

# We are building an integrated global defence and security company

## Our purpose

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

## Who we are

We are a leading science and engineering company operating primarily in the defence and security markets. We are an information, knowledge and technology-based company with the breadth and depth of approximately 7,000 highly dedicated employees.

## What we do

We apply our unique technical expertise across the product lifecycle, helping our customers to create, test and use defence and security capabilities. Not only do we develop cutting-edge technology and turn it into a capability, we also tell customers if that capability will work when it is critically needed and ensure they are trained and operationally ready to use it when it matters.

Anticipating the current, emerging and future threat environment and proactively understanding our customers' needs to provide mission-led innovation is critical to our success.

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

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

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



BACK FORWARD PREVIOUS HOME

STRATEGIC  
REPORT

CORPORATE  
GOVERNANCE

FINANCIAL  
STATEMENTS

## How we have performed

### Financial highlights

Good progress with strong second-half momentum.

#### ORDERS

£1,226.6m

(FY21: £1,149.4m\*)



#### REVENUE

£1,320.4m

(FY21: £1,278.2m)



#### UNDERLYING OPERATING PROFIT

£137.4m

(FY21: £151.8m)



#### STATUTORY OPERATING PROFIT

£117.5m

(FY21: £108.7m^)



#### UNDERLYING EARNINGS PER SHARE

20.6p

(FY21: 22.1p)



#### STATUTORY EARNINGS PER SHARE

15.7p

(FY21: 21.4p^)



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

\* Restated to exclude Joint Ventures.

### Operational highlights

Positioning ourselves for long-term sustainable global growth.

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

# Focused on sustainable global growth



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

**Steve Wadey**  
Chief Executive Officer

## 01 Strategic report

### What we do

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

See Page 20



### CEO review

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

See Page 14

### Our vision

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

See Page 18



### ESG

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

See Page 44



## 02 Corporate governance

### Group Chair's introduction

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

See Page 79



### Board leadership decision making

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

See Page 81

### Risk and audit summaries

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

See Page 108



### Remuneration summary

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

See Page 117

## Strategic report

- 04 About QinetiQ
- 06 What we do
- 08 How we are structured
- 10 Investor proposition
- 12 Group Chair's statement
- 14 CEO review
- 16 Our business model
- 18 Our strategy
- 19 Strategic progress
- 22 Market themes
- 24 Trading environment
- 26 Our stakeholders
- 28 Stakeholder questions and answers
- 30 Operating review
- 36 CFO review
- 40 Key performance indicators
- 44 Environmental, Social and Governance
- 60 Risk management
- 71 Longer-term viability assessment
- 71 Going concern statement
- 72 Section 172 (1) statement
- 74 Non-financial information statement

## Corporate governance

- 76 Governance framework
- 79 An introduction from the Group Chair
- 81 Board leadership and company purpose
- 96 Division of responsibilities
- 98 Composition, succession and evaluation
- 108 Audit, risk and internal control
- 109 Audit Committee report
- 115 Risk and Security Committee report
- 117 Directors' remuneration report
- 119 Remuneration at a glance
- 123 Annual report on remuneration
- 137 Directors' report
- 141 Independent auditors' report

## Financial statements

- 150 Consolidated income statement
- 151 Consolidated comprehensive income statement
- 151 Consolidated statement of changes in equity
- 152 Consolidated balance sheet
- 153 Consolidated cash flow statement
- 153 Reconciliation of movements in net cash
- 154 Notes to the financial statements
- 200 Company balance sheet
- 201 Company statement of changes in equity
- 202 Notes to the company financial statements

## Other information

- 204 Five-year financial summary
- 205 Additional financial information
- 206 Glossary
- 208 Shareholder information



## Our purpose

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

### Protecting lives

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

#### In action:

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

See Page 34

### Securing vital interests of our customers

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

#### In action:

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

See Page 32

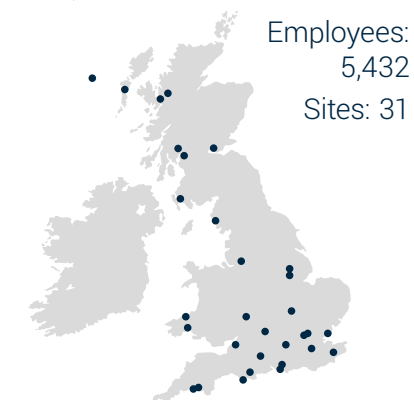
## Where we operate

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

### Three home countries:

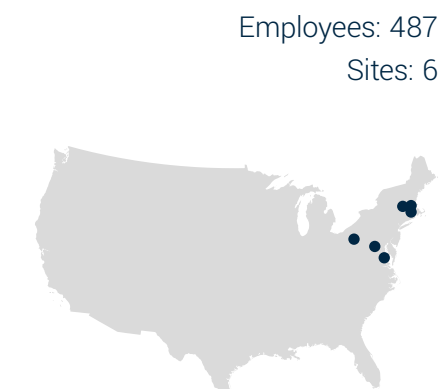
#### UK

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



#### US

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



#### Australia

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



### Three priority countries:

#### Belgium

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

Employees: 166 Sites: 1

#### Germany

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

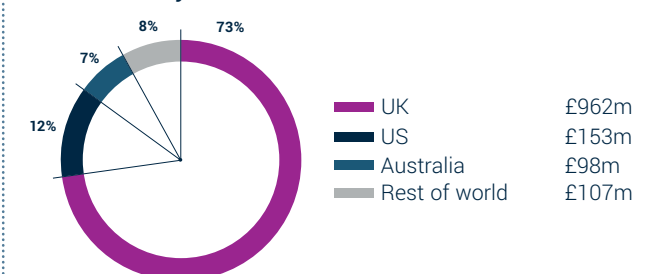
Employees: 123 Sites: 3

#### Canada

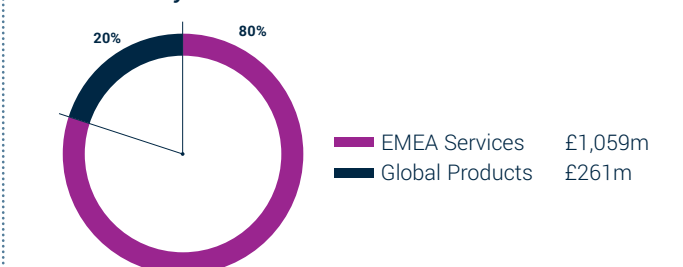
QinetiQ Canada provides many services, including test and evaluation advice, electronic surveillance systems, software tools for designing and developing vessels, and helping with cost estimation.

Employees: 74 Sites: 2

### Revenue by customer location



### Revenue by division



We apply our unique technical expertise across the product lifecycle, helping our customers to create, test and use defence and security capabilities. Not only do we develop cutting-edge technology and turn it into a capability, we also tell customers if that capability will work when it is critically needed and ensure they are trained and operationally ready to use it when it matters. Anticipating the current, emerging and future threat environment and proactively understanding our customers' needs to provide mission-led innovation is critical to our success.

### Our capabilities are grouped in to six distinctive offerings:

#### Experimentation and technology

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

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



#### Cyber and information advantage

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

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



#### Engineering services and support

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

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



#### Test and evaluation

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

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



#### Training and mission rehearsal

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

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



#### Robotics and autonomous systems

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

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



### Single routes to market

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

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



[Read more about Our Markets on Page 22](#)



## EMEA Services

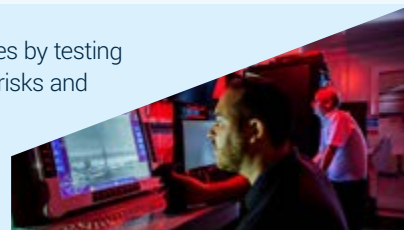
Revenue: £1,059m

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

## Air and Space

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

Approximate revenue FY22 £230m.



## Maritime and Land

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

Approximate revenue FY22 £415m.



## Cyber and Information

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

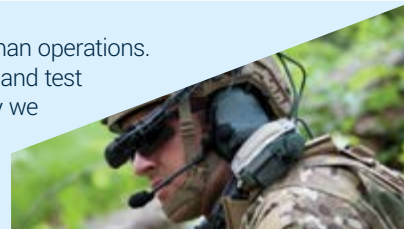
Approximate revenue FY22 £310m.



## International

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

Approximate revenue FY22 £105m.



## United States

## Global Products

Revenue: £261m

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

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

Approximate revenue FY22 £40m.



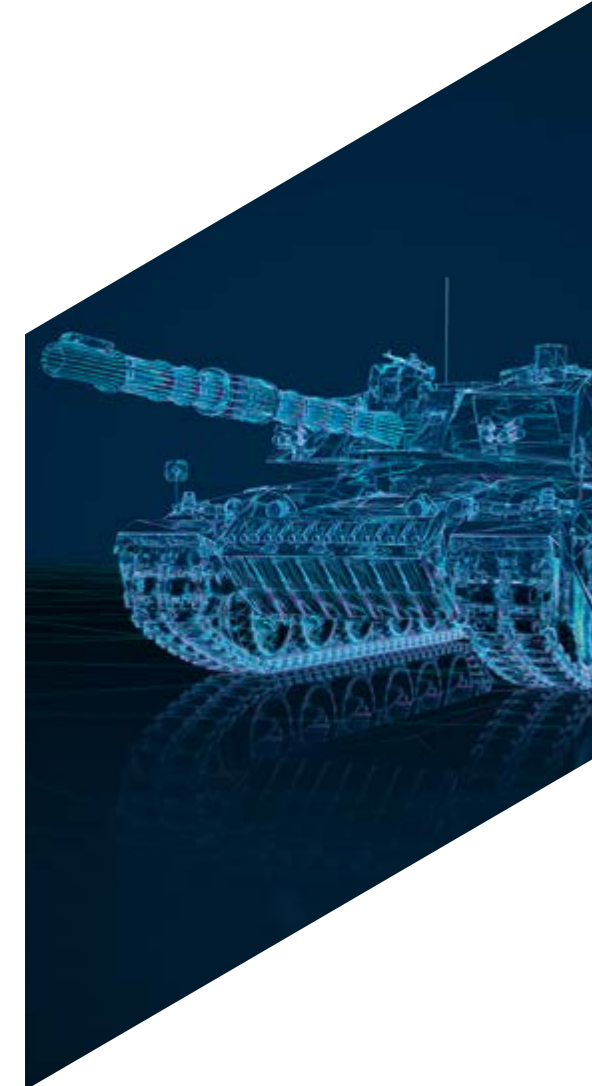
**EMEA Products:** Provides research services and bespoke technological solutions developed from intellectual property spun off from EMEA Services. The products and intellectual property are typically specialist defence and security solutions, including secure-communication devices, cyber products and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

Approximate revenue FY22 £70m.



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

Approximate revenue FY22 £150m.



Our investment case is underpinned by four key attributes:

By focusing on our customers' needs and evaluating all investment opportunities with the same rigour, we aim to deliver sustainable and attractive returns to our shareholders.

## Operate in attractive markets

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

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

>£20bn

addressable market

£2.3bn+

revenue ambition by FY27+



## Unique capabilities and relevant offerings

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

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

Six

distinctive offerings

~7,000

highly skilled employees



## Strong financials and shareholder return

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

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

~£900m

of FY23 revenue under contract

26%

return on capital employed in FY22



## Delivering responsibly and taking a lead on ESG

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

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

AA rated

by MSCI

Net-Zero plan

published Mar-22





# Group Chair's statement



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

## Introduction:

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

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

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

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

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

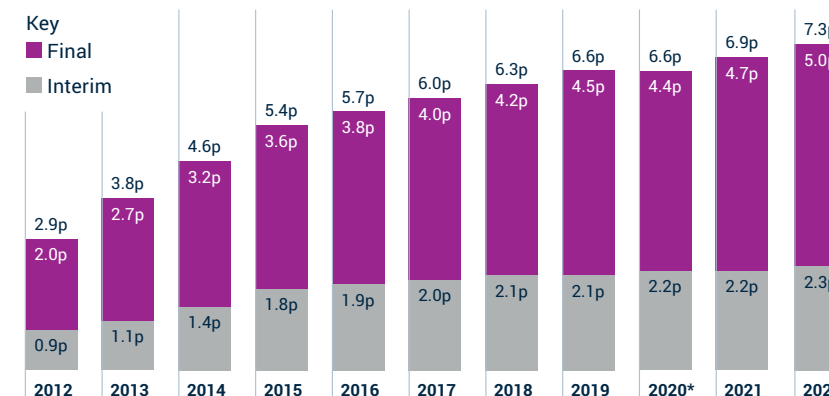
As a Board we recognise the importance of delivering results in the right way. We have a strong and resilient Governance framework and take an active role in industry bodies to share and learn from best practice.

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

## Board changes

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

## Historical dividend payments



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

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

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

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

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

appointment of Sam Lewis as Group Business Development Director from various roles in large US defence businesses.

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

## Looking ahead

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

**Neil Johnson**  
Non-executive Group Chair  
20 May 2022

## Capital allocation policy

### Priority 1

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



### Priority 2

Maintain balance sheet strength.



### Priority 3

Provide a progressive dividend to shareholders.



### Priority 4

Return excess cash to shareholders.

[Read more on Page 29](#)



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

## Introduction:

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

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

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

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

## Delivering our global ambition

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

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

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

## Focused strategy

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

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

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

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

[Read more about our strategy on Page 18](#)

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

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

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

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

## Environmental, Social and Governance (ESG)

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

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

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

Effective Governance is critical to our sustainability. We are focused on strengthening our own skills and processes and ensuring our supply chain is both

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

[Read more about ESG on Page 44](#)

## Outlook – FY23

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

## Outlook – Longer term

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

**Steve Wadey**  
Chief Executive Officer.  
20 May 2022



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

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

**Ensuring our customers are trained and operationally ready**

By combining real and simulated training experiences we can ensure our customers are operationally ready to use their capabilities when it matters. Blending testing, mission rehearsal and training, and analysis, we give customers tangible evidence about how their capabilities perform within highly authentic environments and provide advice on how to prepare them for operational use.

We offer customers agile and realistic testing experiences so they can be sure that their capability works when it is critically needed. We operate some of the most advanced land, sea and air ranges in the world and combine the ability to manage live-fire exercises and rehearsals with our digitally-enabled infrastructure to provide customers with realistic and cost-effective testing solutions.

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

# Our strategy

## Our purpose

Protecting lives and securing the vital interests of our customers.



## Our vision

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



## Our strategy

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

### Global leverage

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

[Read more on Page 19](#)

### Distinctive offerings

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

[Read more on Page 20](#)

### Disruptive innovation

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

[Read more on Page 21](#)



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

A high performance and inclusive work environment where employees are engaged, empowered and clear about how they can contribute to our vision.

## Our values

### Integrity

We take pride in our decisions, and work to create a sustainable and responsible business. We take personal responsibility to do the right thing, both as an organisation and as individuals.

### Collaboration

Delivering value through partnership and teamwork, we actively collaborate with our colleagues, customers and industry partners. We know that working together is the best way to meet our customers' needs.

### Performance

Our performance is measured by how we deliver for our customers; meeting their needs through flawless execution and delivery of the mission-critical solutions on which they depend.

## Our behaviours

### Listen

We listen to what our customers say, ask questions to help us understand, and challenge and offer ideas and solutions.

### Focus

We hear what our customers want, are clear about our priorities and know what needs to be delivered and why.

### Keep my promises

We do what we say we will, are trusted to do the right thing, and are responsible and accountable for our own actions.

[Read more about Our Values on Page 91](#)



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

[Read more about ESG framework and offerings on Page 45](#)

# Strategic progress



STRATEGIC REPORT

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

# Build an integrated global defence and security company

## Global leverage

### Strategic pillar #01

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

### FY22 highlights

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



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

### Case study: T&E leverage into Australia

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

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





## Co-create high value solutions



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

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

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

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

## Distinctive offerings

### Strategic pillar #02

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

#### FY22 highlights

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

## Innovation to support delivery of our customers' mission at pace

## Disruptive Innovation

### Strategic pillar #03

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

#### FY22 highlights

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



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

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

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



## Market themes

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

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

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

#### How are defence and security markets changing?

##### Rising global tensions and increasingly complex threats

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

1

##### The proliferation of grey-zone warfare

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

2

##### Need for advanced capabilities, informational advantage and better interoperability

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

3

##### Resilience of supply chains

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

4



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

#### How are we evolving to these new market dynamics?

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

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

1

##### Delivering value for money through innovative delivery models

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

2

##### Partnering for innovation

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

3

##### A multi-domestic strategy

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

4





## Trading environment

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

### UK

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

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



[Read more about our UK business on Page 30](#)

### US

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

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



[Read more about our US business on Page 33](#)

### Australia

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

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

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



[Read more about our Australian business on Page 32](#)

### Other international markets

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

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



[Read more about our International markets on Page 32](#)

<sup>1</sup> Sources: Jane's Market Budget Forecast April 2021, UK MOD and US DOD forecasts for RDT&E, Australia Defence publications and QinetiQ estimates.

<sup>2</sup> Research & Development and Test & Evaluation.

# Our stakeholders



- Primary stakeholders
- Other stakeholders

## Our approach to engagement

In order to deliver responsibly and for the benefit of all stakeholders we must understand what matters to our stakeholders. To do this we engage in a variety of ways in an open and transparent manner, trying to identify common goals. In some cases the Board will engage directly with certain stakeholders, however in others the relevant delivery teams will manage this engagement. This is dependent on the stakeholder

and issues considered, with engagement led by those best placed to effect any necessary change. We expect that our approach and how we engage with our stakeholders will continue evolving as we pursue further growth and geographic expansion benefit of the customer, QinetiQ and our suppliers.

For more information on Section 172 Statement see page 72.

## Primary stakeholders

### Customers

Our customers are at the centre of our vision and the foundation of our success. We strive to apply our strengths to their advantage to deliver mission-led innovation, and invest time in understanding and responding to their needs.

### How we engage

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

### Impact of engagement

Our delivery teams continually adapt our approach to ensure customers' needs are met. The formal feedback we receive is reviewed at all levels of our organisation to ensure we continuously improve and evolve our business processes and delivery solutions.

### How we create value

We deliver mission-critical solutions to our customers helping them to address their most pressing challenges. They benefit from a responsive and agile approach, the ability to innovate at pace and value for money.

### Shareholders

Our shareholders' ongoing support enables us to invest in our business and execute our growth strategy for the benefit of all stakeholders. In return we aim to deliver long-term sustainable growth and attractive returns.

We engaged with our shareholders during the year through both physical and virtual roadshows, results presentations and the AGM. In addition, our Chairman proactively engaged with shareholders to seek their views on the business, strategy and management team. We seek to keep an open dialogue with our shareholders, particularly around the short-term issues experienced in this year.

We have sought to keep the financial markets and our shareholders up-to-date with progress on the issues throughout this challenging year; shareholder feedback and comments on operational direction, returns and acquisitions has helped shape our strategic thinking and decision-making.

Our business model, supported by our strategy, aims to deliver sustainable long-term growth and returns to our shareholders.

### Employees

We are a people business and our employees are critical to our success. Their health, safety and wellbeing is vital and we are committed to providing fulfilling careers where our employees can perform meaningful and intellectually stimulating work.

Our methods of engagement include: Quarterly Peakon surveys, Q-talks, Global roadshows led by our CEO and Global Leadership Team, our Global Employee Voice Group (GEV) and other engagement forums (e.g. works councils), as well as indirectly through feedback on platforms such as Glassdoor.

Our engagement has helped us to identify priority focus areas to improve the employee experience. By listening to our people through our Peakon surveys we have directed our efforts to enhance those areas highlighted, including ways of working, safety, digital improvements and concerns on cost of living.

Our employees work in an environment where the work they do makes a genuine difference to our customers and their safety. They have rewarding careers in highly skilled areas and are able to satisfy their intellectual curiosities.

## Other stakeholders

### Suppliers

We occupy a unique position in defence, working in partnership with various suppliers to deliver the best solutions for our customers. We strive to adopt a collaborative approach and ensure we treat our suppliers with integrity, taking a fair and sustainable approach.

In addition to day-to-day engagement through normal business activity, we actively engaged with key partners through a series of "Board to Board" meetings. We engage with our suppliers through our QinetiQ Collaborate programme; we seek new suppliers through our presence at external events and engagement with small to medium sized enterprises through our participation at "Meet the Buyer" events.

This engagement continues to ensure we are partnering effectively to support our customers. It gives us insight into industry developments and ensures effective collaboration between QinetiQ and its partners and suppliers.

Working with our suppliers we bring together complementary industry-leading thinking in a truly collaborative environment to the benefit of the customer, QinetiQ and our suppliers.

### Communities

We strive to be a good neighbour, having a positive impact on our local communities and wider society; from our outreach programme, inspiring the next-generation of scientists and engineers, to providing services that ensure the safety and security of members of society, and our Net-Zero emissions plan.

We engage via a variety of community investment activities such as outreach, volunteering, supporting local charities and community liaison.

Our community investment activity is viewed positively. Through our community liaison, our regular updates have ensured local people are aware of our activity. Our outreach activity has provided benefit to young people.

We aim to benefit the wider socio-economic wellbeing of the communities where we operate. We offer time for volunteering, and one of the main ways we support our local communities is through STEM (science, technology, engineering and maths) outreach with young people, raising aspirations and providing signposting to rewarding careers.

### Regulators

Various aspects of our business involve oversight from regulators. We engage with regulators to understand changing regulations, ensuring we can meet these requirements.

We engage with regulators via meetings, audits and reports.

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

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



## Answers to some of our stakeholders' most frequently asked questions

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

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

**Q** What is driving the strong performance in EMEA Services?

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



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

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

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

**Q** What is QinetiQ's exposure to inflation?

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

**Q** What is QinetiQ's capital allocation policy?

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

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

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

EMEA  
Services

## Overview

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

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

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

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

## Financial performance

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

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

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

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

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

## Business unit commentary

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

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

- We supported Formidable Shield, the largest live-fire Integrated Air and Missile Defence exercise in FY22 led by US Sixth Fleet and conducted by Naval Striking and Support Forces NATO. In total, 16 ships, 31 aircraft, and approximately 3,300 personnel from 10 NATO nations participated in the live training event at the Hebrides range. We provided the safe environment, logistics and range control to facilitate this trial, across the maritime and air domains. A range of targets were used to test defences, including subsonic, supersonic and ballistic targets. This is an excellent example of our investment in the LTPA contract, driving enhanced operational outcomes for our customers and increasing the demand for our ranges, with QinetiQ being at the leading edge of safe delivery of complex events to ensure our NATO allies can defend against future threats.
- We supported the Royal Navy Carrier Strike Group Strike Warrior exercise at MOD Aberporth and Hebrides ranges, with our operational training and missions system business Inzpire, supporting the overall training activity using its God's Eye View (GEV) capability. Exercise Strike Warrior involved more than 20 warships, three submarines and 150 aircraft from 11 nations and was the final test for the Carrier Strike Group before its first operational deployment. The GEV system developed by QinetiQ enabled the Royal Navy and Royal Air Force to enhance the training value from the exercise with a near real-time picture of the overall exercise, tracking each asset across waters off north-west Scotland by connecting sensors across the Hebrides range and RAF bases through a digital backbone.

- We have won orders totalling £115m on the Weapons Sector Research Framework (WSRF) contract, including work on the development and deployment of directed energy weapons for the UK MOD, an important capability as identified in the Integrated Review earlier in the year, particularly focused on counter-hypersonics. We were appointed to lead the WSRF in June 2020 by DSTL, alongside industry partners MBDA and Thales. The framework, which we expect to be worth £300m over five years, brings together more than 100 industry and academic partners to research and develop technologies for the benefit of the UK MOD.
- Working alongside a range of industry and NATO partners, we successfully delivered the *Robotic Experimentation and Prototyping augmented by Maritime Unmanned Systems* (REPUS) trials in Portugal. This was an important unmanned system development trial that combined multi-national and multi-domain data to generate a detailed mobile command and control picture of the battle-space used by an amphibious raiding party.
- Under the LTPA Air Ranges Modernisation programme we have completed a significant upgrade to our facilities on the island of St Kilda – the UK’s only dual UNESCO World Heritage site, 40 miles off the west coast of the Outer Hebrides in Scotland. We have developed a new energy centre, accommodation, tracking radars and telemetry, completed on time and to budget.
- We have made an investment in our autonomy capability in the UK, acquiring the Northstar autonomous navigation software intellectual property and related test and trials assets from TP Group Plc. As part of the investment, the software development team have also moved to QinetiQ. This investment demonstrates our capital allocation policy in action, investing in important capabilities and IP to support future growth in the UK and internationally.

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

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

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



# Operating review

continued

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

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

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

## International (~10% of EMEA Services revenue)

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

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

## Global Products

### Overview

Global Products delivers innovative solutions to meet customer requirements. The division is technology-based and has shorter order cycles than EMEA Services. Our strategy is to expand the product portfolio and win larger, longer-term programmes to improve the consistency of the financial performance of this division.



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

<sup>1</sup> B2B ratio is orders won divided by revenue recognised.

### Financial performance

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

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

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

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

### Business Unit commentary

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

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

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

# Operating review

## continued

### Business unit commentary

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

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

- Building on the successful delivery and trials of our Intelligence, Surveillance and Reconnaissance (ISR) prototype system on a Program of Record, we have won a \$24m contract from the US Army to build three additional SPECTRE next generation full spectrum hyperspectral prototype sensors. SPECTRE is an ISR sensor system that enables multi-mission Uncrewed Air Systems (UAS) and crewed aircraft to operate in parallel to other critical sensor payloads and weapons, with improved performance at a fraction of the size and weight of the sensors currently in use by the US Government. This is exciting progress for our US business, with opportunity for greater exploitation in the future.
- Our Next Generation Advanced Bomb Suit (NGABS) for the US Army has successfully completed field testing to enable full-rate production to commence in FY23, worth an estimated \$70m over a five-year period. Our solution brings together a novel see-through Heads-Up Display, combined with advanced integrated sensing capability, to bring a differentiated capability for Explosive Ordnance Disposal operators. As a Program of Record, NGABS production will provide another significant foundation for our growth in the US.
- We have won a \$10m contract with the US Army to develop our supersonic target offering. The contract, known as Modernizing Instrumentation Solutions for Test and Evaluation (MISTE) for High Energy Laser Measurement (HELM), is a great example of our single routes to market in action, leveraging our Rattler target into the US for the testing of high energy lasers on supersonic targets.
- We have also secured a \$62m FRP contract in the US for over 1,200 SPUR robots under the Common Robotic System– Individual (CRS-I) contract with a multi-year delivery schedule for the US Army. The SPUR robot enables a heightened capability for organic tactical reconnaissance, surveillance and target acquisition to enhance manoeuvres and protection for dismounted forces. The small advanced robotic platform is lightweight and highly mobile offering unprecedented capability in multi-domain environments including special payloads, advanced sensors and mission modules. CRS-I is the largest US Government Program of Record in robotics, giving us a strong platform for growth. During the year we have completed necessary steps to transition the contract from low rate to full rate production to meet customer delivery milestones in the years ahead.
- We received a \$12m contract for delivery of additional prototype vehicles under the Robotic Combat Vehicle Light (RCV-L) programme, for testing and experimentation by the US DoD. Furthermore, we have established a strategic partnership with Oshkosh for the Optionally Manned Fighting Vehicle (OMFV) competition, seeking to position ourselves to be the primary provider of autonomous controls and integration for the US military land platforms.
- We are investing in tactical airborne and strategic ISR capabilities and strategic teaming to exploit our expertise on combat-vehicle platforms over the next few years to drive future growth. We are confident we will deliver growth in the second half from existing contracted customer-funded R&D work and new growth opportunities on airborne sensors and ground-vehicle integration.

- In January 2022 we announced the appointment of Shawn Purvis as the new President and CEO of QinetiQ US. Shawn has more than 25 years of experience in the US defence and intelligence industry with Northrop Grumman and SAIC, with a track record of transformational leadership, driving billion-dollar P&L performance of complex organisations and large-scale acquisition integration. Shawn is further building her US leadership team to support the scale of our ambition of growth. In July 2021 we also appointed Lawrence (Larry) Prior III to the QinetiQ Plc Board; he brings a wealth of US experience from aerospace, defence and government services. With these executive and non-executive appointments, we are building the right foundations for growth to more than double the size of the US business over the next five years, through both organic growth and strategy-led acquisitions. For more context and information on our growth ambition and plan, please refer to the investor seminar we presented on 27 April 2022: Delivering our global ambition; a playback can be found on our website here: <https://www.qinetiq.com/en/investors/investor-seminars/delivering-global-growth>.
- While the second half revenue in the US has been lower than we expected, we remain confident of our growth looking forward. We have secured 20% growth in order intake in FY22 which, coupled with our new leadership team, headed by Shawn Purvis, provides a strong foundation for delivery of our strategy in the US.

### Space Products (~15% of Global Products revenue)

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

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

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

### EMEA Products (~27% of Global Products revenue)

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

- We have entered into a strategic collaboration agreement with automotive manufacturer AM General to accelerate the development of electrification technologies for military vehicles. The partnership has begun with the development of a hybrid concept of the globally iconic HUMWV (High-Mobility Multipurpose Wheeled Vehicle often referred to as 'HUMVEE') – demonstrating the viability of electrifying military land vehicles to deliver enhanced performance while decarbonising military operations. The HUMVEE vehicle concept is the first step of a highly ambitious programme in which QinetiQ and AM General are exploring how electrification can transform competitive advantage in the land domain. This collaboration will lay the foundation for further research into electrification capabilities for land vehicles, for example autonomous systems, increased situational awareness through enhanced sensor capability and optical communications.
- QinetiQ Target Systems (QTS) experienced disruption in FY21 due to COVID-19 with cancellations of trials and deployments due to travel restrictions around the world. Through FY22 we have seen significant positive progress across the QTS business with customers resuming trials and exercises and winning some significant orders, seeing growth in both their existing countries and new business wins in the US, India and Japan – the business has both recovered from COVID and achieved its largest order intake ever with £42m orders.

- QinetiQ Target Systems, under the LTPA and CATS contracts, in September 2021 supported trials of our Banshee Jet 80+ on the flight-deck of HMS Prince of Wales. The Banshee flights represent the first step for the UK Royal Navy in exploring how crewless technology could be operated from the Queen Elizabeth-class aircraft carriers in the future. Commander Rob Taylor, lead for Royal Navy air test and evaluation group, commented: "There is a real need for a low-cost drone such as the Banshee that can replicate a range of the threats in the skies and provide a test bed for future payloads".
- Our sensors and communication products have seen strong global demand and growth, with orders of £15m for our SIGINT, counter-drone radar, secure communication and secure navigation products to UK and international customers.





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

### Financial performance

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

<sup>1</sup> Cash conversion defined as operating cashflow pre-capex/ EBITDA.

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

### Overview of full year results

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

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

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

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

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

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

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

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

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

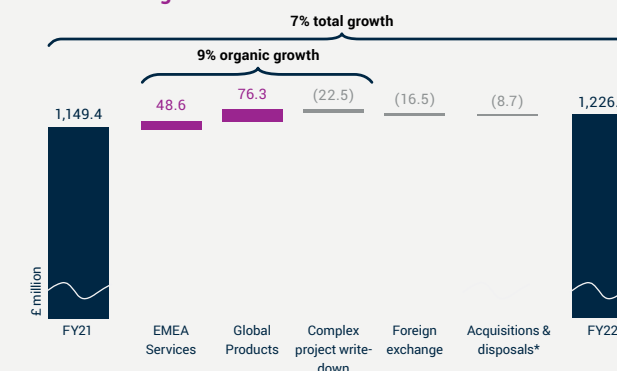
Statutory operating profit, including the impact of specific adjusting items, as set out below, was £117.5m (FY21 restated: £108.7m).

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

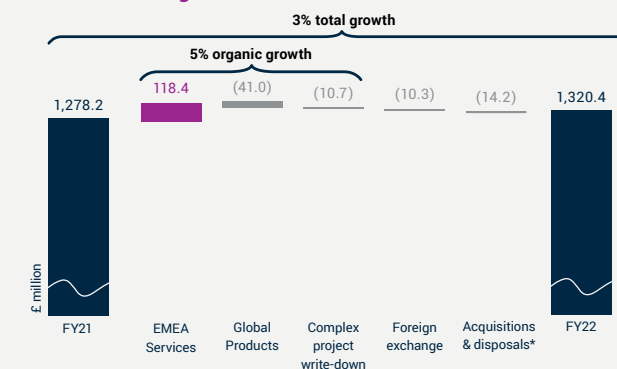
### Specific adjusting items

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

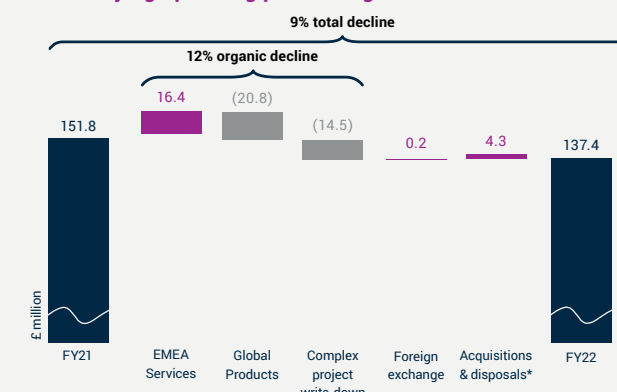
### Orders bridge



### Revenue bridge



### Underlying operating profit bridge



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





# Key performance indicators

## Financial KPIs

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

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

Measures such as orders, organic revenue growth, profitability and cash flow track our financial performance. Similar indicators are used to review performance in each of the Group's business units and where relevant, are accompanied by indicators specific to those business units.

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

### Orders (£m)

1,226.6

(FY21: 1,149.4)^

FY22	1,226.6m
FY21	1,149.4m^
FY20	961.7m^

#### Description

This is the level of new orders and amendments to existing orders booked in the year. This provides a measure of the Group's ability to sustain and grow QinetiQ. While some orders are booked and delivered in-year, the level of orders booked in the year is one indicator of future financial performance.

#### Performance this year

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

#### Link to strategy

Order intake enables us to assess the effectiveness and execution of our strategy which is designed to grow the Group. Order intake is used as a metric for the Bonus Banking Plan, but for executive remuneration purposes is adjusted to exclude businesses acquired during the year.

### International revenue (£m)

358.5

(FY21: 420.4)

FY22	£358.5m
FY21	£420.4m
FY20	£333.4m

#### Description

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

#### Performance this year

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

#### Link to strategy

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

### Organic revenue growth (%)

5%

(FY21: 10%)

FY22	5%
FY21	10%
FY20	10%

#### Description

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

#### Performance this year

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

#### Link to strategy

Organic revenue growth demonstrates the Group's ability to grow market share and sources of revenue within its chosen markets before the effect of acquisitions, disposals and currency translation. Delivering long-term sustainable growth is critical to our success. Our organic growth rate reflects the successful execution of a relevant and consistent strategy.

### Underlying operating profit (£m)

137.4

(FY21: 151.8)

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

#### Description

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

#### Performance this year

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

#### Link to strategy

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

### Underlying earnings per share (p)

20.6

(FY21: 22.1)

FY22	20.6p
FY21	22.1p
FY20	20.0p

#### Description

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

#### Performance this year

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

#### Link to strategy

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

### Underlying net cash flow from operations (£m)

215.3

(FY21: 199.0)

FY22	£215.3m
FY21	£199.0m
FY20	£177.8m

#### Description

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

#### Performance this year

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

#### Link to strategy

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

^ Restated to exclude Joint Ventures


# Key performance indicators

continued

## Non-financial KPIs

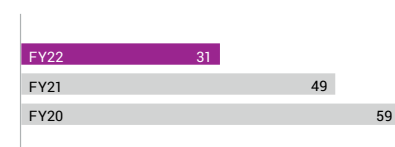
We are committed to delivering responsibly and sustainably for the benefit of all of our stakeholders.

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

 [Read more about our ESG approach on Page 44](#)

### Customer satisfaction (Net Promoter Score)

31  
(FY21: 49)



#### Description

The Net Promoter Score is an internationally recognised metric for customer satisfaction. The NPS is calculated by deducting the percentage of customers who are detractors from the percentage who are promoters, and can therefore range from -100 to +100.

#### Performance this year

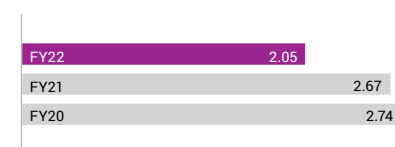
Our score remains in the category of good, supported by our continuous improvement approach to actioning customer feedback.

#### Link to strategy

Measuring customer satisfaction provides us with insight into our customers' views. Complemented with qualitative surveys, this provides us with actionable insights that enable us to improve our customer experience. This supports our ambition of becoming our customers' chosen partner in both our home countries and overseas, which requires a relentless focus on meeting their needs. Customer satisfaction is a metric used for the Bonus Banking Plan.

### Health and safety (LTI)

2.05  
(FY21: 2.67)



#### Description

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

#### Performance this year

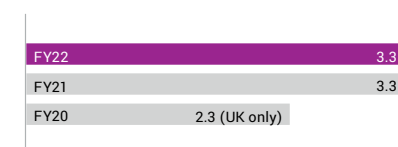
Our LTI decreased to 2.05 in FY22 from 2.67 in FY21. This ongoing decrease, is supported by our EHS strategy and planned future programme. See page 55 for more details.

#### Link to strategy

As a company, it is imperative we operate with the highest level of safety. Not only is this the right thing to do for our people, but for our customers who entrust us with safety-critical work. The safety, health and wellbeing of our people is therefore intrinsically linked to our strategic success.

### Early careers talent (%)

3.3%  
(FY21: 3.3%)



#### Description

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

#### Performance this year

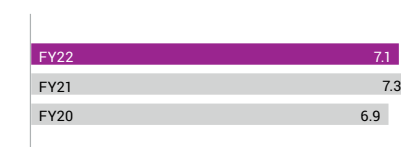
We continue to see investment in our early careers community and programmes, and see a steady level in the number of our early careers population (again 3.3%) compared with FY21. See page 58 for more details.

#### Link to strategy

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

### Employee engagement (score out of 10)

7.1  
(FY21: 7.3)



#### Description

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

#### Performance this year

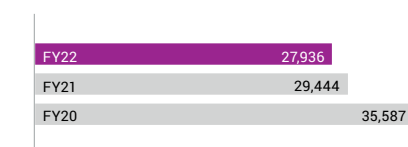
This year we continue to have good participation rates (71%) and have seen a slight decline in the overall score, 7.1 in FY22 from 7.3 in FY21, but with some areas of improvement. See page 58 for more details.

#### Link to strategy

Employee engagement is a key part of sustaining our strategy. Having an engaged workforce delivers increased productivity and retention. Improving employee engagement is essential to creating a positive culture within QinetiQ and aligns with our behaviour of "listen".

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

27,936  
(FY21: 29,444)



#### Description

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

#### Performance this year

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

#### Link to strategy

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





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

**Steve Wadey**  
Chief Executive Officer



### Highlights in FY22

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

### ESG Strategy

#### Priorities, strategy, materiality and stakeholder engagement

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

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

## Our ESG framework



STRATEGIC  
REPORT

CORPORATE  
GOVERNANCE

FINANCIAL  
STATEMENTS

### Our purpose

Protecting lives and securing the vital interests of our customers



### Our ESG framework

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

Environmental	Social	Governance
<b>Material issues</b> <ul style="list-style-type: none"><li>• Climate change; Net-Zero and resilience</li><li>• Sustainable solutions for customers</li><li>• Environmental management</li><li>• Waste and resources</li><li>• Conservation and biodiversity</li></ul>	<b>Material issues</b> <ul style="list-style-type: none"><li>• Health, safety and wellbeing</li><li>• Employee engagement</li><li>• Diversity and inclusion</li><li>• Learning and development</li><li>• Reward and recognition</li><li>• Human rights and modern slavery</li><li>• Community and STEM outreach</li></ul>	<b>Material issues</b> <ul style="list-style-type: none"><li>• Business ethics</li><li>• Code of Conduct</li><li>• Anti-bribery and corruption</li><li>• Ethical trading policy</li><li>• Responsible and sustainable procurement</li><li>• Leadership ESG remuneration</li></ul>



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


Our values demonstrate our purpose and ESG framework in action


### Our values

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



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

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

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

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

### Climate change

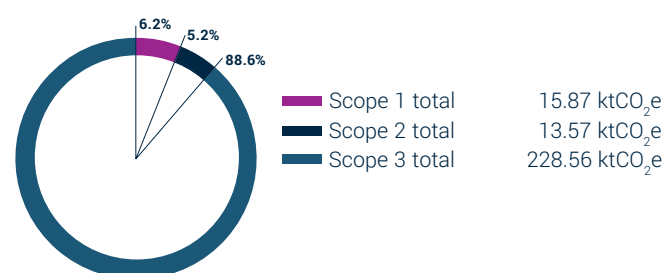
Over the last decade, we have set a series of increasingly ambitious GHG emission reduction targets. In FY19, we developed a new target in line with the Science Based Targets initiative (SBTi) to reduce our Scope 1 and Scope 2 emissions by 25%, from a FY19 base year by FY25. We are pleased that from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

### Transition to Net-Zero

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

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

Figure 1: FY21 Scope 1, 2 and 3 emissions



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

#### Our ambition

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

#### Our Net-Zero pathway initiatives

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

#### Our targets

<b>50%</b> Reduction from 2020 to 2030 and net-zero by 2050 or sooner	<b>30%</b> Reduction from 2020 to 2030 and Net-Zero by 2050 or sooner	Create and foster the internal foundation and productive industry engagement to deliver success	Helping our customers achieve their Net-Zero ambitions without compromising their capability
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#### Examples of how we will achieve our ambition

- Optimise our estate footprint using metering, management and control.
- Implement energy efficiency improvements to deliver 5-20% energy savings.
- Invest further in on-site renewables (we have, for example, generated renewable electricity on the roof at our HQ site in Farnborough since February 2012) and procure 100% of the remainder of our electricity needs from renewable sources by 2030.
- Reduce water consumption by introducing grey water/rainwater harvesting where appropriate.
- Transition our road fleet to zero emission power sources by 2035.
- Monitor opportunities to transition our aviation fleet to Sustainable Aviation Fuel (SAF).
- Eliminate leakage of sulphur hexafluoride (SF<sub>6</sub>) from our range equipment.
- Develop an advanced, data-driven approach to further leverage our Scope 3 data.
- Focus on highest emitting categories, including our engineering services supplier network, procurement of digital assets and travel and transport.
- Reduce emissions from international air travel by 50% by 2030 and use transportation providers who are demonstrably improving their own emissions performance.
- Continue the QinetiQ Collaborate programme to engage with suppliers and customers.
- Participate in relevant industry associations and events.
- Develop environmental awareness training for colleagues.
- Evolve the employee relationship with incentives.
- Maintain a detailed 5-year funding horizon for Net-Zero activities through the Integrated Strategic Business Plan.
- Net-Zero pilot site by 2025.
- Co-create with customers to develop innovative solutions, building our portfolio of climate-positive solutions which currently includes: enhanced synthetic test and evaluation solutions, stealth materials for wind turbines, hybrid-electric technology for battlefield equipment, smart power grids, and providing deployable test and evaluation capabilities.
- Invest in relevant research and development to bring more climate-positive solutions to market; an example area of investment is high power batteries and storage for military and commercial use.
- Implementing nature-based sequestration initiatives, with a specific focus on restoring natural ecosystems.
- Exemplary management of our estates and habitats around the globe.

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

### Stakeholder engagement and expectations on climate change

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



## Scope 1 and Scope 2 emissions

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

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

[www.qinetiq.com/en/our-company/sustainability/climate-change](http://www.qinetiq.com/en/our-company/sustainability/climate-change)

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

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

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

## Sustainable solutions for customers

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

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

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

## Environmental management

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

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

## Waste management

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

## Conservation and biodiversity

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

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

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



## Taskforce on Climate-related Financial Disclosures

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

Governance	
<b>Board oversight of climate-related risks and opportunities</b>	<p>The QinetiQ Board has overall responsibility for our ESG approach and climate change forms a core part of this agenda. Both the CFO (previously David Smith and now Carol Borg) and our Group Director of Corporate Responsibility and Sustainability (CR&amp;S) provide regular reports and briefings on ESG and climate change to the Board (see page 89).</p> <p>Our Remuneration Committee has also reviewed and approved non-financial collective goals for our leadership community for FY23 (See page 117) which will include climate change.</p>
<b>Management’s role in assessing and managing climate-related risks and opportunities</b>	<p>Carol Borg, our CFO, has extensive ESG experience (page 82) and is the Board member with overall responsibility for climate change; she chairs the Climate Change Steering Group (CCSG) supported by our Group Director of CR&amp;S. The CCSG membership includes leaders and subject matter experts from across the business in key roles (see page 46 for details), ensuring we take the necessary multidisciplinary approach. It is the senior forum for developing and implementing strategy and plans and for reviewing risks and performance.</p> <p>The CCSG met monthly through FY22, to drive the development of the Net-Zero plan (see pages 46-47) and to oversee our TCFD approach as well as other programmes such as stakeholder engagement. There is a dedicated TCFD Working Group, reporting into the Steering Group.</p>
Strategy	
<b>Climate-related risks and opportunities identified over the short, medium and long term</b>	<p>Climate change is a significant global issue and considerations for businesses include both physical risks, including factors such as flooding and extreme weather events, and transition risks which are related to the transition to a lower carbon economy, such as policy or regulation change and changing markets.</p> <p>We have undertaken a qualitative review of our operations, our supply chain and our work for customers and considered the effect on cost, revenue and asset value. We have considered the medium (2030) and longer term (2050). We have identified that our business is exposed to both physical and transitional risks (before mitigation activities) and issues are listed below. This is included in our principal risks on page 70 and a description of our risk management approach is on page 52.</p> <p>Physical risk:</p> <ul style="list-style-type: none"><li>Increasing number or the increasing severity of extreme weather events or flooding (for a limited number of sites) may result in damage to infrastructure, which could disrupt operations on our estate and those sites we manage on behalf of our customers. Depending on the scenario, the likelihood and severity of these events is likely to increase in the medium and long term.</li><li>Increasing number or the increasing severity of extreme weather events may impact the ability of our supply chain to meet requirements, thereby causing disruption to operations or customer delivery. Depending on the scenario, the likelihood and severity of these events is likely to increase in the medium and long term.</li></ul> <p>Transition risk:</p> <ul style="list-style-type: none"><li>Policy and Legal: Across all of the territories we operate, we may be subject to greater regulatory requirements or carbon (GHG) pricing which may result in additional costs, or the failure to meet requirements. This will be potentially more likely for scenarios where global decarbonisation is more rapid.</li></ul> <p>Opportunities:</p> <ul style="list-style-type: none"><li>The global transition to a low-carbon economy may create opportunities for us to innovate for our customers, and increase revenue from current or future low-carbon solutions (products or services).</li></ul> <p>Other issues were considered (for example, the impact on reputation) but were less material. We will continue to refine our approach and look to create a quantitative approach and will report further information as this develops.</p>

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

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

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

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

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

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

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

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



Risk management	
<b>QinetiQ’s processes for identifying and assessing climate-related risks</b>	<p>Our risk management and control framework enables us to effectively identify, assess and manage risks and where material these are featured within our principal risk register. We have based our approach to climate risks on our existing risk management methodology (to ensure that we are embedding it into our existing processes).</p> <p>In line with TCFD recommendations, our risk assessment approach covered both physical risks and transition risks. To identify key risks and opportunities, we undertook a review of best practice and guidance to explore what would be relevant to QinetiQ operations. In order to establish those that we believe are material, In order to identify material risks, we ran briefing sessions and workshops with key stakeholders (e.g. Head of Site, supply chain, operations, business development) who are our subject matter experts across the business in order to identify risks, and then these were reviewed to look at the key issues and identify those that were considered to be most material.</p> <p>As part of our day to day management of our site operations we are familiar with the physical risks posed and have a good understanding of suitable mitigations. Transition risks include a number of issues which we also manage – for example – routinely horizon scanning for emerging regulation and understanding of evolving markets (e.g. via our close engagement with customers on Net-Zero).</p>
<b>QinetiQ’s processes for managing climate-related risks</b>	<p>Ownership and management of individual risks are assigned to members of the Global Leadership Team (GLT) who are responsible for ensuring the operational effectiveness of internal control systems and for implementing key risk mitigation plans. The Board undertakes an annual assessment of the principal risks and Climate Change is included (see page 70 in the risk section). The GLT is supported by our Head of Enterprise Risk Management and our risk managers, who are able to have more tactical and operational oversight. Risks are assigned owners. This approach, which forms part of our risk culture, will ensure that climate change is fully integrated into our risk management approach (see page 62).</p>
<b>How processes for identifying, assessing and managing climate-related risks are integrated in to QinetiQ’s overall Risk management</b>	<p>For physical risks we have considered these primarily by site, and for issues such as our supply chain and business delivery. Risks have been identified (for example where there may be increased flood risk) and will form part of the regular review cycle. Risk will change either due to new emerging information or changes to our business (e.g. use of site, supplier, etc).</p> <p>Transition risks are more dynamic and we will be horizon scanning to identify any relevant changes. Any new changes (e.g. new legislation) will be addressed in line with our standard processes. We have used a variety of sources of information to undertake the assessments. We have developed a TCFD “resource hub” for our risk community. Climate change is identified as a principal risk and described in more detail in the risk section on page 70.</p>
Metrics and targets	
<b>Metrics used to assess climate-related risks and opportunities in-line with QinetiQ’s strategy and risk management process</b>	<p>A key part of addressing the risks of climate change is to transition our business to Net-Zero and so key metrics are associated with GHG emissions, one of our five non-financial KPI (see page 43) as well as targets as part of our Net-Zero plan (see pages 46-47).</p>
<b>Scope 1, 2 and if appropriate 3 GHG emissions and the related risks</b>	<p>We have disclosed our Scope 1 and Scope 2 GHG emission in the Annual Report and Accounts for a number of years. During FY22 we calculated our Scope 3 emissions for the first time and this is shown on page 46. We have also published our total Scope 1, 2 and 3 GHG emission in our Net-Zero plan (the plan is published in full on our website: <a href="http://www.qinetiq.com/en/our-company/sustainability/climate-change/net-zero">www.qinetiq.com/en/our-company/sustainability/climate-change/net-zero</a>). Our Net-Zero plan identified how we will address these emissions through four initiatives. This programme has clear oversight by the CCSG and will ensure we are able to manage the programmes, and identify and address risks.</p>
<b>QinetiQ’s targets for managing climate-related risks and opportunities and performance against targets</b>	<p>We were the first aerospace and defence company globally to publicly commit on the Science Based Targets initiative (SBTi) website to developing science based-GHG targets aligned to a 1.5°C scenario. We submitted our full set of Scope 1,2, and 3 (near term and Net-Zero) emissions targets to SBTi in January 2022, with formal assessment and validation scheduled in FY23. Our targets will, subject to validation, position us to pledge our commitment to Race to Zero, the United Nations global campaign. The targets form part of our Net-Zero plan where we have in place a programme across our business to measure manage and reduce emissions from our supply chain operations and our products and services. These targets are detailed on page 46. Our leadership Incentive scheme will support these targets (see page 117).</p>

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



## Our people and communities

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



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

## Safety and wellbeing

### Safety

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

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

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

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

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

FY22	2.05
FY21	2.67
FY20	2.74

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

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

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

### Wellbeing

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

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

### COVID-19

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

To enable this we have:

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

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

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



## Responsibility and sustainability: Community

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

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

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

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

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

### Our defence partnerships

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

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

## Diversity and inclusion

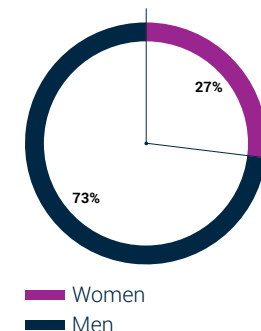
We're creating a company where our differences are not only embraced but make us stronger. To achieve this our Inclusion 2025 strategy aims to build a workplace and culture where everyone can feel valued, be authentic and realise their full potential. Our focus in FY22 has been across three key themes: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

- Held a number of global awareness campaigns on topics, including dyspraxia, mental health, women in STEM, menopause, psychological safety, Black History Month, LGBT History Month, disability, Speak Up and Domestic Violence awareness.
- Increased availability of D&I training and resources.
- Maintained D&I as part of our leadership incentive scheme, with leaders delivering 670+ interventions such as running team sessions, writing blogs and supporting reverse mentoring and our D&I networks.
- Facilitated our D&I champions (see page 105) and the leads of our seven employee-led networks to meet regularly, sharing ideas and best practice.

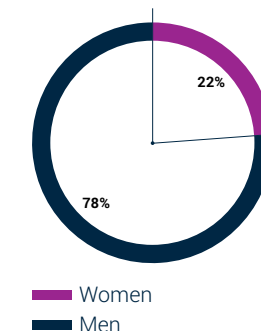
- Run a fourth cohort of our reverse mentoring programme.
- Recognised our D&I champions and network leads at the Global Recognition Gala.
- Gained an Employer of Choice for Gender Equality citation in Australia and recognised for an Outstanding Diversity and Inclusion strategy at the Australian Aviation Aerospace Awards.
- Participated in FTSE Women Leaders, reporting improved female representation in our Executive Committee plus direct reports, from 23.5% in FY21 to 27.2% in FY22.
- Reported an improvement in our UK gender pay gap from 13.9% in 2020 to 12.6% in 2021.

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

GLT and direct reports



All employees (including leaders)



### Gender balance data

	FY22		FY21		FY20	
	Female	Male	Female	Male	Female	Male
Board directors <sup>1</sup>	4 (44%)	5 (56%)	3 (37%)	5 (63%)	2 (22%)	7 (78%)
Senior managers <sup>2</sup>	59 (20%)	240 (80%)	57 (19%)	239 (81%)	54 (17%)	267 (83%)
Other employees <sup>3</sup>	1,478 (22%)	5,136 (78%)	1,447 (22%)	5,145 (78%)	1,384 (20%)	5,080 (80%)

<sup>1</sup> For more information on Board diversity see page 104.

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

<sup>3</sup> Excluding senior managers, CEO and CFO.

### Employee engagement

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

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



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

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

### Adaptability and flexibility

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

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

### Learning and development

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

- Introducing SuccessFactors to 95% of our company, providing a platform for continuous development, through setting development plans, understanding the competencies needed to progress, and providing access to the associated learning resources.

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

In FY23, we will:

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

### Early careers

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

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



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

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

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

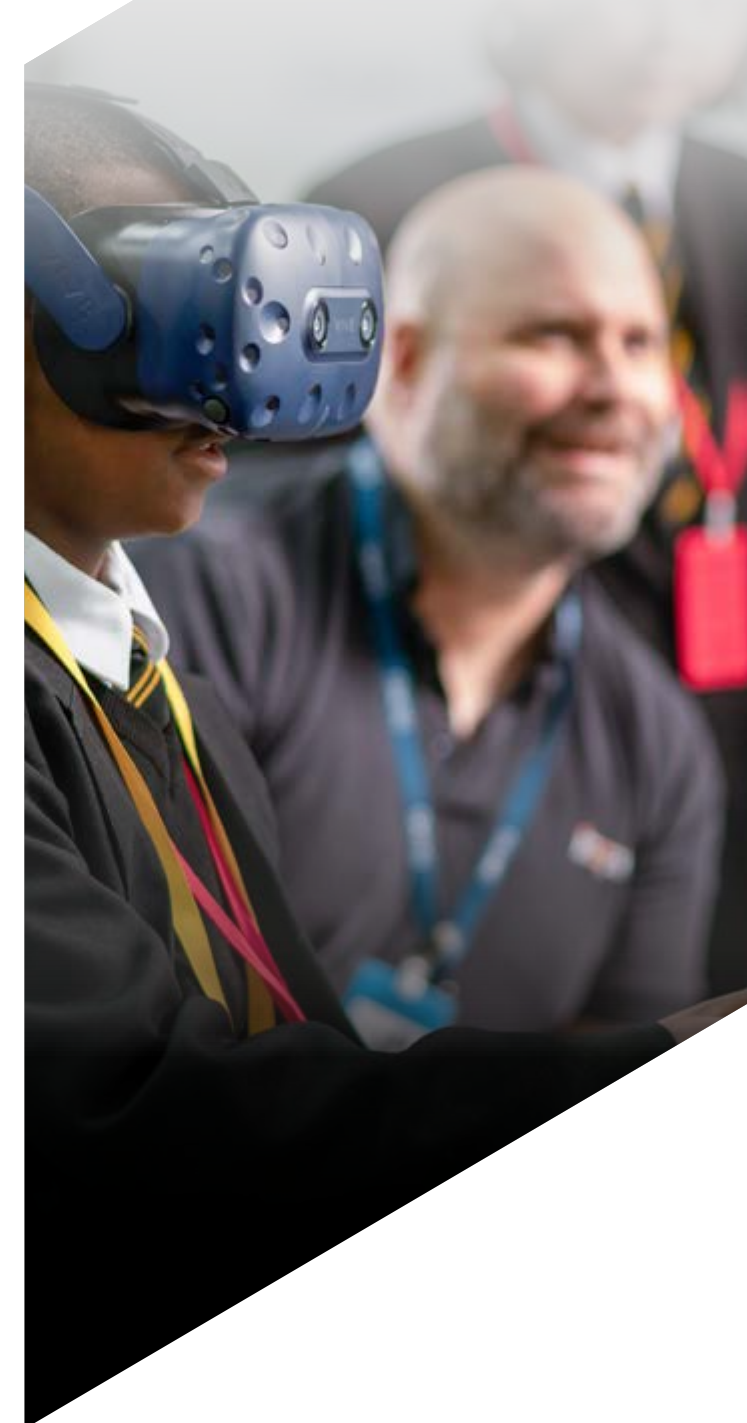
### Rewarding for Performance

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

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

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

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







## Governance



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

### Business ethics, doing business the right way

Our Code of Conduct defines our ethical standards, providing clear direction and guidance on how we do business. It contains information on ethical decision-making and also how to seek help and advice. We review the Code annually to reflect the evolving needs of our business, the regulatory environment and best practice.

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

We strive to create an environment where our people feel confident to speak up and we provide a number of different ways for them to seek help or raise concerns. Employees can talk to a manager, use our ethics email advice services, our global network of Ethics Champions and our independently run, 24/7, confidential reporting line. These are also available to third parties (we publish our Code on Conduct on our website, which contains the details:

[www.qinetiq.com/en/our-company/sustainability/business-ethics](http://www.qinetiq.com/en/our-company/sustainability/business-ethics)

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

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

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

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

### Anti-bribery and corruption (ABC)

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

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



BACK FORWARD PREVIOUS HOME

STRATEGIC  
REPORT

CORPORATE  
GOVERNANCE

FINANCIAL  
STATEMENTS

### Human rights and modern slavery

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

We seek to anticipate, prevent and mitigate potential negative human rights impacts through our policy and processes, which underpin our commitment to responsible business practices. For example, we address salient human rights issues through our Code of Conduct, our ethical trading policy, international business risk management process, grievance mechanisms, due diligence and export controls process. Our third-party confidential reporting mechanism, provides routes for third parties to raise concerns. We monitor the application of these policies and procedures through our business and supplier assurance processes and regular self-assessment, with oversight by our Business Ethics Committee. We believe that this integrated approach is effective in ensuring our business acts responsibly and respects all human rights. More information can be found on our website:

[www.qinetiq.com/en/our-company/sustainability/business-ethics](http://www.qinetiq.com/en/our-company/sustainability/business-ethics)

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

### Working with our Supply Chain

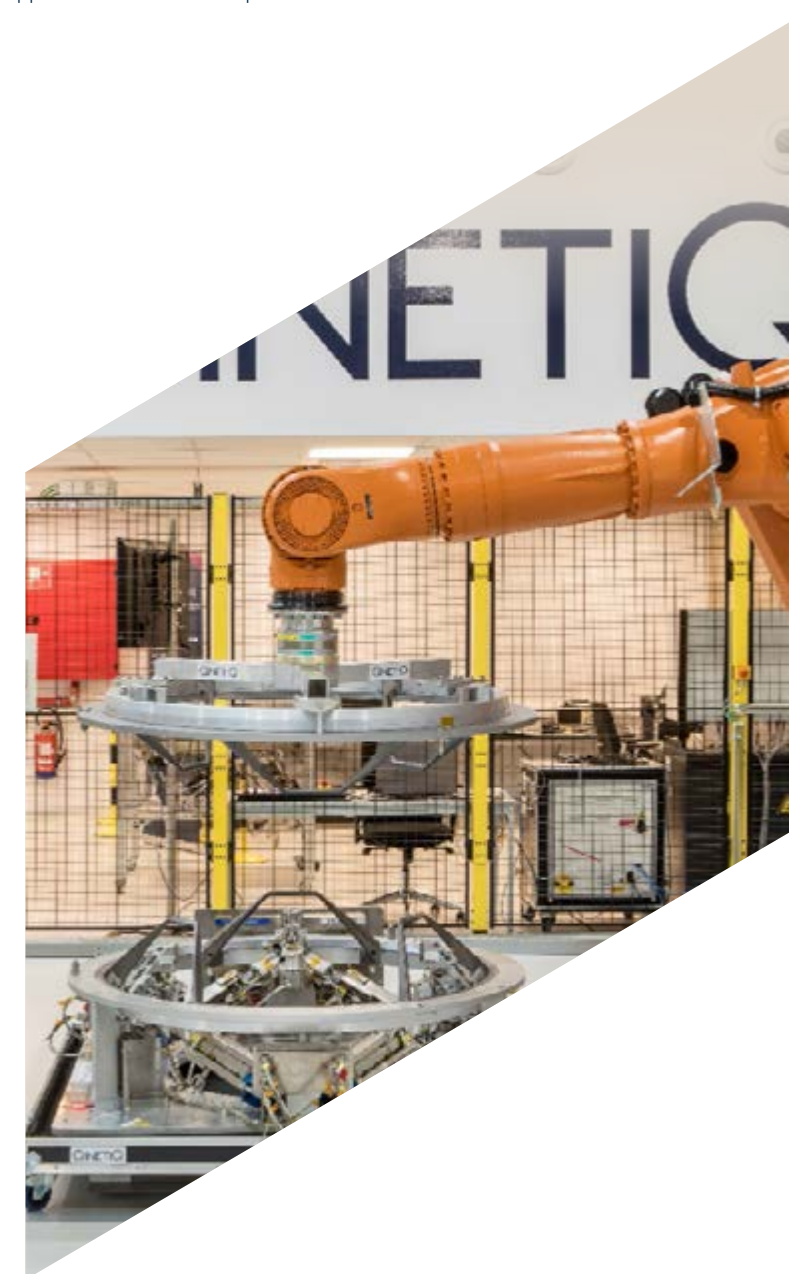
Our supply chain is an extension of our own company. We ensure that it is committed to the same standards of safety, security, sustainability and governance as we are. We have a supplier Code of Conduct and our supplier assurance process ensures that suppliers understand the issues important to us. We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

[www.qinetiq.com/en/our-company/suppliers-and-smes/working-with-us](http://www.qinetiq.com/en/our-company/suppliers-and-smes/working-with-us)

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

### Governance of ESG

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



## Our Approach to identifying and managing risks

### How we protect our business

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

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

### Principal risks

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

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

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

### Emerging risks

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

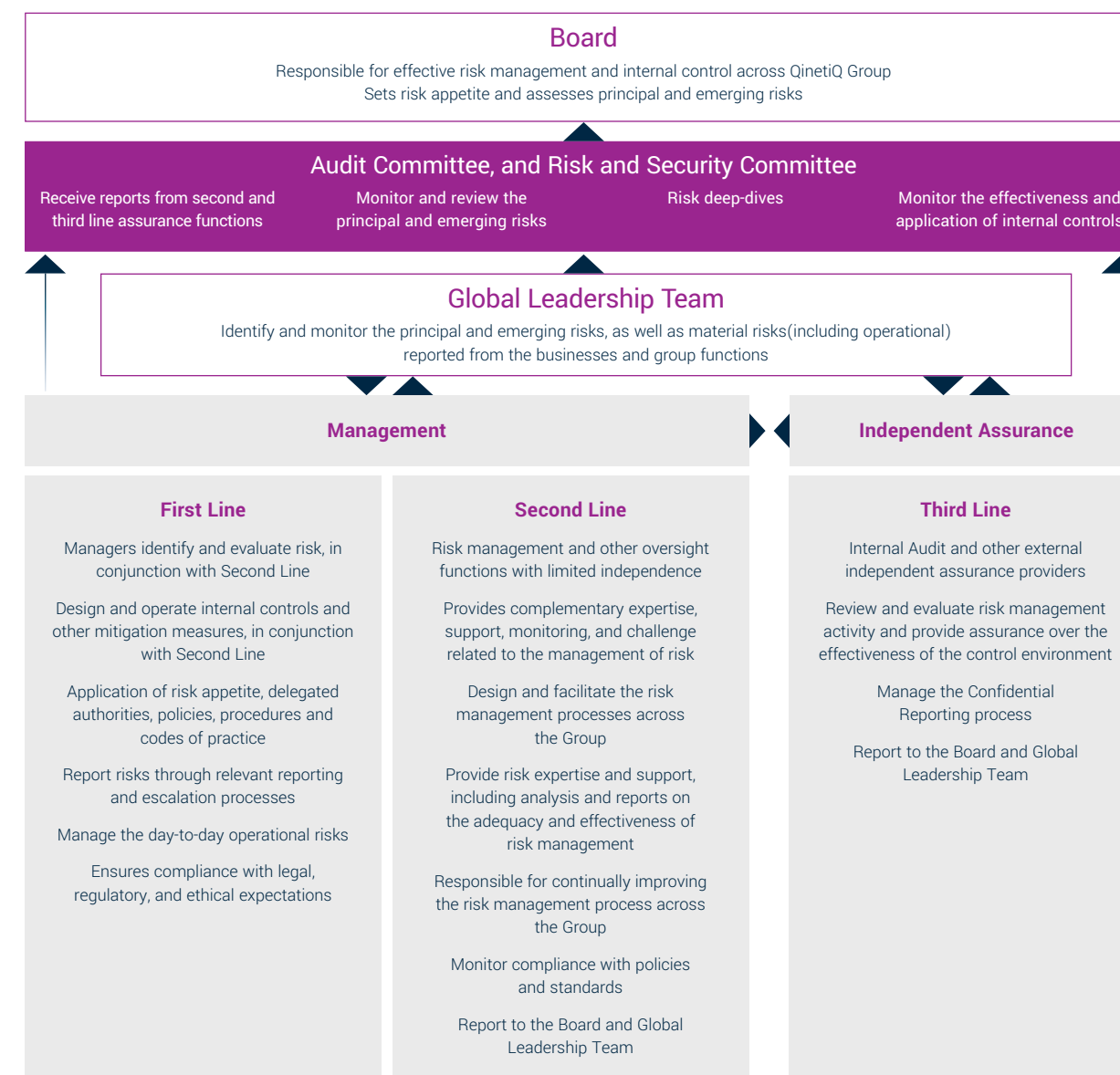
The enduring COVID-19 pandemic has continued to have limited impact on our operations globally. Our sites and facilities have remained open and the opportunity to maximise the potential of new ways of working is being exploited through our transformation programme in order to re-invent our workspaces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

[Refer to page 55 for more detailed information on our COVID-19 response](#)

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

## Risk management and assurance activity Three Lines Model

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



[We have described our approach to ESG in more detail in the responsible business section of this report on Page 44](#)



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

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

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

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

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

# Risk management continued

Innovation strategy			
Risk	Impact	Mitigation	
<p>Failure to innovate to enable the realisation of new ideas for our customers and our organisation, in the face of market and environmental changes such as rapidly evolving customer needs, technological change and increased competition.</p> <p>Specifically failure to:</p> <ul style="list-style-type: none"> <li>• Create a culture of innovation across the QinetiQ group.</li> <li>• Develop relevant business models, processes and products/services.</li> <li>• Attract, retain and nurture the right talent.</li> </ul>	<p>Negative impact on the Group's market position, competitiveness, future growth and profitability.</p>	<p>Global initiatives to ensure innovation and the necessary underlying culture is embedded across the Group, including:</p> <ul style="list-style-type: none"> <li>• Investment in tools to facilitate innovative approaches, such as enhanced exploitation of digital platforms and virtual environments to collaborate and demonstrate our products/services globally.</li> <li>• Diversity and Inclusion programme to drive and foster diverse thinking and embraces new ideas.</li> <li>• Commercial innovation, including agile approaches to contracting.</li> <li>• Strategic workforce planning and global Success Factors, utilisation to ensure we identify, attract and retain the right people now and for the future.</li> </ul> <p>Ongoing Group-wide communications, including via the Global Roadshows and Q-Talks, and training to drive understanding and adoption of our Mission-Led Innovation philosophy across QinetiQ Group, which is to deliver better operational outcomes for customers and end-users; working collaboratively to solve complex problems, at pace.</p> <p>Read more about our approach to innovation on page 21.</p>	<p><b>Metrics</b> Customer satisfaction Employee engagement</p> <p><b>Responsibility</b> Group Function Director Business Development Group Function Director Strategy and Planning Group Function Director Technical Group Function Director Human Resources</p> <p><b>Risk appetite</b> Balanced</p> <p><b>Likelihood/Impact</b> Medium/High</p> <p><b>Proximity/Velocity</b> 1-2yrs/Low</p> <p><b>Strategy</b> Global leverage Distinctive offerings Disruptive innovation</p>

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

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

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



Risk	Impact	Mitigation	
A breach of physical or data security, cyber-attacks or IT systems failure, leading to loss of customer or company information could have an adverse impact on our reputation, customer confidence and operational delivery.	Significant reputational damage, as well as service interruptions and the possibility of withdrawal of our accredited status (our "licence to operate") resulting in exclusion from some types of government contracts and subsequent impact on orders, revenue and profit.	<p>As a key supplier in the National Security supply chain, we must ensure that the organisation's security meets governments' and other relevant requirements worldwide. We employ a holistic security threat approach through four interlocking pillars: Physical, Information, Cyber and Personnel Security. Our changing and increasingly sophisticated threat environment is continuously reviewed, using appropriate tools and techniques, as part of our over-arching Security Strategy such that new and emerging threats are removed or mitigated, ensuring our strategy appropriately balances the security, cost and flexibility required for any given solution.</p> <p>Our programme of continuous security improvement includes:</p> <ul style="list-style-type: none"> <li>• A Group Cyber Security Standard.</li> <li>• Targeted Cyber Security Training for key IT staff, and mandatory awareness training for all staff and contractors.</li> <li>• Deployment and continual upgrade of cyber security detection and protective technologies.</li> <li>• Annual strategic security reviews.</li> <li>• Continuous employee communications and engagement, including an annual Security Culture survey.</li> </ul> <p>The introduction of a group-wide common IT infrastructure through the Digital and Data Transformation Programme will strengthen our overall cyber security capability through the adoption of common security tooling. This will also facilitate greater global interoperability through technology controlled information sharing while still protecting National and Sovereign data and information.</p>	<p><b>Metrics</b> Cyber dashboard Security dashboard</p>
			<p><b>Responsibility</b> Group Director Transformation and Business Services</p>
			<p><b>Risk appetite</b> Cautious</p>
			<p><b>Likelihood/Impact</b> High/High</p>
			<p><b>Proximity/Velocity</b> 0-1yr/High</p>
			<p><b>Strategy</b> Global leverage Distinctive offerings</p>

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

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

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

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

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

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

## Assessing the prospects of the Group

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

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

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

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

The scenarios are designed to be severe but plausible, and take full account of the availability and likely effectiveness of the mitigating actions (as described on pages 64-70) that could be taken to avoid or reduce the impact or occurrence of the underlying risks, and that realistically would be open to them in the circumstances. In considering the likely effectiveness of such actions, the conclusions of the Board's regular monitoring and review of risk and internal control systems, as discussed on page 108, is taken into account.

Alongside the annual review of risk scenarios applied to the strategic plan, performance is rigorously monitored to alert the Board and Global Leadership Team to the potential crystallisation of a key risk.

We consider that this stress-testing based assessment of the Group's prospects is reasonable in the circumstances of the inherent uncertainty involved.

## The period over which we confirm longer-term viability

The period over which the Directors consider it possible to form a reasonable expectation as to the Group's longer-term viability is the five-year period to 31 March 2027. This is the period covered by our strategic planning process and is subject to stress-testing and scenario planning around potential risks. It has been selected because it presents the Board and readers of the Annual Report with a reasonable degree of confidence while still providing an appropriate longer-term outlook.

## Confirmation of longer-term viability

As noted on page 111, the Directors confirm that their assessment of the principal risks facing the Group was robust. Based upon the robust assessment of the principal risks facing the Group and their stress-testing based assessment of the Group's prospects, all of which are described in this statement, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 March 2027.

## Going concern statement

The Group's activities, combined with the factors that are likely to affect its future development and performance, are set out on pages 1 to 35. The Group meets its day-to-day working capital requirements through its available cash funds and its bank facilities. The Chief Financial Officer's review on pages 36 to 39 sets out details of the financial position of the Group, the cash flows, committed borrowing facilities, liquidity, and the Group's policies and processes for managing its capital and financial risks.

The market conditions in which the Group operates are expected to be challenging, as spending from key customers comes under pressure, however the Group enters the new year with a very strong balance sheet and a healthy order-book. After making enquiries, the Directors believe that the Group is well-positioned to manage its overall business risks successfully and have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going-concern basis in preparing its financial statements.

The Group is exposed to various risks and uncertainties, the principal ones being summarised in the 'Principal risks and uncertainties' section on pages 64 to 70. Crystallisation of such risks, to the extent not fully mitigated, would lead to a negative impact on the Group's financial results but none are deemed sufficiently material to prevent the Group from continuing as a going concern for the next 12 months.



Section 172 (1)  
statement

We welcome our responsibilities to promote the success of the company in accordance with section 172 of the 2006 Companies Act.

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

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

Typically in large and complex companies such as QinetiQ, the Directors fulfil their duties partly through a governance framework that delegates day-to-day decision making to the employees of the company. The Board recognises that such delegation needs to be part of a robust governance structure, which covers our values, how we engage with our stakeholders, and how the Board assures itself that the governance structure and systems of controls continue to be robust. The main methods used by the Directors to perform their duties include:

- An annual strategy meeting which assesses the long-term sustainable success of the Group and our impact on key Stakeholders.
- The Board’s risk management procedures identify the potential consequences of decisions in the short, medium and long term so that mitigation plans can be put in place to prevent, reduce or eliminate risks to our business and wider stakeholders (see pages 64 to 70).
- The Board sets the Group’s purpose, values and strategy and ensures it is aligned with our culture (see page 90).
- Direct and indirect stakeholder engagement (see pages 26 and 92 to 93).
- External assurance is received through audits, stakeholder surveys and reports from brokers and advisers.
- Specific training for our Directors and senior managers (see page 107).
- Regularly scheduled Board presentations and reports, by way of example: customer engagement, risk register reports, health and safety reports, whistle blowing reports (if relevant), defence process review, dividend policy and people and culture strategy and developments.
- The discharge of Directors’ duties and oversight of these duties, of which further details are included in the Governance section.
- Corporate responsibility, including business ethics, anti-bribery and corruption, human rights, environmental stewardship and use of resources, sustainable solutions, greenhouse gas emissions and energy management, investing in our local communities and our commitment to the armed forces.
- Formal consideration of any these factors which are relevant to any major decisions taken by the Board throughout the year.
- Review of many of these topics through the risk management process and other standard Audit Committee, Risk and CSR Committee and Remuneration Committee agenda items.

Our Chairman, with the assistance of the Company Secretary, sets the agenda for each Board meeting to ensure that the requirements of section 172 are always met and considered through a combination of the following:

- Board papers ensure that stakeholder factors are addressed where judged relevant.
- Standing agenda points and papers presented at each Board meeting: for example, the CEO presents updates on the financial overview, strategic progress, investor relations, businesses development, and operational progress. The Company Secretary also presents at each Board meeting relevant corporate governance and compliance matters.
- A rolling agenda of matters to be considered by the Board throughout the year, including a two-day strategy review, which considers the purpose and strategy for the Group, supported by a budget for the following year and a medium-term (five-year) financial plan. Agenda items for the following year are set, based on the discussions held and decisions taken by the Board throughout the year.
- Consistent approach to minute-taking with details as to when section 172 factors are being considered.

**Board activity and principal decisions in FY22**

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

# Non-financial information statement

The non-financial reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006 are addressed within this section by means of cross reference, in order to indicate where they are located within the strategic narrative and to avoid duplication here.

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

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

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

### Our people

Policy statement	Description
Code of Conduct	Our Code of Conduct lays out our ethical standards, providing our people with clear direction and guidance on how we do business across the company (Page 60). There are details on ethical decision making and also how to seek help and raise concerns. The Code is structured to include a range of advice for our people, our customers and partners, our company and shareholders and our communities and the public. We review our Code of Conduct annually to reflect the needs of our business, regulations and best practice.
Speak Up	Guidance for our employees and third parties on how to ‘speak up’ is provided within our Code of Conduct and our supplier Code of Conduct (both available on our website). Queries to our ethics email line are reported to the GLT monthly and an overview of the programme was presented to the Board. (See page 86). Confidential reporting is overseen by the Audit Committee, the process is described on page 95.
Health and safety	Our Health and Safety policy outlines our commitment to continuously improving standards of safety management and compliance. This is supported by our EHS Strategy (page 55). The effectiveness of the policy is governed through our assurance process and our six-monthly self certification. Safety issues are part of a regular governance timetable, monthly through MD meetings, quarterly through Global Leadership Team (GLT) meetings and the Board Risk and Security Committee (see page 115). We track Lost Time Incidents (LTI) as a key non-financial KPI (page 42), which demonstrates an improvement in the LTI).
Diversity and inclusion	Our Equality, Diversity and Inclusion (ED&I) policy details our approach to promoting ED&I in our workplace. The effectiveness is governed via our assurance processes and KPIs with monthly oversight by our GLT as well as regular oversight by the Board. Our Inclusion 2025 programme including an improvement in gender diversity, is described on pages 56 and 57 including relevant data and progress against the Board’s Diversity and Inclusion Policy is described on page 104.

### The environment

Policy statement	Description
Environmental management	We are committed to embedding an environmentally sustainable approach to business because we understand its importance to our business and our stakeholders (see pages 47 and 49). The effectiveness of our policy is governed through our assurance process and our six-monthly self certification. Environmental issues are part of a regular governance timetable, with oversight by the GLT and the Risk and Security Committee (page 115). We are certified to ISO 14001 in the UK and Canada and so are subject to external audit.
Energy management and climate change	Underpinning our ISO 50001 certified energy management system is our energy and carbon management policy, which creates the framework for energy management. On page 48 we show the positive improvement against our target. Our policy is part of regular governance review and self certification, as well as external audit, to ensure we are meeting certification requirements (see page 48). Our new Net-Zero plan has had oversight by the Board (page 89). Risks associated with climate change are on page 70.
Waste management	We recognise that reducing waste meets our sustainability goals, and improves efficiency. On page 49 we outline the progress against our target. The effectiveness is governed via our assurance processes and KPI with monthly oversight by our GLT as well as regular oversight by the Risk and Security Committee.
Sustainability appraisal	Sustainability appraisals are required under the LTPA. They involve an assessment of an activity across 16 sustainability themes. The effectiveness is governed via our assurance processes as well as regular review and oversight by the UK MOD customer.

### Community and society

Policy statement	Description
Volunteering policy	Our policy provides guidance for employees to use company time to use their skills, which enable us to make a positive difference in the community (page 56). The effectiveness is monitored by the CR&S team and via our assurance process.
Safeguarding children and vulnerable adults	Our policy explains the importance of safeguarding as part of our community investment programme and outlines requirements for risk assessment and the right behaviours. The policy is managed both by the CR&S team and locally by safeguarding experts in our Early Careers Team and is managed via our assurance process.
Tax	Our Tax strategy (available on our website) outlines our commitment to being compliant with tax legislation, wherever we do business. We recognise our responsibility to pay the right amount of tax, at the right time and in the right jurisdiction. Oversight of this commitment comes through external challenge, such as business risk reviews and audit questions from tax authorities and external auditors and internal reviews such as quarterly tax updates with executive level reviews of process and procedure. The tax strategy also has oversight by the Audit Committee (page 112).
Sponsorship and donations	Our policy is designed to ensure that all donations are made to appropriate organisations. We ensure that there is screening and due diligence and we also undertake selection with oversight of the CR&S team and the Sponsorship and Donation Committee. This is managed by our assurance process.

### Human rights

Policy statement	Description
Human rights	We seek to anticipate and prevent potential negative human rights impacts through our policy and processes and address salient human rights issues through our Code of Conduct, trading policy, international business risk management process and export controls process. Our policies ensure we meet all statutory requirements. We monitor the application of these policies through our business assurance processes and regular self assessment and with leadership oversight (GLT and Board). We believe that this integrated approach is effective in ensuring our business acts responsibly and respects human rights. (See page 61).
Modern slavery	We recognise our responsibility to comply with all relevant legislation, including The Modern Slavery Act 2015. Our policy focuses on management of the supply chain and the requirements for due diligence. In addition we include modern slavery in our resourcing policy. Our Modern Slavery and Human Trafficking statement is published on our website. The effectiveness is monitoring via our assurance programme and leadership oversight (GLT and Board). See page 61 for details of the programme.
Data Protection	Our data protection policy details how we manage the privacy and security of personal information. The effectiveness is monitoring via our assurance programme and leadership oversight (GLT and Board).
Supply chain code of conduct	Our supplier code of conduct helps ensure our suppliers have clarity on our expectations on human rights issues. See page 61 and our website for more details.
International trade compliance	As an international business, it is vital that we operate fully within the requirements of international export requirements and this is address by our policies. The effectiveness is monitoring via our assurance programme and leadership oversight (GLT and Board). See our website for more details.

### Anti-bribery and anti-corruption

Policy statement	Description
Code of Conduct	Our Code of Conduct lays out our ethical standards, and contains advice on anti-bribery and corruption.
Anti-bribery and corruption	Our anti-bribery and corruption policy sets out our responsibilities in observing and upholding our zero-tolerance approach to all forms of bribery and corruption. This important policy, which ensures we meet applicable statutory requirements, has significant senior oversight at GLT and Board level, is managed via our assurance processes and self-certification and there are regular internal audits. Details of our ABC programme are provided on page 60.
Commercial intermediaries	Managing commercial intermediaries is one of a suite of key polices which supports our zero tolerance approach to ABC. It provides clear guidance on approach. This policy has Executive and Board oversight, is subject to our assurance process and self-certification.
Sanction screening	It is key that we comply with any sanctions requirements and so undertake various screenings. This is captured in our policy, which is designed to ensure we comply, which has GLT and Board oversight, is subject to our assurance process and self-certification.
Gifts and hospitality	Our gifts and hospitality policy is one of a suite of polices which supports our zero-tolerance approach to ABC. It provides clear guidance on what is appropriate and how to record. This policy has GLT and Board oversight, is subject to our assurance process and self certification.