate, whilst the IAS 19 accounting basis valuation uses corporate bond yields as the base.

Risks

Through its defined benefit pension plan, the Group is exposed to a number of risks, the most significant of which are detailed below:

Volatility in market conditions	Results under IAS 19 can change dramatically depending on market conditions. The present value of Scheme liabilities is linked to yields on corporate bonds, while many of the assets of the Scheme are invested in various forms of assets subject to fluctuating valuations. Changing markets in conjunction with discount rate volatility will lead to volatility in the net pension asset on the Group's balance sheet and in other comprehensive income. To a lesser extent this will also lead to volatility in the IAS 19 pension net finance income in the Group's income statement.
Choice of accounting assumptions	The calculation of the present value of Scheme liabilities involves projecting future cash flows from the Scheme many years into the future. This means that the assumptions used can have a material impact on the balance sheet position and profit and loss charge. In practice future experience within the Scheme may not be in line with the assumptions adopted. For example, members could live longer than foreseen or inflation could be higher or lower than allowed for in the calculation of the liabilities.

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29. Share capital and other reserves

Shares allotted, called up and fully paid:

	Ordinary shares of 1p each (equity)		Special Share of £1 (non-equity)		Total	
	£	Number	£	Number	£	Number
As at 1 April 2022	5,787,571	578,757,121	1	1	5,787,572	578,757,122
Issue of new shares	-	-	-	-	-	-
At 31 March 2023	**5,787,571**	**578,757,121**	**1**	**1**	**5,787,572**	**578,757,122**

	Ordinary shares of 1p each (equity)		Special Share of £1 (non-equity)		Total	
	£	Number	£	Number	£	Number
As at 1 April 2021	5,742,571	574,257,121	1	1	5,742,572	574,257,122
Issue of new shares	45,000	4,500,000	-	-	45,000	4,500,000
At 31 March 2022	**5,787,571**	**578,757,121**	**1**	**1**	**5,787,572**	**578,757,122**

Except as noted below all shares in issue at 31 March 2023 rank pari-passu in all respects.

Rights attaching to the Special Share

QinetiQ carries out activities which are important to UK defence and security interests. To protect these interests in the context of the ongoing commercial relationship between the MOD and QinetiQ, and to promote and reinforce the Compliance Principles, the MOD holds a Special Share in QinetiQ. QinetiQ obtained MOD consent to changes in its Special Shareholder rights, which were approved by shareholders at the 2012 AGM. The changes to the Special Share were disclosed in the 2012 Annual Report. Subsequent to the changes approved at the 2012 AGM the Special Share confers certain rights on the holder:

a) to require the Group to implement and maintain the Compliance System (as defined in the Articles of Association) so as to make at all times effective its and each member of QinetiQ Controlled Group's application of the Compliance Principles, in a manner acceptable to the Special Shareholder
b) to refer matters to the Board for its consideration in relation to the application of the Compliance Principles
c) to require the Board to obtain Special Shareholder's consent:
   i) if at any time when the chairman is not a British citizen, it is proposed to appoint any person to the office of chief executive, who is not a British citizen
   ii) if at any time when the chief executive is not a British citizen, it is proposed to appoint any person to the office of chairman, who is not a British citizen
d) to require the Board to take action to rectify any omission in the application of the Compliance Principles, if the Special Shareholder is of the opinion that such steps are necessary to protect the defence or security interests of the United Kingdom
e) to demand a poll at any of QinetiQ's meetings (even though it may have no voting rights except those specifically set out in the Articles).

The Special Shareholder has an option to purchase defined Strategic Assets of the Group in certain circumstances. The Special Shareholder has, inter alia, the right to purchase any Strategic Assets which the Group wishes to sell. Strategic Assets are normally testing and research facilities (see note 31 for further details).

The Special Share may only be issued to, held by and transferred to HM Government (or as it directs). At any time the Special Shareholder may require QinetiQ to redeem the Special Share at par. If QinetiQ is wound up the Special Shareholder will be entitled to be repaid the capital paid up on the Special Share before other shareholders receive any payment. The Special Shareholder has no other right to share in the capital or profits of QinetiQ and the Special Shareholder must give consent to a general meeting held on short notice.

The Special Share entitles the Special Shareholder to require certain persons who hold (together with any person acting in concert with them) a material interest in QinetiQ to dispose of some or all of their ordinary shares in certain prescribed circumstances on the grounds of national security or conflict of interest. The Directors must register any transfer of the Special Share within seven days.

Other reserves

The translation reserve includes the cumulative foreign exchange difference arising on translation since the Group transitioned to IFRS. Movements on hedging instruments, where the hedge is effective, are recorded in the hedge reserve until the hedge ceases.

The capital redemption reserve, which was created following the redemption of preference share capital and the bonus issue of shares, cannot be distributed.

Own shares

Own shares represent shares in the Company that are held by independent trusts and include treasury shares and shares held by the employee share ownership plan. Included in retained earnings at 31 March 2023 are 4,208,899 shares (2022: 6,816,291 shares).

30. Share-based payments

The Group operates a number of share-based payment plans for employees. The total share-based payment expense in the year was £7.9m, all relating to equity-settled schemes (FY22: £7.8m, all relating to equity-settled schemes). The share-based payment charged to equity is £5.7m consisting of the £7.9m charge to the income statement offset by a £0.4m charge to equity in respect of dividends accruing on unvested awards and £1.8m of cash payments relating to the Bonus Banking Plan.

Group Share Incentive Plan (SIP)

Under the QinetiQ SIP the Group offers UK employees the opportunity of purchasing up to £150 worth of shares a month at the prevailing market rate. The Group will make a matching share award of a third of the employee's payment. The Group's matching shares may be forfeited if the employee ceases to be employed by QinetiQ within three years of the award of the shares. There is no exercise price for these SIP awards.

	FY23 Number of matching shares	FY22 Number of matching shares
Outstanding at start of the year	761,828	734,402
Awarded during the year	267,877	313,509
Exercised during the year	(220,369)	(247,433)
Forfeited during the year	(63,350)	(38,650)
Outstanding at end of the year	**745,986**	**761,828**

SIP matching shares are equity-settled awards; those outstanding at 31 March 2023 had an average remaining life of 1.5 years (2022: 1.5 years). There is no exercise price for these SIP awards. Of the shares outstanding at the end of the year nil were exercisable (2022: nil).

Bonus Banking Plan (BBP)

During the year the Group granted BBP awards to certain senior executives in the UK and US.

	FY23 Number of awards	FY22 Number of awards
Outstanding at start of the year	1,122,439	1,942,855
Granted during the year	602,408	529,683
Exercised during the year	(687,079)	(1,227,020)
Forfeited/lapsed during the year	(145,352)	(123,079)
Outstanding at end of the year	**892,416**	**1,122,439**

The BBP is a remuneration scheme that runs in three-year performance cycles, with each cycle vesting over a four-year period. Under the BBP a contribution will be made by the Company into the participant's Plan account following the end of each Plan year. 50% of the value of a participant's Plan account will be paid out annually for three years with 100% of the residual value paid out at the end of year four. 50% of the unpaid balance of a participant's bonus account will be at risk of forfeiture. Refer to the Directors' Remuneration Report for further details.

At 31 March 2023 the awards had an average remaining life of 1.7 years (2022: 1.6 years). There is no exercise price for these awards. The fair value of the awards at 31 March 2023 was £3.34 (2022: £3.02) being the Group's 30 day average on 31 March. Of the awards outstanding at the end of the year nil were exercisable.

Deferred Share Plan (DSP)

During the year the Group granted DSP awards to certain employees.

	FY23 Number of awards	FY22 Number of awards
Outstanding at start of the year	6,876,423	6,761,362
Difference between actual awards in year and amount provisionally awarded in prior year	26,046	126,565
Lapsed during the year	(599,763)	(334,922)
Exercised during the year	(2,368,264)	(1,460,253)
Provisionally awarded during the year	3,034,279	1,783,671
Outstanding at end of the year	**6,968,721**	**6,876,423**
Provisional awards outstanding	3,034,279	1,783,671
Awards outstanding	3,934,442	5,092,752
Outstanding at end of the year	**6,968,721**	**6,876,423**

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For the year ended 31 March

30. Share-based payments (continued)

The number of awards is dependent on the Group's performance during the year (specifically with respect to the Group revenue growth). This is provisionally quantified at year end based on Group performance and also the number of eligible employees in employment as at 31 March. Actual awards are made in the following June and the final number awarded will be slightly different to the number provisionally calculated. Awards are then subject to a three-year vesting period and a further two-year holding period. Vesting of the awards is contingent upon Group operating profit in the year prior to vesting being maintained at the level reported during the year prior to award. Refer to the Directors' Remuneration Report for further details.

At 31 March 2023 the awards had an average remaining life of 2.4 years (2022: 1.8 years). There is no exercise price for these awards. The fair value of the DSP's provisionally awarded at 31 March 2023 was £3.34 being the Group's 30 day average. The weighted average share price at date of exercise was £3.64 (2022: £3.50). Of the awards outstanding at the end of the year nil were exercisable.

Restricted share plan (RSP)
During the year the Group granted RSP awards to certain senior executives in the UK and US.

	FY23 Number of awards	FY22 Number of awards
Outstanding at start of the year	560,002	148,857
Granted during the year	608,158	495,685
Exercised during the year	(221,998)	(68,217)
Lapsed during the year	(4,814)	(16,323)
Outstanding at end of the year	**941,348**	**560,002**

At 31 March 2023 the awards had an average remaining life of 1.4 years (2022: 1.9 years). There is no exercise price for these awards. The weighted average fair value of grants made during the year was £3.41 (2022: £2.75). The weighted average share price at date of exercise was £3.17 (2022: £3.06). Of the options outstanding at the end of the year nil were exercisable (2022: nil).

Value Creation Plan (VCP)
The Group has granted awards under a Value Creation Plan to certain senior executives in the US.

	FY23 Number of awards	FY22 Number of awards
Outstanding at start of the year	206,675	335,848
Forfeited during the year	(31,576)	(129,173)
Outstanding at end of the year	**175,099**	**206,675**

At 31 March 2023 the awards had an average remaining life of 0.2 years (2022: 1.2 years). There is no exercise price for these awards. The weighted average fair value of grants made during the year was £nil (2022: nil). Of the options outstanding at the end of the year nil were exercisable.

High Performance Share Award (HPSA)
In a prior year, as one of eight initial measures in response to the COVID-19 pandemic, the senior leaders agreed to, on average, a temporary base salary reduction of 15%. To both recognise the senior leaders for their sacrifice and to incentivise them to lead the Group through the crisis as quickly and effectively as possible, the Group adopted a new award called High Performance Share Award (HPSA). The HPSA was awarded in November 2020 as a 'Thank Q' to senior leaders for their sacrifice and enormous efforts to lead their teams out of unprecedented crisis. The fair value of QinetiQ shares on grant date was £2.70 and the awards vest in June 2023. At 31 March 2023 the awards had an average remaining life of 0.3 years (2022: 1.3 years). Of the awards outstanding at the end of the year nil were exercisable.

	FY23 Number of awards	FY22 Number of awards
Outstanding at start of the year	1,336,372	1,336,372
Lapsed during the year	(13,041)	-
Outstanding at end of the year	**1,323,331**	**1,336,372**

Valuation of share-based awards
Share-based awards that vest based on non-market performance conditions have been valued at the share price at grant date and are equity-settled.

31. Transactions with the Ministry of Defence (MOD)

The MOD continues to own its Special Share in QinetiQ which conveys certain rights as set out in note 29. Transactions between the Group and the MOD are disclosed as follows:

Freehold land and buildings and surplus properties

Under the terms of the Group's acquisition of part of the business and certain assets of DERA from the MOD on 1 July 2001, the MOD retained certain rights in respect of the freehold land and buildings transferred.

Restrictions on transfer of title

The title deeds of those properties with strategic assets (see below) include a clause that prevents their transfer without the approval of the MOD. The MOD also has the right to purchase any strategic assets in certain circumstances.

MOD's generic compliance regime

Adherence to the generic compliance system is monitored by the Risk & Security Committee. Refer to the Committee's report within the Corporate Governance Statement on page 129.

Strategic assets

Under the Principal Agreement with the MOD, the QinetiQ controlled Group is not permitted without the written consent of the MOD, to:

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 2023 was £3.0m (2022: £3.9m).

Long Term Partnering Agreement

On 27 February 2003 QinetiQ Limited entered into a Long Term Partnering Agreement (LTPA) to provide test and evaluation (T&E) facilities and training support services to the MOD. This is a 25-year contract with a total revenue value of up to £5.6bn, dependent on the level of usage by the MOD, under which QinetiQ Limited is committed to providing T&E services with increasing efficiencies through cost saving and innovative service delivery. Following an amendment to the LTPA contract on 5 April 2019 this contract is no longer subject to re-pricing every five years and is now contracted at a fixed price to 31 March 2028.

Other contracts with MOD

The LTPA is the most significant contract QinetiQ has with the MOD. In total approximately 57% (FY22: 62%) of the Group's revenue comes directly from contracts with the MOD.

32. Contingent liabilities and assets

Subsidiary undertakings within the Group have given unsecured guarantees of £33.6m at 31 March 2023 (2022: £37.2m) in the ordinary course of business, typically in respect of performance bonds and rental guarantees.

The Company has on occasion been required to take legal action to protect its intellectual property rights, to enforce commercial contracts or otherwise and similarly to defend itself against proceedings brought by other parties, including in respect of environmental and regulatory issues. Provisions are made for the expected costs associated with such matters, based on past experience of similar items and other known factors, taking into account professional advice received, and represent management's best estimate of the likely outcome. The timing of utilisation of these provisions is uncertain pending the outcome of various court proceedings, ongoing investigations and negotiations. However, no provision is made for proceedings which have been or might be brought by other parties unless management, taking into account professional advice received, assesses that it is more likely than not that such proceedings may be successful. Contingent liabilities associated with such proceedings have been identified but the Directors are of the opinion that any associated claims that might be brought can be resisted successfully and therefore the possibility of any outflow in settlement is assessed as remote.

33. Capital commitments

The Group had the following capital commitments for which no provision has been made:

All figures in £ million	31 March 2023	31 March 2022
Total contracted	**43.4**	**34.7**

Capital commitments at 31 March 2023 include £21.2m (2022: £24.5m) in relation to property, plant and equipment that will be wholly funded by a third-party customer under long-term contract arrangements. These primarily relate to investments under the LTPA contract.

34. Related parties

During the year ended 31 March 2023 there were sales to associates and joint ventures of £0.4m (FY22: £5.2m). At the year-end there were outstanding receivables from associates and joint ventures of £0.5m (FY22: £1.0m).

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

35. Subsidiaries and other related undertakings

In accordance with section 409 of the Companies Act 2006, a full list of subsidiaries and other related undertakings as at 31 March 2023 is detailed below. Unless stated otherwise, the Group's holding comprises ordinary shares which are held indirectly by QinetiQ Group plc, with the exception of QinetiQ Group Holdings Limited which is held directly by QinetiQ Group plc.

Name of company	Country of incorporation	Registered office
Subsidiaries[1,6]		
Aerospace Training Services Pty Ltd.	Australia	Level 33, 101 Collins Street, Melbourne, VIC 3000, Australia
Air Affairs (Australia) Pty Ltd	Australia	Level 33, 101 Collins Street, Melbourne, VIC 3000, Australia
Air Affairs Aviation Pty Ltd.	Australia	Level 33, 101 Collins Street, Melbourne, VIC 3000, Australia
Air Target Services Pty Ltd.	Australia	Level 33, 101 Collins Street, Melbourne, VIC 3000, Australia
Astra Aerospace Pty Ltd.	Australia	Level 33, 101 Collins Street, Melbourne, VIC 3000, Australia
Avantus Federal LLC	USA	8281 Greensboro Drive, Ste 400, McLean, VA 22102, USA
Avantus Federal Services LLC	USA	8281 Greensboro Drive, Ste 400, McLean, VA 22102, USA
Avantus National Security Solutions LLC	USA	8281 Greensboro Drive, Ste 400, McLean, VA 22102, USA
BJ Trustee Limited	England & Wales	Farnborough[3]
cueSim Limited	England & Wales	Farnborough[3]
Data Works LLC	USA	8281 Greensboro Drive, Ste 400, McLean, VA 22102, USA
E3 Federal Solutions PR Inc.	USA	8281 Greensboro Drive, Ste 400, McLean, VA 22102, USA
Erial LLC	USA	8281 Greensboro Drive, Ste 400, McLean, VA 22102, USA
Far Ridgeline Engagements LLC	USA	8281 Greensboro Drive, Ste 400, McLean, VA 22102, USA
Foster-Miller Canada Limited	Canada	318 Roxton Drive, Waterloo, Ontario, N2T 1R6, Canada
Foster-Miller Inc[2]	USA	350 2nd Avenue, Waltham, Massachusetts, MA 02451, USA
Graphics Research Corporation Limited	England & Wales	Farnborough[3]
Gyldan 11 Limited	England & Wales	Farnborough[3]
Inzpire Group Limited	England & Wales	Farnborough[3]
Inzpire Holdings Limited	England & Wales	Landmark House West, Unit 1b, Alpha Court, Kingsley Road, Lincoln, Lincolnshire, LN6 3TA
Inzpire Limited	England & Wales	Landmark House West, Unit 1b, Alpha Court, Kingsley Road, Lincoln, Lincolnshire, LN6 3TA
Hirose Holdings Pty Ltd.	Australia	Level 33, 101 Collins Street, Melbourne, VIC 3000, Australia
Leading Technology Limited	England & Wales	Farnborough[3]
Lucid Perspectives LLC	USA	8281 Greensboro Drive, Ste 400, McLean, VA 22102, USA
MTEQ Precision Machining LLC	USA	10440 Furnace Road, Suite 204, Lorton, VA 22079,, USA
Metrix UK Limited	England & Wales	Farnborough[3]
Naimuri Limited	England & Wales	Farnborough[3]
Occam's Razor Technologies LLC	USA	8281 Greensboro Drive, Ste 400, McLean, VA 22102, USA
Operational Intelligence LLC	USA	8281 Greensboro Drive, Ste 400, McLean, VA 22102, USA
Precis (2187) Limited	England & Wales	Farnborough[3]
Precis (2188) Limited	England & Wales	Farnborough[3]
Qinetic Limited	England & Wales	Farnborough[3]
QinetiQ Aerostructures Pty Ltd	Australia	Level 3, 210 Kings Way, South Melbourne, VIC 3205, Australia
QinetiQ Australia Pty Ltd	Australia	Level 3, 210 Kings Way, South Melbourne, VIC 3205, Australia
QinetiQ Consulting Pty Ltd	Australia	Level 3, 12 Brindabella Court, Brindabella Business Park, Majura ACT 2609, Australia.
QinetiQ Estates Limited	England & Wales	Farnborough[3]
QinetiQ GmbH	Germany	Flughafenstraße 65, 41066, Mönchengladbach, Germany
QinetiQ GP Limited	Scotland	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, Scotland
QinetiQ Group Canada Inc.[2]	Canada	5300 Commerce Court West, 199 Bay Street, Toronto ON M5L 1A9, Canada
QinetiQ Group Holdings Limited	England & Wales	Farnborough[3]
QinetiQ Holdings Limited	England & Wales	Farnborough[3]
QinetiQ Inc[2,]	USA	10440 Furnace Road, Suite 204, Lorton, VA 22079,, USA
QinetiQ Insurance PCC Limited	Guernsey	Mill Court, La Charroterie, St Peter Port, GY1 4ET Guernsey
QinetiQ Limited	England & Wales	Farnborough[3]
QinetiQ Novare Pty Ltd	Australia	Petrie House, level 6, 80 Petrie Terrace, Brisbane QLD 400, Australia
QinetiQ Overseas Holdings Limited	England & Wales	Farnborough[3]
QinetiQ Overseas Trading Limited	England & Wales	Farnborough[3]
QinetiQ Pension Scheme Trustee Limited	England & Wales	Farnborough[3]
QinetiQ PFP Limited Partnership[4]	Scotland	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, Scotland
QinetiQ Philippines Company, Inc	Philippines	22nd Floor Corporate Centre, 139 Valero Street, Salcedo Village, Makati City, Philippines
QinetiQ Pty Ltd	Australia	Level 33, 101 Collins Street, Melbourne, VIC 3000, Australia
QinetiQ Services Holdings Pty Ltd	Australia	Level 33, 101 Collins Street, Melbourne, Victoria 3000, Australia

Name of company	Country of incorporation	Registered office
QinetiQ Solutions Sdn. Bhd.	Malaysia	Suite 6.01, 6th Floor, Plaza See Hoy Chan, Jalan Raja Chulan 50200, Kuala Lumpur, W.P. Kuala Lumpur, Malaysia
QinetiQ Special Projects Inc	USA	5885 Trinity Parkway, Suite 130, Centreville, Virginia 20120-1969, USA
QinetiQ Sweden AB	Sweden	Box 1541, 581 15, Linkoping, Stockholm, Sweden
QinetiQ Target Services Limited	England & Wales	Farnborough[3]
QinetiQ Target Systems Limited	England & Wales	Farnborough[3]
QinetiQ Training and Simulation Limited	England & Wales	Farnborough[3]
QinetiQ US Holdings, Inc.	USA	5885 Trinity Parkway, Suite 130, Centreville, Virginia 20120-1969, USA
RubiKon Group Pty Limited	Australia	Level 33, 101 Collins Street, Melbourne, Victoria 3000, Australia
Sensoptics Limited	England & Wales	Farnborough[3]
Sentinel OpCo LLC	USA	8281 Greensboro Drive, Ste 400, McLean, VA 22102, USA
TSG International LLC	USA	350 2nd Avenue, Waltham, Massachusetts 02451, USA
Joint ventures[6]		
Houbara Defence & Security LLC[5,6]	United Arab Emirates	Unit 3, Zone 4, Tawazun Industrial Park, Abu Dhabi, United Arab Emirates, PO Box 128220
QinetiQ Dar Massader QDM Limited[5,6]	Saudi Arabia	Al Nakhla Tower, 3026-Prince Saud Bin Mohamed Bin Muqin Road, PO Box 2985, Riyadh 13321, Kingdom of Saudi Arabia
Avantus CTA, LLC	USA	8281 Greensboro Drive, Ste 400, McLean, VA 22102, USA
Federal Mission Solutions, LLC	USA	8281 Greensboro Drive, Ste 400, McLean, VA 22102, USA
Hive Fed Solutions LLC	USA	8281 Greensboro Drive, Ste 400, McLean, VA 22102, USA

1 As at 31 March 2023 the Group owned 100% of the ordinary shares of all subsidiary undertakings.
2 The class of shares is 'common share'.
3 Cody Technology Park, Ively Road, Farnborough, Hampshire, GU14 OLX.
4 Limited partnership. The partners are all wholly-owned Group companies.
5 As at 31 March 2023 the Group owned 49% of Houbara Defence & Security LLC and 49% of QinetiQ Dar Massader QDM Limited.
6 The financial year end of each undertaking is 31 March other than Houbara Defence & Security LLC (31 December) and QinetiQ Dar Massader QDM Limited (31 December).

36. Basis of preparation and significant accounting policies

QinetiQ Group plc ('the Company') is a public limited company, which is listed on the London Stock Exchange and is incorporated and domiciled in England, United Kingdom. The consolidated financial statements of the Group comprise statements for the Company and its subsidiaries, together referred to as 'the Group'.

Accounting policies

The following accounting policies have been applied consistently to all periods presented in dealing with items that are considered material in relation to the Group's financial statements. In the income statement, the Group presents 'specific adjusting items' separately. In the judgement of the Directors, for the reader to obtain a proper understanding of business performance, specific adjusting items need to be disclosed separately. Underlying measures of performance exclude specific adjusting items.

Specific adjusting items

Specific adjusting items include the following:

Item	Distorting due to irregular nature year on year	Distorting due to fluctuating nature (size and sign)	Does not reflect in-year operational performance of continuing business
Amortisation of intangible assets arising from acquisitions			✓
Pension net finance income		✓	✓
Gains/losses on disposal of property and investments	✓	✓	✓
Transaction & integration costs in respect of business acquisitions and disposals	✓		✓
Impairment of property and goodwill	✓		
Digital investment	✓	✓	✓
Costs of group-wide restructuring programmes	✓	✓	
The tax impact of the above	✓	✓	✓
Other significant non-recurring tax and RDEC movements	✓	✓	✓

The financial impact of each item is reported in note 4 to these financial statements.

These 'specific adjusting items' are of a 'non-operational' nature and do not include all significant, irregular items that are of an operational nature, for example contract risk provisions and gains/losses on disposal of plant and equipment.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

36. Basis of preparation and significant accounting policies (continued)

Basis of preparation

The Group's financial statements, approved by the Directors, have been prepared on a going concern basis as discussed in the Strategic Report on page 85 in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. The Company has elected to prepare its parent company financial statements in accordance with UK GAAP (FRS 101); these are presented on page 226. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of relevant financial assets and liabilities. The Group's reporting currency is Sterling and unless otherwise stated the financial statements are rounded to the nearest £100,000.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary undertakings to 31 March 2023. The purchase method of accounting has been adopted. Those subsidiary undertakings acquired or disposed of in the period are included in the consolidated income statement from the date control is obtained to the date that control is lost (usually on acquisition and disposal respectively). An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. This is the IFRS 10 definition of 'control'.

The Group comprises certain entities that are operated within the terms of a Special Security Arrangement ('SSA'). Details of the SSA and QinetiQ's management of US subsidiaries are set out in the Corporate Governance section of this Annual Report (on page 103). IFRS 10 is the accounting standard applicable in respect of consolidation of entities. This does not specifically deal with SSA's. However, having considered the terms of the SSA, the Directors consider that the Group meets the requirements of IFRS 10 in respect of control over such affected entities and, therefore, consolidates these entities in the consolidated accounts. The impact of this specific judgement is full consolidation as opposed to treatment as a 100% associated undertaking.

An associate is an undertaking over which the Group exercises significant influence, usually from 20%–50% of the equity voting rights, in respect of financial and operating policy. A joint venture is an undertaking over which the Group exercises joint control. Associates and joint ventures are accounted for using the equity method from the date of acquisition to the date of disposal. The Group's investments in associates and joint ventures are held at cost including goodwill on acquisition and any post-acquisition changes in the Group's share of the net assets of the associate less any impairment to the recoverable amount. Where an associate or joint venture has net liabilities, full provision is made for the Group's share of liabilities where there is a constructive or legal obligation to provide additional funding to the associate or joint venture.

The financial statements of subsidiaries, joint ventures and associates are adjusted where necessary to ensure compliance with Group accounting policies.

Consideration of climate change

In preparing the financial statements, the Board have considered the impact to the organisation and its activities of climate change, particularly those risks highlighted on page 80 in line with the recommendations by the Task Force for Climate-related Disclosures (TCFD). The Board recognises its responsibilities for oversight of climate-related risks and opportunities. The QinetiQ Leadership Team support the Board through the implementation of a strategic led approach to monitor, assess and address climate transition risks and opportunities.

Specific aspects of the financial statements that could potentially be impacted by climate change are the carrying value and useful economic lives of tangible assets and goodwill, future capability development and the financial performance of customer contracts. Whilst the Group will likely be impacted by climate change in the future, the impacts on the financial statements as at 31 March 2023 are not considered to be material.

Recent accounting developments

Developments adopted by the Group for the year ended 31 March 2023 with no material impact on the Group's financial statements

The following standards, interpretations and amendments to existing standards became effective on 1 January 2022 and have not had a material impact on the Group:

- Amendments to IFRS 3 Business Combinations, effective from 1 January 2022;
- Amendments to IAS 16 Property, Plant and Equipment – Proceeds before Intended Use effective from 1 January 2022;
- Amendments to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract effective from 1 January 2022; and
- Annual Improvements to IFRS Accounting Standards 2018–2020 Cycle effective from 1 January 2022.

Developments expected in future periods of which are not expected to have a material impact on the Group's financial statements

The following other standards, interpretations and amendments to existing standards have been issued but were not mandatory for accounting periods beginning on 1 April 2022. These either have been, or are expected to be endorsed by the UK Endorsement Board and are not expected to have a material impact on the Group:

- IFRS 17 Insurance Contracts, effective from 1 January 2023;
- Amendments to IAS 1: Presentation of Financial Statements, effective from 1 January 2023;
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies, effective from 1 January 2023;
- Amendments to IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors, effective from 1 January 2023;
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture; and
- Amendments to IAS 12: Income Taxes, effective from 1 January 2023

Significant accounting policies

Revenue from contracts with customers

The Group recognises revenue primarily from the following major sources:

- Through combining world-leading expertise with unique facilities to provide technical assurance, test and evaluation and training services underpinned by long-term contracts;
- Through delivering innovative solutions and products to meet customer requirements by undertaking contract-funded research and development, developing intellectual property and by internal funding with potential for new revenue streams.

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer. The Group's revenue contracts are accounted for under IFRS 15 'Revenue from Contracts with Customers' taking into account the requirement to distinguish between the various performance obligations within a contract and treating these separately. The Group's methodology applies IFRS 15 on a contract-by-contract basis which includes considerations for contract modifications, variable consideration, the determination of distinct performance obligations, determination of agency and principal relationships and licences.

Service contracts

The Group's long-term service contracts are generally 'test and evaluation' or advice-based contracts where control of the service is transferred over a period of time as the Group performs. At contract inception the Group undertakes an assessment to determine how many distinct performance obligations exists within a contract. As part of the assessment the Group obtains an understanding of the overall deliverable to the customer through discussions with business units and project leads. Each individual deliverable in the contract is then assessed to determine if it is an input into the overall deliverable, and therefore part of a single performance obligation, or if it is a stand-alone separable deliverable with its own transaction price and therefore a distinct performance obligation in its own right. Each distinct performance obligation identified within a contract is accounted for separately.

Certain service contracts have a similar pattern of transfer of control to the customer where each year is effectively the same from a performance obligation perspective. The Group has applied the series guidance as permitted within the Standard to these contracts and accounts for these as a series of distinct service performance obligations satisfied annually over the contract term.

The transaction price for a contract is determined at contract inception based on a fixed-margin applied to the total forecast costs to complete the deliverable. Some long-term contracts include an excess profit clause which is a variable consideration factor that could impact the transaction price. Excess profits are estimated at contract inception and at the end of each reporting period to ensure that the transaction price is not under or over stated. Any required adjustment will be made against the transaction price in the period in which it occurred. The Group does not offer any right of return or refunds which could impact transaction price at inception.

Certain contracts attract bonuses and/or penalties which are variable and will have an impact on transaction price at contract inception. The Group assesses variable consideration in relation to bonuses and penalties at contract inception using the most-likely method and this forms part of the transaction price and recognised over time as costs are incurred. The Group only includes bonuses and penalties into the transaction price to the extent that it is highly probable that a significant reversal of revenue will not occur in future periods. Historical evidence and experience shows that even where a reduction has been required, that reduction has been immaterial to the Group.

The transaction price is allocated between each distinct performance obligation identified in a contract based on the stand-alone selling price of each performance obligation. Each performance obligation will be costed and the transaction price will be cost plus margin. This amount would be the stand-alone selling price of each performance obligation if contracted with a customer separately.

Long-term service contracts allow for modifications to the original order. If a contract modification is determined to be distinct and the price of the contract increases by an amount of consideration that reflects the entity's stand-alone selling prices for the additional promised goods or services, the Group accounts for this as a separate contract. If a contract modification is not distinct, the Group accounts for this as if it were part of the existing contract. A cumulative catch-up adjustment to revenue is then recognised to disclose the effect that the contract modification has on the transaction price and the Group's measure of progress towards complete satisfaction of the performance obligation.

Long-term service contracts also sometimes allow for extensions to the original order. A contract extension is determined to include either additional goods or services or no additional goods or service. If a contract extension with additional goods or services is determined to be distinct and the price of the contract increases by an amount of consideration that reflects the entity's stand-alone selling prices for the additional promised goods or services, the Group accounts for this as a separate performance obligation.

If a contract extension with additional goods or services is not distinct, the Group accounts for this as if it were part of the existing contract. A cumulative catch-up adjustment to revenue is then recognised to disclose the effect that the contract extension has on the transaction price and the Group's measure of progress towards complete satisfaction of the performance obligation.

When the outcome of a distinct performance obligation in delivering services can be reliably estimated, revenue associated with the performance obligation is recognised over time using the input method. The input method recognises revenue over time on the basis of costs incurred to date to the satisfaction of a performance obligation relative to the total forecast costs to complete the performance obligation. The Group has determined the input method to be appropriate as it best depicts the Group's performance in transferring control of the service to the customer as it incurs costs on a particular contract.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

36. Basis of preparation and significant accounting policies (continued)

No profit is recognised on contracts until the outcome of the contract can be reliably estimated. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately as an expense.

Goods sold

The Group recognises revenue on the sale of products at a point in time once control has been transferred to the customer. Control is generally transferred to customers on delivery of products or when the customer has the significant risks and rewards of ownership of the product. Payment is typically due within 30 days of invoice (within the UK) and customers typically do not have a right of return or refund. The transaction price for sale of products is agreed at contract inception. When the Group develops a bespoke product for a customer with no alternative use to the Group, revenue is recognised over time using the input method.

Licence revenue

Licence revenue is attributed to either 'right to use' or 'right to access' licences. 'Right to use' licence revenue is recognised at a point in time when the Group sells a licence to a customer and does not undertake significant further activities or involvement in developing the licence after the sale. 'Right to access' licence revenue is recognised over time when the Group maintains a significant level of involvement in developing and enhancing the licence after the sale. The level of involvement goes beyond general support, bug-fixing and upgrades which generally only maintain the current operating level. The transaction price for intellectual property is agreed at contract inception. The Group does not offer any right of return or refunds which could impact transaction price at inception.

The Group recognises licence revenue through the supply of a range of security, messaging and connectivity software products. A licence fee is paid for each computer that uses the software and the customer can also purchase a support service contract for a fixed period. The sale of these types of licences is recognised at a point in time as a distinct performance obligation because the Group does not undertake any further activities in developing the licence after the sale. The support service contract is recognised over time as a separate performance obligation as this is an optional extra and is not integral into the functionality of the licence. The support service contract offers general support and maintenance of the licence to the customer over a fixed period.

Contract assets

Contract assets represent revenue recognised in excess of amounts invoiced. Revenue is recognised on service contracts by using a 'percentage complete' method, applying the proportion of contract costs incurred for work performed to date relative to the estimated total contract cost, after making suitable allowances for technical and other risks related to performance milestones yet to be achieved, and applying that proportion to total contract price. Payment for service contracts are not always due from the customer until certain milestones have been reached and, therefore, a contract asset is recognised over the period in which the services are performed representing the Group's right to consideration for services performed to date, to the extent that the customer has not yet been invoiced for those services.

Contract liabilities

The Group, on occasion, bills customers in advance of performing certain types of work which results in the Group recognising contract liabilities. Once the work has been performed these amounts will be reduced and recognised as revenue. For sale of goods, revenue is recognised in the income statement when control of the goods has been transferred to the customer; being at the point when the goods are delivered. Any transaction price received by the Group prior to that point is recognised as a contract liability.

Principal-agent arrangements

The Group enters into certain arrangements which involve a consortium of service providers. The Group acts as a 'Prime' contractor in certain contracts with customers and utilises sub-contractors to undertake the work. Under these contracts the Group is considered to be primarily responsible for fulfilling the service to the customer. The Group performs a technical assessment of the work before it is delivered to the customer and is responsible for quality and performance of the sub-contractor. As such the Group is considered to be the principal to the arrangement with the customer and includes sub-contractor costs within revenue. However, where the Group is merely acting as an agent of a sub-contractor then no revenue is recognised in respect of sub-contractor costs.

All consortium arrangements are assessed by the Group to determine if it is the principal or agent.

Contract bidding costs

The Group recognises the 'incremental costs of obtaining a contract' with a customer as an asset if the Group expects to recover those costs. The 'incremental costs of obtaining a contract' are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been won. Costs to obtain a contract that would have been incurred regardless of whether the contract was won or lost shall be recognised as an expense when incurred, unless those costs are explicitly chargeable to the customer.

Segmental information

Segmental information is presented according to the Group's internal management reporting structure and the markets in which it operates. Segmental results represent the contribution of the different segments to the profit of the Group. Corporate expenses are allocated to the corresponding segments. Unallocated items mainly comprise Research and Development Expenditure Credits (RDEC) and specific adjusting items. Specific adjusting items are referred to in note 4. Segmental assets and liabilities information is not regularly provided to the Chief Operating Decision Maker.

Research and development expenditure

Research and development (R&D) costs incurred in respect of specific contracts placed by customers are recognised within operating costs and revenue is recognised in respect of the R&D services performed. Internally funded development expenditure is capitalised in the balance sheet where there is a clearly defined project, the expenditures are separately identifiable, the project is technically and commercially feasible, all costs are recoverable by future revenue and the resources are committed to complete the project. Such capitalised costs are amortised over the forecast period of sales resulting from the development. All other R&D costs are expensed to the income statement in the period in which they are incurred. If the research phase cannot be clearly distinguished from the development phase, the respective project-related costs are treated as if they were incurred in the research phase only and expensed.

Borrowings and financing

The Group has a term loan and access to a revolving credit facility with its relationship banks. Borrowings are initially recognised at fair value. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as non-current liabilities where the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. The Group pays in advance finance costs in relation to the multi-currency facility which are recognised as a deferred finance cost asset and amortised over the period of the facility, where it is probable that some or all of the facility will be drawn down. Costs of letters of credit are also charged to finance expense.

Exchange differences on financial assets and liabilities and the income or expense from interest hedging instruments that are recognised in the income statement are included within finance income and finance expense. Financing also includes the net finance income or expense in respect of defined benefit pension schemes.

Taxation

The income tax expense or credit for the period is the tax payable on the current period’s taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries and associates operate and generate taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future. Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Research and Development Expenditure Credits (RDEC) are now recognised within other operating income following a change in accounting policy, see note 38.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

36. Basis of preparation and significant accounting policies (continued)

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered primarily through a sales transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and expected to be completed within a year of the balance sheet date. The assets should be available for immediate sale in their present condition and actively marketed at a price that is reasonable in relation to their current fair value.

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Any write-down to fair value less costs to sell shall be recognised directly through profit and loss as an impairment loss. No further depreciation is charged in respect of assets classified as held for sale.

Goodwill

Goodwill on acquisitions of subsidiaries is included in non-current assets. Goodwill on acquisitions of joint ventures and associates is included in the carrying value of equity accounted investments. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

Intangible assets

Intangible assets arising from business combinations are recognised at fair value and are amortised over their expected useful lives, typically between 1 and 16 years. Internally generated intangible assets are recorded at cost, including labour, directly attributable costs and any third-party expenses.

The 'multi-period excess earnings' method and the 'relief-from-royalty' method are both used for fair valuing intangible assets arising from acquisitions. The multi-period excess earnings method considers the present value of net cash flows expected to be generated by customer relationships, by excluding any cash flows related to contributory assets. The relief-from-royalty method considers the discounted estimated royalty payments that are expected to be avoided as a result of the patents or trademarks being owned. Purchased intangible assets are recognised at cost less amortisation. Intangible assets are amortised over their respective useful lives on a straight-line basis as follows:

Intellectual property rights	2–10 years
Customer relationships	1–16 years
Development costs	1–5 years
Other	1–14 years

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation. Freehold land is not depreciated. Other tangible non-current assets are depreciated on a straight-line basis over their useful economic lives to their estimated residual value as follows:

Freehold buildings	20–25 years
Leasehold land and buildings	Shorter of useful economic life and the period of the lease
Plant and machinery	3–15 years
Motor vehicles	3–5 years
Aircraft	10–20 years
Computers	3–5 years
Office equipment	5–10 years

Assets under construction are included in property, plant and equipment on the basis of expenditure incurred at the balance sheet date. In the case of assets constructed by the Group, the value includes the cost of own work completed, including directly attributable costs and interest. The useful lives, depreciation methods and residual values applied to property, plant and equipment are reviewed annually and, if appropriate, adjusted accordingly.

Impairment of goodwill and tangible, intangible and held for sale assets

At each reporting date the Group assesses whether there is an indication that an asset may be impaired. If the carrying amount of any asset exceeds its recoverable amount an impairment loss is recognised immediately in the income statement. In addition, goodwill is tested for impairment annually irrespective of any indication of impairment. If the carrying amount exceeds the recoverable amount, the respective asset or the assets in the cash-generating unit (CGU) are written down to their recoverable amounts. The recoverable amount of an asset or CGU is the higher of its fair value less costs to sell and its value in use. The value in use is the present value of the future cash flows expected to be derived from an asset or CGU calculated using an appropriate pre-tax discount rate. Impairment losses are expensed to the income statement.

Leases

Leases – as a lessor

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term (note 26). Initial direct costs incurred in obtaining an operating leases are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature.

Leases – as a lessee

The Group leases various offices, aircraft, equipment and vehicles. Rental contracts are typically made for fixed periods of 6 months to 25 years, but may have extension options as described below.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone process. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leases assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If the rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by QinetiQ Plc, which does not have recent third party financing, and
- makes adjustments specific to the lease, for example to term, country, currency and security.

The Group is not exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. The Group does not revalue its land and buildings that are presented within property, plant and equipment and has chosen to do the same for right-of-use buildings by the Group. Payments associated with short-term leases of offices, equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise lease assets under £5,000.

Lease extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

36. Basis of preparation and significant accounting policies (continued)

For leases of offices and equipment, the following factors are normally the most relevant:

- if there are significant penalties to terminate (or extend), the group is typically reasonably certain to end (or not to terminate);
- if any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate);
- Otherwise, the Group considers other factors including historical lease durations and the costs and business disruptions required to replace the leased asset.

Most extension options in office and vehicles leases have not been included in the lease liability, because the Group could replace the assets without significant cost or business disruption.

As at 31 March 2023 no (undiscounted) potential future cash outflows have been included in the lease liability for extension or termination.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event of significant change in circumstance occurs, which affects this assessment, and that is within the control of the lessee. During the current financial year, the financial effect of revising lease terms to reflect the effect of exercising extension or termination options was nil (FY22: nil) in recognised lease liabilities and right-of-use assets.

Investments in debt and equity securities

Investments held by the Group are classified as either a current asset or as a non-current asset. These are investments in debt and equity instruments that are classified as at fair value through other comprehensive income. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement.

The fair value of quoted financial instruments is their bid price at the balance sheet date. The fair value of unquoted equity investments is based on the price of the most recent investment by the Group or a third party, if available, or derived from the present value of forecast future cash flows.

Inventories

Inventory and work-in-progress are stated at the lower of cost and net realisable value. Work-in-progress and manufactured finished goods are valued at production cost. Production cost includes direct production costs and an appropriate proportion of production overheads. A provision is established when the net realisable value of any inventory item is lower than its cost. A 'market comparison' technique is used to fair value inventories acquired through a business combination. The fair value is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Trade and other receivables

Trade and other receivables are measured at amortised cost less any impairment losses. Amounts recoverable on contracts are included in trade and other receivables and represent revenue recognised in excess of amounts invoiced. Other receivables will also include insurance recoveries where we are virtually certain of recovery.

Impairment of trade and other receivables

The Group applies the simplified approach when using the expected credit loss (ECL) impairment model for trade and other receivables. Under the simplified approach the Group always measures the loss allowance at an amount equal to the lifetime expected credit losses for trade receivables. The Group measures the expected credit losses of trade and other receivables in a way that reflects a probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and supportable information that is readily available at each reporting date about past events, current condition and forecasts of future economic conditions. The ECL's are updated each reporting period to reflect changes in credit risk since initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and short-term, highly liquid investments that are readily convertible into a known amount of cash and which are subject to an insignificant risk of changes in value. The Group holds various short-maturity money market funds (see note 24) across numerous financial institutions which meet the IAS 7 criteria to be classified as cash equivalents. In the cash flow statement overdraft balances are included in cash and equivalents. Cash and cash equivalents includes an element that is restricted in use (note 24).

Current and non-current liabilities

Current liabilities include amounts due within the normal operating cycle of the Group. Deferred income, or 'contract liabilities', is included in trade and other payables and represents amounts invoiced in excess of revenue recognised. Interest-bearing current and non-current liabilities are initially recognised at fair value and then stated at amortised cost with any difference between the cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest rate basis. Costs associated with the arrangement of bank facilities or the issue of loans are held net of the associated liability presented in the balance sheet. Capitalised issue costs are released over the estimated life of the facility or instrument to which they relate using the effective interest rate method. If it becomes clear that the facility or instrument will be redeemed early, the amortisation of the issue costs will be accelerated.

Provisions
A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event which can be reliably estimated, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where appropriate, provisions are determined by discounting the expected cash flows at an appropriate discount rate reflecting the level of risk and the time value of money. Where an exposure is highly likely to be covered by insurance an offsetting receivable is recorded.

Financial instruments
Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument at the trade date. The de-recognition of a financial instrument takes place when the Group no longer controls the contractual right that comprise the financial instrument, when the instrument expires, or when the instrument is sold, terminated or exercised.

Financial assets and liabilities
Financial assets are classified on the Group's balance sheet as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. This classification is made on the basis of both the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Financial liabilities are classified on the Group's balance sheet as subsequently measured at amortised cost except for financial liabilities at fair value through profit and loss. The Group may at initial recognition irrevocably designate a financial liability as measured at fair value through profit or loss if a contract contains one or more embedded derivatives and the host is not an asset within the scope of IFRS 9, or when doing so results in more relevant information.

Derivative financial instruments
Derivative financial instruments are initially recognised and thereafter held at fair value, being the market value for quoted instruments or valuation based on models and discounted cash flow calculations for unlisted instruments.

Fair value hedging
The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group uses foreign exchange contracts and interest rate swap contracts to hedge these exposures. The use of financial derivatives is governed by the Group's Treasury Policies as approved by the Board of Directors, which provides written principles on the use of derivatives. The Group does not use derivative instruments for speculative purposes.

Certain derivative instruments do not qualify for hedge accounting. These are categorised as "fair value through profit or loss" and are stated at fair value, with any resultant gain or loss recognised in the income statement.

The Group designates certain hedging instruments in respect of foreign currency risk as cash flow hedges. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents, both at hedge inception and on an ongoing basis, whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

For the Group's cash flow hedges of highly probable forecast transactions in foreign currencies, the hedge ratio is 100%, subject to a £100k de Minimis threshold. If the underlying exposure changes over time, either due to commercial factors or timing differences, the hedging instruments will be rebalanced to ensure that the hedge ratio of 100% is maintained.

Cash flow hedging
Changes in the fair value of derivatives designated as a cash flow hedge that are regarded as highly effective are recognised in equity. The ineffective portion is recognised immediately in the income statement. Where a hedged item results in an asset or a liability, gains and losses previously recognised in equity are included in the cost of the asset or liability. Gains and losses previously recognised in equity are removed and recognised in the income statement at the same time as the hedged transaction.

Foreign currencies
Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at period-end rates. Any resulting exchange differences are taken to the income statement. Gains and losses on designated forward foreign exchange hedging contracts are matched against the foreign exchange movements on the underlying transaction.

The individual financial statements of each Group company are presented in its functional currency. On consolidation, assets and liabilities of overseas subsidiaries, associated undertakings and joint ventures, including any related goodwill, are translated to Sterling at the rate of exchange at the balance sheet date. The results and cash flows of overseas subsidiaries, associated undertakings and joint ventures are translated to Sterling using the average rates of exchange during the period. Exchange adjustments arising from the re-translation of the opening net investment and the results for the period to the period-end rate are taken directly to equity and reported in the statement of comprehensive income.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

36. Basis of preparation and significant accounting policies (continued)

Post-retirement benefits

The Group provides both defined contribution and defined benefit pension arrangements. The liabilities of the Group arising from defined benefit obligations are determined using the projected unit credit method. Valuations for accounting purposes are carried out bi-annually. Actuarial advice is provided by external consultants. For the funded defined benefit plans, the excess or deficit of the fair value of plan assets less the present value of the defined benefit obligation are recognised as an asset or a liability respectively.

Per the Scheme rules the Company has an unconditional right to a refund of any surplus that may arise on cessation of the Scheme in the context of IFRIC 14 paragraphs 11(b) and 12 and, therefore, the full net pension asset can be recognised on the Group's balance sheet and the Group's minimum funding commitments to the Scheme do not give rise to an additional balance sheet liability.

For defined benefit plans the cost charged to the income statement consists of administrative expenses and the net interest income. There is no service cost due to the fact the plans are closed to future accrual. The net interest income is reported within finance income and the administration cost element is charged as a component of operating costs in the income statement. Actuarial gains and losses and re-measurement gains and losses are recognised immediately in full through the statement of comprehensive income. Contributions to defined contribution plans are charged to the income statement as incurred.

Share-based payments

The Group operates share-based payment arrangements with employees. The fair value of equity-settled awards for share-based payments is determined on grant and expensed straight line over the period from grant to the date of earliest unconditional exercise. The charges for equity settled share-based payments are updated annually for non-market-based vesting conditions.

Share capital

Ordinary share capital of the Company is recorded as the proceeds received, less issue costs. Company shares held by the employee benefit trusts are held at the consideration paid. They are classified as own shares within equity. Any gain or loss on the purchase, sale or issue of Company shares is recorded in equity.

Non-controlling interests

The Group recognises non-controlling interest in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. For non-controlling interests that the Group holds, the Group elected to recognise the non-controlling interests at its proportionate share of the acquired net identifiable assets.

37. Critical accounting estimates and judgments in applying accounting policies

Critical accounting estimates

The following commentary is intended to highlight key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the financial statements in the next financial year.

Estimated goodwill impairment

The Group tests annually whether goodwill has suffered any impairment. This process relies on the use of estimates of the future profitability and cash flows of its cash generating units which may differ from the actual results delivered. In addition, the Group reviews whether identified intangible assets have suffered any impairment. Further details on the sensitivity of the carrying value of goodwill to changes in the key assumptions are set out in note 14.

Estimation of the Group's defined benefit pension net surplus

The Group's defined benefit pension obligations (and hence the net surplus) are based on key assumptions, including discount rates, mortality and inflation. Management exercises its best judgement, in consultation with actuarial advisors, in selecting the values for these assumptions that are the most appropriate to the Group. Small changes in these assumptions at the balance sheet date, individually or collectively, may result in significant changes in the size of the net surplus/deficit. Further details of these assumptions and the sensitivity of the net pension surplus to changes in these assumptions are set out in note 28.

In addition to the sensitivity of the liability side of the net pension surplus (which will impact the value of the net pension surplus) the net pension surplus is also exposed to significant variation due to changes in the fair value of Scheme assets. A specific sensitivity on assets has not been included in note 28 but any change in valuation of assets flows straight through to the value of the net pension surplus e.g. if equities fall by £10m then the net pension surplus falls by £10m. The values of unquoted assets assume that an available buyer is willing to purchase those assets at that value. For the Group's portfolio of assets, the unquoted alternative bonds of £256.4m; the unquoted corporate bonds of £117.6m and the unquoted equities of £32.9m are the assets with most uncertainty as to valuation as at 31 March 2023.

Estimated value of tax assets

The Group has significant levels of unused US tax losses and US carried forward interest expenses as set out in note 18 giving rise to potential deferred tax assets. When estimating the appropriate amount that should be recognised, management consider sources of taxable profits including the reversal of deferred tax liabilities and forecast future profits. This estimate is sensitive to similar factors as goodwill, as set out in note 14 and further described in note 18. Scenarios are modelled to consider sensitivity to these factors (including annual profit levels and growth expectations). Based on these scenarios, it is possible that revisions of these forecasts over the next 12 months could result in £4.1m to £8.6m of the recognised US deferred tax assets not being recoverable.

Estimates of costs to complete on long-term contracts

The Group has a large number of contracts which span multiple years and are accounted for on a percentage of completion basis in accordance with IFRS 15. Long-term contract accounting requires a number of estimates to be made, particularly in calculating the forecast costs to complete the contract. These forecast costs will be impacted by numerous risks that could crystallise in the future (with a range of cost outcomes), particularly on contracts of a developmental nature. Across the Group's portfolio of long-term contracts there is a risk that the actual out-turn of these contracts could be materially different than assumed in the year end contract forecasts.

For fixed price contracts the impact of inflation would reduce the contract profitability. As an example, an increase in cost inflation of 1% in one of the Group's most significant contracts, would increase costs and reduce profit by approximately £1m per annum. However in many cases the contracts include inflation uplift clauses, such that inflation of costs would create additional contract value and revenue, thus resulting in increased profit.

Estimated values of acquired intangibles on acquisitions

During the year the Group completed two strategic acquisitions. Intangible assets relating to customer relationships, existing technology and trade names were recognised as fair value adjustments to the opening balance sheets. The most material of these is the customer relationships intangible within Avantus which was recognised at £197.5m, per note 15.

Customer relationships have been valued based on an income approach using an excess earnings method. The key assumptions are the revenue and profit projections, customer contract retention/attrition assumptions, discount rates and contributory asset charges. Applying different assumptions could result in a materially different customer relationship intangible and a corresponding increase or decrease in the value of Goodwill recognised.

Critical accounting judgements

Specific, material judgements made by the Directors in applying the Group's accounting policies are set out below:

Basis of consolidation

The Group comprises certain entities that are operated within the terms of a Special Security Arrangement ('SSA'). Details of the SSA and QinetiQ's management of US subsidiaries are set out in the Corporate Governance section of this Annual Report. IFRS 10 is the accounting standard applicable in respect of consolidation of entities.

This does not specifically deal with SSA's. However, having considered the terms of the SSA, the Directors consider that the Group meets the requirements of IFRS 10 in respect of control over such affected entities and, therefore, consolidates these entities in the consolidated accounts. The impact of this specific judgement is full consolidation as opposed to treatment as a 100% associated undertaking. Treatment as a 100% associated undertaking would reduce Group revenue by a material amount (~£300m per annum) but would have no impact on reported profit, which would include an equivalent amount of profit reported within Other Income as 'Share of profits of joint ventures and associates'.

38. Changes in accounting policies

This note explains the impact of a change in accounting policy that is effective for the first time in the Group's financial statements for the year ended 31 March 2023:

Accounting for Research and Development Expenditure Credits ('RDEC')

Following a routine Financial Reporting Council ("FRC") review of the consolidated financial statements for the year ended 31 March 2022, the Group has changed its accounting policy relating to RDEC. The Group's accounting policy has historically been to account for RDEC under IAS12 Income Tax, as a credit within the tax charge. Following engagement with the FRC, and a review of common market practice, the Group has now decided to account for RDEC as other operating income under IAS20 Government Grants.

The impact of this change is to move £6.2m of RDEC income for the year ending 31 March 2022 from the tax charge into other income. The impact on the balance sheet and related notes is to reclassify a £12.0m receivable from current tax payable to other receivables as at 31 March 2022 (£11.8m as at 31 March 2021) as well as £12.0m (£12.6m as at 31 March 2021) from current tax to accrued expenses and other payables. There is an impact on net assets of £2.0m as at both 31 March 2022 and 31 March 2021 due to the deferred income impact of the updated income recognition under IAS20. There is nil impact on profit after tax for FY22. The following tables show the adjustments recognised for each individual line item as at 31 March 2023, 31 March 2022 and 1 April 2021.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

38. Changes in accounting policies (continued)

Impact on the balance sheet (extract) as at 31 March 2023 and 31 March 2022

All figures in £ million	Previous policy	Change in policy	31 March 2023 As presented	As originally presented	Impact of restatement	31 March 2022 Restated
Assets/(liabilities)						
Other receivables (within Trade and other receivables)	27.9	15.4	43.3	26.8	12.0	38.8
Accrued expenses and other payables (within Trade and other payables)	(153.8)	(12.9)	(166.7)	(139.5)	(12.0)	(151.5)
Current tax payable	3.7	(8.3)	(4.6)	(3.9)	(2.0)	(5.9)
Deferred tax liability	(112.6)	0.6	(112.0)	(156.7)	-	(156.7)
Other net assets	1,208.3	-	1,208.3	1,316.7	-	1,316.7
Net assets	**973.5**	**(5.2)**	**968.3**	**1,043.4**	**(2.0)**	**1,041.4**

Impact on the balance sheet (extract) as at 1 April 2021

All figures in £ million	1 April 2021 As originally presented	Impact of restatement	1 April 2021 Restated
Assets/(liabilities)			
Other receivables (within Trade and other receivables)	7.8	11.8	19.6
Accrued expenses and other payables (within Trade and other payables)	(133.4)	(12.6)	(146.0)
Current tax payable	(2.5)	(1.2)	(3.7)
Deferred tax liability	(89.7)	-	(89.7)
Other net assets	1,102.7	-	1,102.7
Net assets	**884.9**	**(2.0)**	**882.9**

Impact on the income statement (extract)

The impact on the Group's consolidated income statement of applying the restatement is set out below:

All figures in £ million	FY23 Previous policy	FY23 Change in policy	FY23 As presented	FY22 As originally presented	FY22 Impact of restatement	FY22 Restated
Revenue	**1,580.7**	**-**	**1,580.7**	**1,320.4**	**-**	**1,320.4**
Operating costs excluding depreciation and amortisation	(1,382.9)	-	(1,382.9)	(1,149.4)	-	(1,149.4)
Other income	12.6	37.0	49.6	10.5	6.2	16.7
EBITDA (earnings before interest, tax, depreciation and amortisation)	**210.4**	**37.0**	**247.4**	**181.5**	**6.2**	**187.7**
Depreciation and amortisation	(74.6)	-	(74.6)	(64.0)	-	(64.0)
Operating profit	**135.8**	**37.0**	**172.8**	**117.5**	**6.2**	**123.7**
Gain/(loss) on business divestments	15.9	-	15.9	(0.9)	-	(0.9)
Finance income	16.7	-	16.7	5.0	-	5.0
Finance costs	(13.4)	-	(13.4)	(1.9)	-	(1.9)
Profit/(loss) before tax	**155.0**	**37.0**	**192.0**	**119.7**	**6.2**	**125.9**
Taxation expense	2.6	(40.2)	(37.6)	(29.7)	(6.2)	(35.9)
Profit/(loss) for the year attributable to equity shareholders	**157.6**	**(3.2)**	**154.4**	**90.0**	**-**	**90.0**
Impact on underlying measures of performance						
Operating profit from segments	178.9	-	178.9	137.4	-	137.4
Underlying operating profit	178.9	17.4	196.3	137.4	6.2	143.6
Underlying tax charge	(18.4)	(18.4)	(36.8)	(17.9)	(6.2)	(24.1)
Impact on specific adjusting items						
MoD appropriation release – operating profit	-	19.6	19.6	-	-	-
MoD appropriation release – tax	18.1	(21.8)	(3.7)	-	-	-

Statement of cash flows (extract)

The impact on the Group's statement of cash flows of applying the restatement is set out below:

			FY23				FY22
All figures in £ million	**Previous policy**	**Change in policy**	**As presented**	**As originally presented**	**Impact of restatement**	**Hedging***	**Restated**
Profit after tax	157.6	(3.2)	154.4	90.0	-	-	90.0
Taxation expense	(2.6)	40.2	37.6	29.7	6.2	-	35.9
Others	56.3	-	56.3	67.2	-	-	67.2
	211.3	37.0	248.3	186.9	6.2	-	193.1
(Increase)/decrease in inventories	(9.6)	-	(9.6)	1.4	-	-	1.4
Increase in receivables	(56.4)	(0.3)	(56.7)	(12.8)	(0.2)	-	(13.0)
Increase in payables	80.0	(21.4)	58.6	34.2	(0.6)	-	33.6
Changes in working capital	14.0	(21.7)	(7.7)	22.8	(0.8)	-	22.0
Net cash inflow from operations	**225.3**	**15.3**	**240.6**	**209.7**	**5.4**	**-**	**215.1**
Specific adjusting items	29.5	-	29.5	5.6	-	-	5.6
Underlying net cash inflow from operations	**254.8**	**15.3**	**270.1**	**215.3**	**5.4**		**220.7**
Net cash inflow from operations	**225.3**	**15.3**	**240.6**	**209.7**	**5.4**	**-**	**215.1**
Tax paid	(14.9)	(15.3)	(30.2)	(20.0)	(5.4)	-	(25.4)
Interest received	5.5	-	5.5	0.5	-	-	0.5
Interest paid	(9.9)	-	(9.9)	(1.5)	-	-	(1.5)
Net cash inflow from operating activities	**206.0**	**-**	**206.0**	**188.7**	**-**	**-**	**188.7**
Net cash outflow from investing activities	(464.4)	-	(464.4)	(81.6)	-	-	(81.6)
Net cash inflow /(outflow) from financing activities	159.7	-	159.7	(47.3)	-	(3.1)	(50.4)
Increase/(decrease) in cash and cash equivalents	**(98.7)**	**-**	**(98.7)**	**59.8**	**-**	**(3.1)**	**56.7**
Effect of foreign exchange changes	**1.8**	**-**	**1.8**	**(1.8)**	**-**	**3.1**	**1.3**
Free cash flow (as defined by the Group – see glossary)	**126.5**	**-**	**126.5**	**110.0**	**-**	**-**	**110.0**

* To be consistent with FY23, the prior year has been re-presented in respect of the cash flow impact of intercompany loan hedging.

Company balance sheet
For the year ended 31 March

All figures in £ million	Note	31 March 2023	31 March 2022
Non-current assets			
Investments in subsidiary undertakings	2	521.2	515.2
		521.2	**515.2**
Current liabilities			
Creditors: amounts falling due within one year	3	(78.0)	(75.4)
Net current liabilities		**(78.0)**	**(75.4)**
Total assets less current liabilities		**443.2**	**439.8**
Net assets		**443.2**	**439.8**
Equity			
Share capital	4	5.8	5.8
Capital redemption reserve		40.8	40.8
Share premium		147.6	147.6
Retained earnings		249.0	245.6
Total equity		**443.2**	**439.8**

The profit for the year ended 31 March 2023 was £41.3m (FY22: profit of £38.8m).

The financial statements of QinetiQ Group plc (company number 4586941) on pages 226 to 229 were approved by the Board of Directors and authorised for issue on 25 May 2023 and signed on its behalf by:

Steve Wadey
Group Chief Executive Officer

Carol Borg
Group Chief Financial Officer

Company statement of changes in equity

For the year ended 31 March

All figures in £ million	Share capital	Capital redemption reserve	Share premium	Retained earnings	Total equity
At 1 April 2022	5.8	40.8	147.6	245.6	439.8
Profit for the year	-	-	-	41.3	41.3
Purchase of own shares	-	-	-	(0.8)	(0.8)
Business divestment	-	-	-	(0.2)	(0.2)
Dividend paid	-	-	-	(42.6)	(42.6)
Share-based payments	-	-	-	5.7	5.7
At 31 March 2023	5.8	40.8	147.6	**249.0**	**443.2**
At 1 April 2021	5.7	40.8	147.6	240.4	434.5
Profit for the year	-	-	-	38.8	38.8
Purchase of own shares	-	-	-	(0.8)	(0.8)
Issue of new shares	0.1	-	-	-	0.1
Dividend paid	-	-	-	(40.2)	(40.2)
Share-based payments	-	-	-	7.4	7.4
At 31 March 2022	**5.8**	**40.8**	**147.6**	**245.6**	**439.8**

The capital redemption reserve is not distributable and was created following redemption of preference share capital.

Notes to the Company Financial Statements

1. Accounting policies

The Company is a public limited company and is incorporated and domiciled in Farnborough, United Kingdom.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation

The financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with applicable UK Accounting Standards. As permitted by section 408(4) of the Companies Act 2006, a separate profit and loss account dealing with the results of the Company has not been presented.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. In preparing these financial statements, the Company is in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and the International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the EU but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

- A cash flow statement and related notes
- Disclosures in respect of capital management
- The effects of new but not yet effective IFRSs
- Disclosures in respect of the compensation of key management personnel
- IAS 24 in respect of related party transactions entered into between two or more members of a group
- IFRS 2 Share Based Payments in respect of Group-settled share-based payments
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7.

Investments

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less any impairment in value.

Share-based payments

The cost of share-based payments in respect of employees of Group subsidiaries is charged to those subsidiary undertakings. In the Company financial statements the recoverable from subsidiaries is credited directly to equity as a capital contribution. The fair value of equity-settled awards for share-based payments is determined on grant and expensed in subsidiary undertakings (and credited to equity in the Company) on a straight line basis over the period from grant to the date of earliest unconditional exercise. The charges for equity-settled share-based payments are updated annually for non-market-based vesting conditions. Further details of the Group's share-based payment charge are disclosed in note 30 to the Group financial statements.

2. Investments in subsidiary undertakings

All figures in £ million	31 March 2023	31 March 2022
Subsidiary undertaking – 100% of ordinary share capital of QinetiQ Group Holdings Limited	424.3	424.3
Capital contributions arising from share-based payments to employees of subsidiaries	83.3	77.2
Capital contributions arising from share-settled liabilities	13.6	13.7
Total investment in subsidiary undertakings	**521.2**	**515.2**

The increase in investments in subsidiary undertakings in FY23 mainly relates to £6.1m of equity-settled schemes during the year.

A list of all subsidiary undertakings of QinetiQ Group plc is disclosed in note 35 to the Group financial statements.

3. Creditors: amounts falling due within one year

All figures in £ million	31 March 2023	31 March 2022
Amounts owed to Group undertakings	**78.0**	**75.4**

Amounts owed to Group undertakings are unsecured, repayable on demand and bear no interest.

4. Share capital

The Company's share capital is disclosed in note 29 to the Group financial statements.

5. Share-based payments

The Company's share-based payment arrangements are set out in note 30 to the Group financial statements.

6. Parent company guarantees

The Company has provided guarantees to various customers of subsidiaries to the value of £21.0m as at 31 March 2023 (2022: £21.0m) in the ordinary course of business. The company has also provided a guarantee of £337.6m as at 31 March 2023 (2022: £nil) in respect of the term loan.

7. Other information

Directors' emoluments, excluding Company pension contributions for the year to 31 March 2023 were £4.9m (FY22: £5.8m). These emoluments were all in relation to services provided on behalf of the QinetiQ Group with no amount specifically relating to their work for the Company. Details of the Directors' emoluments, share schemes and entitlements under money purchase pension schemes are disclosed on page 137 in the Directors' Remuneration Report.

The remuneration of the Company's auditors for the year to 31 March 2023 was £0.4m (FY22: £0.4m), which was for audit of the Group financial statements and Company financial statements and audit related assurance services. No other services were provided by the auditors to the Company.

The monthly average number of employees for the year to 31 March 2023 was nil (FY22: nil).

Five year record

For the years ended 31 March (unaudited)		FY23	FY22[2]	FY21[3]	FY20	FY19[4]
EMEA Services	£m	1,179.3	1,059.2	939.9	797.4	687.7
Global Products	£m	401.4	261.2	338.3	275.5	223.4
Revenue	**£m**	**1,580.7**	**1,320.4**	**1,278.2**	**1,072.9**	**911.1**
EMEA Services	£m	137.1	135.6	118.6	100.6	96.8
Global Products	£m	41.8	1.8	33.2	32.6	28.1
Operating profit from segments[1]	**£m**	**178.9**	**137.4**	**151.8**	**133.2**	**124.9**
Operating profit margin from segments[1]	*%*	*11.3*	*10.4*	*11.9*	*12.4*	*13.7*
Statutory operating profit	£m	172.8	123.7	108.7	117.6	114.8
Underlying operating profit[1]	£m	196.3	143.6	151.8	133.2	124.9
Underlying profit before tax[1]	£m	189.7	142.2	149.9	132.2	124.0
Profit before tax	£m	192.0	125.9	142.6	123.1	123.2
Profit attributable to owners of the Company	£m	154.4	90.0	121.9	106.3	113.9
Underlying basic EPS[1]	Pence	26.5	20.6	22.1	20.0	19.7
Basic EPS	Pence	26.8	15.7	21.4	18.7	20.1
Diluted EPS	Pence	26.5	15.5	21.1	18.6	20.0
Dividend per share	Pence	7.7	7.3	6.9	6.6	6.6
Underlying net cash flow from operations[1]	£m	270.1	220.7	199.0	177.8	135.3
Net (debt)/cash as defined by the Group	£m	(206.9)	225.1	164.1	84.7	160.5
Average number of employees		7,443	6,911	6,874	6,267	5,994
Orders excluding LTPA amendments	£m	1,724.1	1,226.6	1,149.4	961.7	774.6

1 Underlying measures are stated before specific adjusting items. Definitions of underlying measures of performance are provided on page 233. Underlying financial measures are presented because the Board believes these provide a better representation of the Group's long-term performance trend. For details of specific adjusting items refer to note 4 and note 36 of the financial statements.
2 FY22 has been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 38 for details.
3 FY21 was restated in FY22 due to a change in accounting policy in respect of software implementation costs.
4 FY19 was restated in FY21 due to the retrospective adoption of the new accounting standard, IFRS 16, in respect of finance leases.

Additional financial information

Foreign exchange

The principal exchange rates affecting the Group were the Sterling to US Dollar exchange rate and the Sterling to Australian Dollar rate.

	12 months to 31 March 2023	12 months to 31 March 2022
£/US$ – opening	1.31	1.38
£/US$ – average	1.21	1.36
£/US$ – closing	1.24	1.31
£/A$ – opening	1.75	1.81
£/A$ – average	1.76	1.85
£/A$ – closing	1.85	1.75

Treasury policy

The Treasury policy is approved by the Audit Committee. There is a structured approach to financial risk management, mitigating exposures to currency, liquidity, counterparty and credit risks as outlined in note 27. The policy allows the use of financial instruments to manage and hedge business operational risks that arise on movements in financial, credit or money markets. There is strict control on the use of financial instruments. Speculative trading in financial instruments is not permitted.

– Currency risk – The Group's income and expenditure is largely settled in the functional currency of the relevant entity. Where cash flows are denominated in currencies other than the functional currency of the relevant trading entity, the policy is to hedge all material transaction exposure at the point of commitment to the underlying transaction. Uncommitted future transactions are not routinely hedged. Where the timing of cash flows differ from the original expectation, currency swaps will be used to realign the hedge maturity. The maximum permitted hedge period is five years. Translation exposures arising from the consolidation of overseas subsidiaries in foreign currencies are not hedged.
– Interest rate risk – The Group's funding is largely in floating rate debt and subject to the adverse effects of changes in interest rates. The Group has a policy to fix no less than 30% and no more than 80% of the debt and spread the risk of fluctuations in interest rates. Options and similar open-ended instruments are not permitted to manage interest rate exposures.
– Financial credit and liquidity risk – Liquidity risk is managed to ensure funds are available to meet business needs and maximise return subject to counterparty and credit risks. Investments are permitted with institutions on an Approved Counterparty list and must not exceed the counterparty credit limit. Investments must be held in the currency of the reporting entity except currency deposits or borrowings specifically placed to hedge assets or liabilities with related hedge documentation. Group funding is established to meet the Group's medium and long-term financing requirements. Facilities are agreed with a number of financial institutions such that no single institution exerts undue influence on the Group. At the year end the Group had an undrawn revolving credit facility of £275m and term loan of £338m both of which mature on 27 September 2025. The term loan has two one-year extension options.

The policies manage and control treasury risk in alignment with the Group strategy.

Tax risk management

QinetiQ's tax strategy, as published on its corporate website, is to ensure compliance with all relevant tax legislation, wherever we do business, while managing our effective tax rates and tax cash flows. Tax is managed in alignment with our corporate responsibility strategy in that we strive to be responsible in all our business dealings with a zero-tolerance of tax evasion. These principles are applied in a consistent and transparent manner in pursuing the tax strategy and in all dealings with tax authorities around the world.

– Tax planning – QinetiQ manages both effective tax rate (ETR) and cash tax impacts in line with the Board-endorsed tax strategy. External advice and consultation are sought on potential changes in tax legislation in the UK, the US and elsewhere as necessary, enabling the Group to plan for and mitigate potential changes. QinetiQ does not make use of 'off-shore' entities or tax structures to focus taxable profits in jurisdictions that legislate for low tax rates.
– Relationships with tax authorities – QinetiQ is committed to building constructive working relationships with tax authorities based on a policy of full disclosure in order to remove uncertainty in its business transactions and allow the authorities to review possible risks. In the UK, QinetiQ seeks to be open and transparent in its engagement with the tax authorities by sharing with HMRC the methodologies adopted in its tax returns.
– Transfer pricing – QinetiQ does not have a significant level of cross-border activity but this will increase as it pursues its policy of expanding around the globe. Where there is cross-border activity, controls are in place to ensure pricing reflects 'arm's length' principles in compliance with the OECD Transfer Pricing Guidelines and the laws of the relevant jurisdictions. The Group does not, therefore, have a significant exposure to transfer pricing legislation. QinetiQ submits its 'Country by Country' report to the UK tax authorities in line with the OECD rules providing insight for tax authorities into its global tax affairs.
– Governance – The Board has approved this approach. The Audit Committee oversees the tax affairs and risks through periodic reviews. The governance framework is used to manage tax risks, establish controls and monitor their effectiveness. The Head of Tax is responsible for ensuring that appropriate policies, processes and systems are in place and that the tax team has the required skills and support to implement this approach.

QinetiQ's corporate tax contribution – QinetiQ is liable to pay tax in its home countries. Changes in tax legislation in these countries would impact the level of tax paid on profits generated by the Group. A significant majority of the Group's profit before tax is generated in the UK where the majority of the Group's business is undertaken and employees are based. Total corporation tax payments in the year to 31 March 2023 were £30.2m (2022: £25.4m restated).

The differential between the taxation expense and the tax paid in the year relates primarily to the impact of deferred tax movements, whereby the income statement bears tax charges and credits (e.g. on fixed assets or losses) but for which there is no corporation tax paid or recovered in the year. Together, these result in the cash paid being £7.4m less than the total expense charged to the income statement.

Glossary

AGM	Annual General Meeting
BBP	Bonus Banking Plan
CAGR	Compound Annual Growth Rate
C5ISR	Command, Control, Computers, Communications, Cyber, Intelligence, Surveillance and Reconnaissance
CGU	Cash Generating Unit
CMI	Continuous Mortality Investigation
CPI	Consumer Price Index
CR	Corporate Responsibility
DE&S	MOD's Defence, Equipment and Support organisation
DSP	Deferred Share Plan
DoD	US Department of Defense
EBITDA	Earnings before interest, tax, depreciation and amortisation
ECL	Expected credit loss
ED&I	Equality, diversity and inclusion
EDP	Engineering Delivery Partner
EMEA	Europe, Middle East and Australasia
EPS	Earnings per share
ESG	Environmental, Social, Governance
EST	Engineering, Science and Technical
FAR	Federal Acquisition Regulations
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FY	Financial year (ending 31 March)
GEV	Global Employee Voice
GHG	Greenhouse gas
HPSA	High Performance Share Award
IAS	International Accounting Standards
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IRAD	Internal research and development
KPI	Key Performance Indicator
LTI	Lost time incident
LTPA	Long Term Partnering Agreement – 25-year contract established in 2003 to manage the MOD's Test and Evaluation ranges
M&A	Mergers and acquisitions
MOD	UK Ministry of Defence
MSCA	Maritime Strategic Capability Agreement
PBT	Profit before tax
PPE	Property, plant and equipment
PPS	Prudential Platinum Scheme
QLT	QinetiQ Leadership Team
QTS	QinetiQ Target Systems
R&D	Research and development
RPI	Retail price Index
RSP	Restricted Share Plan
RDEC	Research and development expenditure credit
SIP	Share Incentive Plan
SONIA	Single Source Regulations Office
SOFR	Secured Overnight Financing Rate
SSA	Special Security Arrangement
SSRO	Single Source Regulations Office
SSSI	Site of Special Scientific Interest
STEM	Science, Technology, Engineering and Maths
T&E	Test and Evaluation
TSR	Total shareholder return
VCP	Value Creation Plan
UAV	Unmanned aerial vehicle
UK Corporate Governance Code	Guidelines of the Financial Reporting Council to address the principal aspects of corporate governance in the UK
UK GAAP	UK Generally Accepted Accounting Practice

Alternative performance measures (APMs)

The Group uses various non-statutory measures of performance, or APMs. Such APMs are used by management internally to monitor and manage the Group's performance and also allow the reader to obtain a proper understanding of performance (in conjunction with statutory financial measures of performance). The APMs used by QinetiQ are set out below:

Measure	Explanation	Note
Organic growth	The level of year-on-year growth, expressed as a percentage, calculated at constant prior year foreign exchange rates, adjusting for business acquisitions and disposals to reflect equivalent composition of the Group	Note 2
Underlying operating profit	Operating profit as adjusted to exclude 'specific adjusting items'	Note 3
Underlying operating margin	Underlying operating profit expressed as a percentage of revenue	Note 3
Underlying operating profit from operating segments	Total operating profit from operating segments which excludes 'specific adjusting items' and research and development expenditure credits ('RDEC')	Note 3
Underlying operating margin from operating segments	Underlying operating profit from segments expressed as a percentage of revenue	Note 3
Underlying net finance income/expense	Net finance income/expense as adjusted to exclude 'specific adjusting items'	Note 7
Underlying profit before/ after tax	Profit before/after tax as adjusted to exclude 'specific adjusting items'	Note 4
Underlying effective tax rate	The tax charge for the year excluding the tax impact of 'specific adjusting items' expressed as a percentage of underlying profit before tax	Note 9
Underlying basic and diluted EPS	Basic and diluted earnings per share as adjusted to exclude 'specific adjusting items'	Note 10
Orders	The level of new orders (and amendments to existing orders) booked in the year.	N/A
Backlog, funded backlog or order book	The expected future value of revenue from contractually committed and funded customer orders	N/A
Book to bill ratio	Ratio of funded orders received in the year to revenue for the year, adjusted to exclude revenue from the 25-year LTPA contract due to significant size and timing differences of LTPA order and revenue recognition which may distort the ratio calculation	N/A
Underlying net cash flow from operations	Net cash flow from operations before cash flows of specific adjusting items.	Note 25
Underlying operating cash conversion or cash conversion ratio	The new ratio, introduced in FY22, is the ratio of underlying net cash from operations to underlying EBITDA. In previous years this was the ratio of underlying net cash from operations to operating profit	Note 25
Free cash flow	Underlying net cash flow from operations less net tax and interest payments less purchases of intangible assets and property, plant and equipment. Plus proceeds from disposal of plant and equipment.	Note 25
Net cash/(debt)	Net (debt)/cash as defined by the Group combines cash and cash equivalents with borrowings and other financial assets and liabilities, primarily available for sale investments, derivative financial instruments and finance lease liabilities.	Note 24
Return on capital employed	Calculated as: Underlying EBITA / (average capital employed less net pension asset), where average capital employed is defined as shareholders equity plus net debt (or minus net cash).	CFO Review
Specific adjusting items	Amortisation of intangible assets arising from acquisitions; impairment of property; gains/ losses on disposal of property and investments; net pension finance income; transaction and integration costs in respect of business acquisitions; one-off period of Digital investment; tax impact of the preceding items and significant non-recurring tax and RDEC movements.	Note 4

Shareholder information

Registrar: Equiniti Limited

www.shareview.co.uk
Tel: 0371 384 2021

Shareholding enquiries

The Company's registrar is Equiniti. Enquiries regarding your shareholding, including the following administrative matters, should be addressed to Equiniti:

- Change of personal details such as change of name or address
- Lost share certificates
- Dividend payment enquiries
- Direct dividend payments. You can have your dividends paid directly into a UK bank or building society account by completing a dividend mandate form. The associated dividend confirmation will still be sent to your registered address. If you live outside the UK, Equiniti offers a global payments service which is available in certain countries and could enable you to receive your dividends direct into your bank account in your local currency

Contact details for registrar

By post:
Equiniti Limited, Aspect House, Spencer Road Lancing, West Sussex BN99 6DA

By telephone:
0371 384 2021* for UK calls,
+44 (0)121 415 7576 for calls from outside the UK.

* Lines are open 8.30am to 5.30pm (UK time), Monday to Friday (excluding public holidays in England and Wales).

By email:
You can send an email enquiry securely from Equiniti's website, at help.shareview.co.uk

Online:
Equiniti's website at help.shareview.co.uk (Shareview) includes answers to frequently asked questions and provides key forms for download. Shareview also offers online access to your shareholding where you can manage your account, register for electronic communications, see details of balance movements and complete certain amendments online, such as changes to dividend mandate instructions. You can register at www.shareview.co.uk, click on 'Register' and follow the steps.

Electronic communications

The Company will now only make documentation and communication available electronically via the Company's website, unless direct requests have been made otherwise. In addition, communications electronically, via the wider use of electronic communications enables fast receipt of documents, reduces the Company's printing, paper and postal costs and reduces the Company's environmental impact. Shareholders can register for electronic communications at www.shareview.co.uk and may also cast their vote for the 2023 Annual General Meeting online quickly and easily using the Sharevote service by visiting www.sharevote.co.uk

Donating shares to charity – ShareGift

Small parcels of shares, which may be uneconomic to sell on their own, can be donated to ShareGift, the share donation charity (registered charity no. 1052686). ShareGift transfers these holdings into their name, aggregates them, and uses the proceeds to support a wide range of UK charities based on donor suggestion. If you would like further details about ShareGift, please visit www.sharegift.org, email help@sharegift.org or telephone them on 020 7930 3737.

Share price

Details of current and historical share prices can be found on the Company's website at www.QinetiQ.com/investors

Analysis of share register at 31 March 2023

By type of holder	Total number of holdings	Percentage of holders	Total number of shares	Percentage issued capital
Individual	5,235	89.89%	4,807,580	0.83%
Institutions and others	589	10.11%	573,949,541	99.17%
Total	5,824	100%	578,757,121	100%
By size of holding				
1–500	3,871	66.47%	730,941	0.13%
501–1,000	467	8.02%	374,219	0.06%
1,001–2,500	542	9.31%	943,715	0.16%
2,501–5,000	302	5.19%	1,082,916	0.19%
5,001–10,000	157	2.70%	1,135,548	0.20%
10,001–100,000	214	3.67%	7,928,874	1.37%
Over 100,000	271	4.64%	566,560,908	97.89%
Total	5,824	100%	578,757,121	100%

Share fraud reporting: www.fca.org.uk/scams
FCA Consumer Helpline: 0800 111 6768

Beware of share fraud

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

How to avoid share fraud

1. Keep in mind that firms authorised by the FCA are unlikely to contact you out of the blue with an offer to buy or sell shares.
2. Do not get into a conversation, note the name of the person and firm contacting you and then end the call.
3. Check the Financial Services Register from www.fca.org.uk to see if the person and firm contacting you is authorised by the FCA.
4. Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
5. Use the firm's contact details listed on the Register if you want to call it back.
6. Call the FCA on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date.
7. Search the list of unauthorised firms to avoid at www.fca.org.uk/scams.
8. Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme.
9. Think about getting independent financial and professional advice before you hand over any money.
10. Remember: if it sounds too good to be true, it probably is!

Report a scam

If you are approached by fraudsters please tell the FCA using the share fraud reporting form at www.fca.org.uk/scams, where you can find out more about investment scams. You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

Key dates

20 July 2023	Trading update
20 July 2023	Annual General Meeting
30 September 2023	Half-year financial period end
November 2023	Half-year results announcement
January 2024	Trading update
31 March 2024	Financial year end
May 2024	Preliminary results announcement

Cautionary statement

All statements other than statements of historical fact included in this Annual Report, including, without limitation, those regarding the financial condition, results, operations and businesses of QinetiQ and its strategy, plans and objectives and the markets and economies in which it operates, are forward-looking statements. Such forward-looking statements, which reflect management's assumptions made on the basis of information available to it at this time, involve known and unknown risks, uncertainties and other important factors which could cause the actual results, performance or achievements of QinetiQ or the markets and economies in which QinetiQ operates to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Nothing in this Annual Report should be regarded as a profit forecast.

This Annual Report is intended to provide information to shareholders and is not designed to be relied upon by any other party. The Company and its Directors accept no liability to any other person other than under English law.

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