Financial Statements

Additional Information

Consolidated income statement

For the year ended 31 March

		FY25			FY24		
All figures in £ million	Note	Underlying*	Specific adjusting Items*	Total	Underlying*	Specific adjusting Items*	Total
Revenue	2, 3	**1,931.6**	**-**	**1,931.6**	**1,912.1**	**-**	**1,912.1**
Operating costs excluding depreciation and amortisation		(1,669.1)	(136.8)	(1,805.9)	(1,644.3)	(26.1)	(1,670.4)
Other income	2	39.2	-	39.2	40.1	2.1	42.2
EBITDA (earnings before interest, tax, depreciation and amortisation)		**301.7**	**(136.8)**	**164.9**	**307.9**	**(24.0)**	**283.9**
Depreciation and impairment of property, plant and equipment	3, 15	(70.6)	(1.0)	(71.6)	(58.1)	(0.7)	(58.8)
Impairment of goodwill	13	-	(143.9)	(143.9)	-	-	-
Amortisation and impairment of intangible assets	3, 4, 14	(15.7)	(24.2)	(39.9)	(7.4)	(25.2)	(32.6)
Operating profit/(loss)	3	**215.4**	**(305.9)**	**(90.5)**	**242.4**	**(49.9)**	**192.5**
Finance income	7	6.6	1.0	7.6	5.3	5.6	10.9
Finance expense	7	(23.4)	-	(23.4)	(20.7)	-	(20.7)
Profit/(loss) before tax	8	**198.6**	**(304.9)**	**(106.3)**	**227.0**	**(44.3)**	**182.7**
Taxation (expense)/income	9	(51.6)	(27.8)	(79.4)	(57.4)	14.3	(43.1)
Profit/(loss) for the year		**147.0**	**(332.7)**	**(185.7)**	**169.6**	**(30.0)**	**139.6**

Earnings/(loss) per share for profit/(loss) attributable to the owners of the parent company

		FY25		FY24	
All figures in pence	Note	Underlying*	Total	Underlying*	Total
Basic	10	26.1	(33.0)	29.4	24.2
Diluted	10	25.8	(33.0)	29.0	23.8

* Alternative performance measures are used to supplement the statutory figures. These are additional financial indicators used by management internally to assess the underlying performance of the Group. Definitions can be found on page 202. Also refer to note 4 for details of 'specific adjusting items'.

Consolidated statement of comprehensive income

For the year ended 31 March

All figures in £ million	Note	FY25	FY24
(Loss)/profit for the year		**(185.7)**	**139.6**
Items that will not be reclassified to profit or loss:			
Actuarial gain/(loss) recognised in defined benefit pension schemes	27	17.7	(108.9)
Tax on items that will not be reclassified to profit and loss	17	(4.4)	27.2
Total items that will not be reclassified to profit or loss		**13.3**	**(81.7)**
Items that may be reclassified to profit or loss:			
Foreign currency translation losses on foreign operations		(11.6)	(12.6)
Movement in deferred tax on foreign currency translation		0.7	0.1
(Decrease)/increase in the fair value of hedging derivatives		(4.3)	0.1
Movement in deferred tax on hedging derivatives		1.1	-
Total items that may be reclassified to profit or loss		**(14.1)**	**(12.4)**
Other comprehensive expense for the year, net of tax		**(0.8)**	**(94.1)**
Total comprehensive (expense)/income for the year		**(186.5)**	**45.5**

Consolidated statement of changes in equity

For the year ended 31 March

All figures in £ million	Share capital	Capital redemption reserve	Share premium	Hedge reserve	Translation reserve	Retained earnings	Total
Note	28						
At 1 April 2024	5.7	40.8	147.6	6.4	(16.7)	742.3	926.1
Total comprehensive expense							
Loss for the year	-	-	-	-	-	(185.7)	**(185.7)**
Other comprehensive (expense)/income for the year, net of tax	-	-	-	(3.2)	(10.9)	13.3	**(0.8)**
Total comprehensive expense for the year	**-**	**-**	**-**	**(3.2)**	**(10.9)**	**(172.4)**	**(186.5)**
Purchase of own shares	(0.2)	0.2	-	-	-	(74.9)	**(74.9)**
Share-based payment	-	-	-	-	-	8.9	**8.9**
Tax on share-based payments (note 9)	-	-	-	-	-	0.8	**0.8**
Dividends	-	-	-	-	-	(47.9)	**(47.9)**
At 31 March 2025	5.5	41.0	147.6	3.2	(27.6)	456.8	626.5
At 1 April 2023	5.8	40.8	147.6	6.3	(4.2)	772.0	968.3
Total comprehensive income/(expense)							
Profit for the year	-	-	-	-	-	139.6	**139.6**
Other comprehensive income/(expense) for the year, net of tax	-	-	-	0.1	(12.5)	(81.7)	**(94.1)**
Total comprehensive income/(expense) for the year	**-**	**-**	**-**	**0.1**	**(12.5)**	**57.9**	**45.5**
Purchase of own shares	(0.1)	-	-	-	-	(51.0)	**(51.1)**
Share-based payments	-	-	-	-	-	8.8	**8.8**
Tax on share-based payments (note 9)	-	-	-	-	-	0.2	**0.2**
Dividends	-	-	-	-	-	(45.6)	**(45.6)**
At 31 March 2024	5.7	40.8	147.6	6.4	(16.7)	742.3	**926.1**

Consolidated balance sheet

As at 31 March

All figures in £ million	Note	31 March 2025	31 March 2024
Non-current assets			
Goodwill	13	249.8	401.4
Intangible assets	14	293.9	321.8
Property, plant and equipment	15	473.3	531.8
Other financial assets	23	3.0	4.9
Equity accounted investments	16	2.1	2.2
Net pension asset	27	39.4	18.4
Deferred tax asset	17	10.7	36.7
		1,072.2	**1,317.2**
Current assets			
Inventories	19	70.7	89.2
Other financial assets	23	4.9	6.2
Trade and other receivables	20	388.4	456.8
Current tax asset	18	1.6	5.8
Cash and cash equivalents	23	290.6	231.0
		756.2	**789.0**
Total assets		**1,828.4**	**2,106.2**
Current liabilities			
Trade and other payables	21	(597.5)	(654.7)
Current tax payable	18	(3.6)	(6.6)
Provisions	22	(56.2)	(15.3)
Other financial liabilities	23	(15.1)	(9.2)
		(672.4)	**(685.8)**
Non-current liabilities			
Deferred tax liability	17	(101.0)	(94.4)
Provisions	22	(3.5)	(4.2)
Borrowings and other financial liabilities	23	(416.6)	(384.1)
Other payables	21	(8.4)	(11.6)
		(529.5)	**(494.3)**
Total liabilities		**(1,201.9)**	**(1,180.1)**
Net assets		**626.5**	**926.1**
Equity			
Ordinary shares	28	5.5	5.7
Capital redemption reserve		41.0	40.8
Share premium account		147.6	147.6
Hedging reserve		3.2	6.4
Translation reserve		(27.6)	(16.7)
Retained earnings		456.8	742.3
Total equity		**626.5**	**926.1**

The financial statements on pages 144 to 196 were approved by the Board of Directors and authorised for issue on 22 May 2025 and were signed on its behalf by:

Steve Wadey
Group Chief Executive Officer

Martin Cooper
Group Chief Financial Officer

Consolidated cash flow statement

For the year ended 31 March

All figures in £ million	Note	FY25	FY24
Underlying net cash inflow from operations	24	**316.2**	**320.2**
Less: specific adjusting items	24	(29.5)	(26.1)
Net cash inflow from operations	24	**286.7**	**294.1**
Tax paid		(48.6)	(36.9)
Interest received		6.6	5.3
Interest paid		(23.4)	(19.4)
Net cash inflow from operating activities		**221.3**	**243.1**
Purchases of intangible assets	14	(12.7)	(10.9)
Purchases of property, plant and equipment	15	(96.1)	(85.4)
Proceeds from sale of property		108.5	2.1
Proceeds from sale of plant and equipment		0.4	0.2
Dividends from joint ventures and associates		0.3	-
Acquisition of businesses	12	-	(5.1)
Net cash inflow/(outflow) from investing activities		**0.4**	**(99.1)**
Purchase of own shares		(108.9)	(17.1)
Dividends paid to shareholders	11	(47.9)	(45.6)
Capital element of lease payments		(10.8)	(6.8)
Cash flow relating to intercompany loan hedges		9.2	6.3
Net cash outflow from financing activities		**(158.4)**	**(63.2)**
Increase in cash and cash equivalents		**63.3**	**80.8**
Effect of foreign exchange changes on cash and cash equivalents		(3.7)	(1.0)
Cash and cash equivalents at beginning of the year		231.0	151.2
Cash and cash equivalents at end of the year	23	**290.6**	**231.0**

Reconciliation of movements in net debt

for the year ended 31 March

All figures in £ million	Note	FY25	FY24
Increase in cash and cash equivalents in the year		**63.3**	**80.8**
Add back net cash flows not impacting net debt		12.4	7.3
Movement in net debt resulting from cash flows		75.7	88.1
Net increase in lease obligations		(50.8)	(31.2)
Net movement in derivative financial instruments		(4.7)	(0.5)
Other movements including foreign exchange		(2.2)	(0.7)
Movement in net debt as defined by the Group		18.0	55.7
Net debt as defined by Group at the beginning of the year		(151.2)	(206.9)
Net debt as defined by the Group at the end of the year	23	**(133.2)**	**(151.2)**
Less: borrowings	23	335.0	336.3
Less: total net derivative financial instruments, capitalised borrowing costs and lease liabilities	23	88.8	45.9
Total cash and cash equivalents	23	**290.6**	**231.0**

Notes to the Consolidated Financial Statements

For the year ended 31 March

1. Significant changes in the current reporting period

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

1) A £151.6m decrease in Goodwill predominantly due to an impairment charge against the US Sector CGU (note 13)
2) A £74.9m reduction in equity due to the ongoing purchase to acquire own shares as part of the share buy back programme
3) The sale and leaseback transaction of Cody Technology park which generated net proceeds of £108.5m, created new lease liabilities of £39.1m and had a net impact on the net book value of property, plant and equipment of £85.1m
4) A £59.7m increase in the balance of cash and cash equivalents following strong operating cash performance and the sale and leaseback transaction, offset by capex, tax, dividends and share buy back.

For a detailed discussion of the Group's performance and financial position refer to the Strategic Report on pages 1 to 73.

2. Revenue from contracts with customers and other income

Revenue and other income is analysed as follows:

Revenue by category

For the year ended 31 March

All figures in £ million	FY25	FY24
Services contracts with customers	1,810.9	1,811.2
Sale of goods contracts with customers	110.6	95.7
Royalties and licences	10.1	5.2
Total revenue	**1,931.6**	**1,912.1**
Adjust to constant prior year exchange rates	10.9	-
Total revenue on an organic, constant currency basis*	**1,942.5**	**1,912.1**
Organic revenue growth at constant currency*	***2%***	***14%***

* Alternative performance measures are used to supplement the statutory figures. These are additional financial indicators used by management internally to assess the underlying performance of the Group. Definitions can be found on page 202.

Other income

All figures in £ million	FY25	FY24
Share of joint ventures' profit after tax	0.3	0.8
Research and development expenditure credits (RDEC)	30.0	27.2
Other income	8.9	12.1
Underlying other income	**39.2**	**40.1**
Specific adjusting item: gain on sale of property (note 4)	-	2.1
Total other income	**39.2**	**42.2**

Revenue and profit after tax of associates and joint ventures was £5.9m and £0.3m respectively (FY24: revenue of £5.9m and profit after tax of £1.0m). The figures in the table above represent the Group share of this profit after tax.

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

Revenue by customer geographic location

All figures in £ million	FY25	FY24
United Kingdom (UK)	1,311.0	1,265.8
United States of America (US)	348.4	401.9
Australia	147.9	130.6
Home countries	**1,807.3**	**1,798.3**
Europe	64.7	52.8
Rest of world	59.6	61.0
Total revenue	**1,931.6**	**1,912.1**
Home countries revenue %	***94%***	***94%***
International (non-UK) revenue %	***32%***	***34%***

Revenue by major customer type

All figures in £ million	FY25	FY24
UK government	1,205.3	1,184.9
US government	338.1	389.3
Other	388.2	337.9
Total revenue	**1,931.6**	**1,912.1**

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

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

All figures in £ million	FY26	FY27	FY28	FY29+	Total
Total forecast revenue allocated to unsatisfied performance obligations	**1,393.3**	**645.8**	**453.0**	**353.0**	**2,845.1**

Management expects that 49% (£1,393.3m) of revenue allocated to un-satisfied contracts as of 31 March 2025 will be recognised as revenue during the next reporting period.

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

All figures in £ million	FY25	FY26	FY27	FY28+	Total
Total forecast revenue allocated to unsatisfied performance obligations	**1,304.6**	**621.0**	**401.9**	**545.5**	**2,873.0**

Revenue of £212.6m was recognised during the year that was previously unrecognised as at the previous year end and reported as a contract liability.

3. Segmental analysis

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

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

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

Operating segments

	FY25		FY24	
All figures in £ million	Revenue from external customers	Underlying operating profit[1,2]	Revenue from external customers	Underlying operating profit[1,2]
EMEA Services	1,477.7	169.0	1,417.4	163.4
Global Solutions	453.9	16.4	494.7	51.8
Revenue/Operating profit from segments[1,2]	**1,931.6**	**185.4**	**1,912.1**	**215.2**
Research and development expenditure credits (RDEC)		30.0		27.2
Underlying operating profit[2]		**215.4**		**242.4**
Operating profit margin from segments [2]		**9.6%**		**11.3%**

1 The measure of profit presented to the Chief Operating Decision Maker is Operating profit from segments, stated before specific adjusting items and research and development expenditure credits. The specific adjusting items are detailed in note 4.
2 Definitions of the Group's 'Alternative performance measures' can be found on page 202.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

3. Segmental analysis (continued)

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

Reconciliation of segmental results to total (loss)/profit

All figures in £ million	Note	FY25	FY24
Operating profit from segments[1,2]		185.4	215.2
Research and development expenditure credits (RDEC)		30.0	27.2
Underlying operating profit[2]		**215.4**	**242.4**
Specific adjusting items operating loss	4	(305.9)	(49.9)
Operating (loss)/profit		**(90.5)**	**192.5**
Net finance expense	7	(15.8)	(9.8)
(Loss)/profit before tax		**(106.3)**	**182.7**
Taxation expense	9	(79.4)	(43.1)
(Loss)/profit for the year		**(185.7)**	**139.6**

1 The measure of profit presented to the Chief Operating Decision Maker is Operating profit from segments, stated before specific adjusting items and research and development expenditure credits. The specific adjusting items are detailed in note 4.
2 Definitions of the Group's 'Alternative performance measures' can be found on page 202.

Non-current assets* by geographic location

All figures in £ million	UK	US	Australia	Germany	Rest of world	Total
As at year ended 31 March 2025	**508.3**	**392.1**	**39.8**	**65.8**	**11.0**	**1,017.0**
As at year ended 31 March 2024	576.1	572.8	46.5	46.3	13.3	1,255.0

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

Depreciation and amortisation by business segment – excluding specific adjusting items

For the year ended 31 March 2025

All figures in £ million	EMEA Services	Global Solutions	Total
Underlying depreciation and impairment of property, plant and equipment	63.1	7.5	70.6
Underlying amortisation and impairment of purchased or internally developed intangible assets	7.5	8.2	15.7
	70.6	**15.7**	**86.3**

For the year ended 31 March 2024

All figures in £ million	EMEA Services	Global Solutions	Total
Underlying depreciation and impairment of property, plant and equipment	50.8	7.3	58.1
Underlying amortisation and impairment of purchased or internally developed intangible assets	4.2	3.2	7.4
	55.0	**10.5**	**65.5**

4. Specific adjusting items

In the income statement, the Group presents specific adjusting items separately. In the judgement of the Directors, for the reader to obtain a proper understanding of the financial information, specific adjusting items need to be disclosed separately because of their size and nature. Further explanation of this rationale is provided in note 35 (Accounting Policies). Underlying measures of performance exclude specific adjusting items. The following specific adjusting items have been (charged)/credited in the consolidated income statement:

All figures in £ million	Note	FY25	FY24
Acquisition and disposal costs		(10.7)	(2.7)
Acquisition integration costs		(4.0)	(5.3)
Acquisition related remuneration costs		(0.2)	(1.2)
One-off period of digital investment		(20.8)	(16.9)
Restructuring costs and associated impacts		(64.5)	-
(Loss)/gain on sale of property		(36.6)	2.1
Specific adjusting items loss before interest, tax, depreciation and amortisation		**(136.8)**	**(24.0)**
Impairment of property		(1.0)	(0.7)
Impairment of goodwill	13	(143.9)	-
Amortisation of intangible assets arising from acquisitions		(24.2)	(25.2)
Specific adjusting items operating loss		**(305.9)**	**(49.9)**
Defined benefit pension scheme net finance income	27	1.0	5.6
Specific adjusting items loss before tax		**(304.9)**	**(44.3)**
Tax impact of the above specific adjusting items	9	17.2	14.3
De-recognition of US deferred tax asset	9	(45.0)	-
Total specific adjusting items loss after tax		**(332.7)**	**(30.0)**

Reconciliation of underlying profit for the year to total (loss)/profit for the year

All figures in £ million	FY25	FY24
Underlying profit after tax	**147.0**	**169.6**
Total specific adjusting items loss after tax	(332.7)	(30.0)
Total (loss)/profit for the year	**(185.7)**	**139.6**

The total impact of specific adjusting items (which are excluded from underlying performance due to their distorting nature) on operating profit was a £305.9m cost (FY24: cost of £49.9m).

Our US operations performed below expectations for orders, revenue, profit and cash flow in the year with some key contract losses. The goodwill impairment charge of £143.9m relates to the US Sector and is driven by a combination of an increase in the discount rate and a reduction in the forecast cash flows used to calculate the recoverable amount predominately in our legacy US operations. During the second half of the financial year the change in administration, together with the new US Sector CEO's perspective on the US business performance and outlook led to a material impact on the future projections of the business and an associated restructuring plan. These factors, together with the impact of the discount rate which increased significantly in H2, has a knock-on impact for future years' profitability and cash flow and hence an impairment.

Restructuring costs and other impacts of £64.5m includes approximately £20m of costs relating to restructuring to create efficiency and competitiveness in our functions and sectors. The remaining £45m relates to a number of one-off, largely non-cash charges and provisions primarily relating to inventory and cost recovery in our legacy US operations. These items are predominantly a consequence of the developments referred to above which happened in the second half of the financial year, including the restructuring of our US sector against the backdrop of challenging US market conditions.

Acquisition, disposal and integration costs of £14.9m (FY24: £9.2m) primarily comprise residual costs associated with integrating the Avantus and Air Affairs acquisitions into their respective sectors and specific post-deal retention arrangements relating to Avantus employees.

In FY25 the non-recurring cost of the discrete digital investment programme is £20.8m (FY24: £16.9m). We continue to roll out this project to modernise the IT infrastructure to support our future growth ambitions which will continue over the next two to three years. The non-recurring costs are reported as specific adjusting items in the P&L, with ongoing recurring operating costs (such as licence costs and overheads) remaining within underlying operating costs.

The loss on sale of property of £36.6m relates to the sale and leaseback of Cody Technology Park which was announced in September 2024. A gross cash receipt of £112m was received and a new 15 year lease was entered into. The sale and leaseback accounting under IFRS16, results in a one-off, non-cash, accounting loss, which is calculated based on the varying values of assets which were sold and those which are being leased back.

Also included within specific adjusting items are net finance income from pensions of £1.0m (FY24: £5.6m), impairment of right of use lease assets in the US following space relocation of £1.0m, and amortisation of acquisition intangibles of £24.2m (FY24: £25.2m).

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

5. Analysis of employee costs and numbers

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

	As at 31 March		Monthly average	
	2025 Number	2024 Number	FY25 Number	FY24 Number
EMEA Services	6,903	6,936	6,955	6,735
Global Solutions	1,500	1,652	1,575	1,724
Total employees	**8,403**	**8,588**	**8,530**	**8,459**

The aggregate payroll costs of these persons were as follows:

All figures in £ million	Note	FY25	FY24
Wages and salaries		569.4	562.1
Social security costs		54.5	55.7
Other pension costs		73.4	65.0
Share-based payments costs	29	9.8	10.2
Total employee costs		**707.1**	**693.0**

6. Key management personnel

The Key management personnel of the Group during the year to 31 March 2025 comprise the Board of Directors and the QinetiQ Leadership Team. Their remuneration and benefits are summarised below:

All figures in £ million	FY25	FY24
Short-term employee remuneration including benefits	6.9	9.1
Post-employment benefits	0.1	0.1
Share-based payments costs	3.3	2.1
Total	**10.3**	**11.3**

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

The highest paid director is the Group Chief Executive Officer, details of whose remuneration is provided on page 113 of the Directors' Remuneration Report.

Payments to past Directors and payment for loss of office are set out on pages 117 and 122 of the Directors' Remuneration Report.

7. Finance income and expense

All figures in £ million	FY25	FY24
Bank interest receivable	6.6	5.3
Finance income before specific adjusting items	**6.6**	**5.3**
Amortisation of deferred financing costs	(1.4)	(1.2)
Bank interest and commitment fees	(17.8)	(16.6)
Lease expense	(4.2)	(2.8)
Unwinding of discount on financial liabilities	-	(0.1)
Finance expense	**(23.4)**	**(20.7)**
Underlying net finance expense	**(16.8)**	**(15.4)**
Specific adjusting item: defined benefit pension scheme net finance income	1.0	5.6
Net finance expense	**(15.8)**	**(9.8)**

8. Profit/(loss) before tax

The following auditors' remuneration has been charged in arriving at profit/(loss) before tax:

All figures in £ million	FY25	FY24
Fees payable to the auditors and its associates:		
Audit of the Group's annual accounts	1.0	1.0
Audit of the accounts of subsidiaries of the Company	0.9	0.8
Total audit fees	**1.9**	**1.8**
Audit-related assurance services (Interim financial statements)	0.1	0.1
Other assurance services	0.1	0.1
Total non-audit fees	**0.2**	**0.2**
Total auditors' remuneration	**2.1**	**2.0**

The following items have also been charged in arriving at profit/(loss) before tax:

All figures in £ million	FY25	FY24
Cost of inventories expensed - underlying	53.8	59.4
Cost of inventories written down - specific adjusting item (restructuring costs and associated impacts)	18.5	-
Owned assets: depreciation	57.2	49.3
Leased assets: depreciation	10.9	8.8
Foreign exchange loss	0.4	0.6
Research and development expenditure – customer funded contracts	332.9	315.4
Research and development expenditure – Group funded	12.0	12.8

9. Taxation charge

	FY25			FY24		
All figures in £ million	Underlying	Specific adjusting items	Total	Underlying	Specific adjusting Items	Total
Analysis of charge						
Current UK tax expense/(income)	51.0	(6.2)	44.8	41.9	(4.1)	37.8
Current UK tax in respect of prior years	2.2	-	2.2	(0.8)	(0.7)	(1.5)
Overseas corporation tax						
Current year	3.5	(0.9)	2.6	1.7	-	1.7
In respect of prior years	1.0	-	1.0	0.6	(0.6)	-
Current tax expense/(income)	**57.7**	**(7.1)**	**50.6**	**43.4**	**(5.4)**	**38.0**
Deferred tax (income)/expense	(5.0)	5.3	0.3	17.2	(7.6)	9.6
Deferred tax impact of change in rates	-	-	-	0.1	0.2	0.3
Deferred tax impact of de-recognition of prior year US deferred tax asset	-	29.6	29.6	-	-	-
Deferred tax in respect of prior years	(1.1)	-	(1.1)	(3.3)	(1.5)	(4.8)
Deferred tax (income)/expense	**(6.1)**	**34.9**	**28.8**	**14.0**	**(8.9)**	**5.1**
Taxation expense/(income)	**51.6**	**27.8**	**79.4**	**57.4**	**(14.3)**	**43.1**
Factors affecting tax expense in the year						
Principal factors reducing the Group's current year tax charge below the UK statutory rate are explained below:						
Profit/(loss) before tax	198.6	(304.9)	(106.3)	227.0	(44.3)	182.7
Tax on profit/(loss) before tax at 25% (FY24: 25%)	**49.7**	**(76.2)**	**(26.5)**	**56.8**	**(11.1)**	**45.7**
Effect of:						
Expenses not deductible for tax purposes and non-taxable items	0.8	1.2	2.0	3.5	0.1	3.6
De-recognition of US deferred tax asset	-	45.0	45.0	-	-	-
Non-deductible US goodwill impairment	-	36.0	36.0	-	-	-
Non-recognition of deductible restructuring impacts	-	13.1	13.1	-	-	-
Non-deductible loss on sale of property	-	9.1	9.1	-	-	-
Tax in respect of prior years	2.0	-	2.0	(3.5)	(2.8)	(6.3)
Deferred tax impact of change in rates	-	-	-	0.1	0.2	0.3
Different tax rates in overseas jurisdictions	(0.9)	(0.4)	(1.3)	0.5	(0.7)	(0.2)
Taxation expense/(income)	**51.6**	**27.8**	**79.4**	**57.4**	**(14.3)**	**43.1**
Effective tax rate	**26.0%**		**(74.7)%**	**25.3%**		**23.6%**

The total tax charge was £79.4m (FY24: £43.1m). The underlying tax charge was £51.6m (FY24: £57.4m), on a lower underlying profit before tax, with an underlying effective tax rate of 26.0% for the year ending 31 March 2025 (FY24: 25.3%). The underlying effective tax rate is slightly above the UK statutory rate of 25% (FY24: 25%) primarily as a result of prior year adjustments to returns.

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For the year ended 31 March

9. Taxation charge (continued)

Tax on specific adjusting items

The total specific adjusting items tax charge was £27.8m (FY24 credit: £14.3m). The tax charge primarily arises on the de-recognition of the brought forward US deferred tax asset (£29.6m). It is a charge rather than a credit primarily due to the de-recognition of US deferred tax assets (£45.0m, being £29.6m brought forward and £15.4m current year), the significant non-tax deductible impairment of goodwill (£36.0m), the non-recognition of deferred tax assets created by deductible restructuring costs (£13.1m) and the non-deductible loss on sale of Cody Technology Park (£9.1m).

Amounts recognised directly in equity

Current and deferred tax not recognised in net profit or loss or other comprehensive income but directly credited to equity was £0.8m (FY24: £0.2m).

Factors affecting future tax charges

The underlying effective tax rate is expected to remain marginally above the UK statutory rate, subject to the impact of any tax legislation changes and the geographic mix of profits. The Group has engaged with advisers to assess any potential impact on the tax charge by the UK's enactment of the OECD's Global Anti-Base Erosion Model Rules (Pillar Two). The Group performed an assessment of the potential exposure to Pillar Two income taxes based on current period data. The Group believes it qualifies for one of the transitional safe harbours provided in the rules in all territories in which it operates. The Group has not accrued a Pillar Two top up tax for FY25. The Group has applied the temporary exemption issued by the International Accounting Standards Board from the accounting for deferred taxes under IAS12 and neither recognises nor discloses information about deferred taxes related to Pillar Two income taxes. The Group does not anticipate a material quantitative impact from Pillar Two legislation, however, there are expected to be significant compliance obligations.

Tax risk management and tax cash

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

10. Earnings/(loss) per share

Basic earnings/(loss) per share (EPS) is calculated by dividing the profit attributable to equity shareholders by the weighted average number of ordinary shares in issue during the year. The weighted average number of shares used excludes those shares bought by the Group and held as own shares (see note 28). For diluted earnings (but not losses) per share the weighted average number of shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares arising from unvested share-based awards including share options.

Weighted average and diluted number of shares

		FY25	FY24
Weighted average number of shares	**Million**	**563.4**	**577.0**
Effect of dilutive securities	Million	7.4	8.7
Diluted number of shares	**Million**	**570.8**	**585.7**

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

Underlying EPS

		FY25	FY24
(Loss)/profit attributable to the owners of the Company	£ million	(185.7)	139.6
Remove loss after tax in respect of specific adjusting items	£ million	332.7	30.0
Underlying profit after taxation	**£ million**	**147.0**	**169.6**
Weighted average number of shares	Million	563.4	577.0
Underlying basic EPS	**Pence**	**26.1**	**29.4**
Diluted number of shares	Million	570.8	585.7
Underlying diluted EPS	**Pence**	**25.8**	**29.0**

Basic and diluted EPS

		FY25	FY24
(Loss)/profit attributable to the owners of the Company	£ million	(185.7)	139.6
Weighted average number of shares	Million	563.4	577.0
Basic EPS	**Pence**	**(33.0)**	**24.2**
Diluted number of shares	Million	563.4	585.7
Diluted EPS	**Pence**	**(33.0)**	**23.8**

11. Dividends

An analysis of the dividends paid and proposed in respect of the years ended 31 March 2025 and 31 March 2024 is provided below:

	Pence per share	£m	Date paid/ payable
Interim 2025	2.80	15.7	Feb 2025*
Final 2025 (proposed)	6.05	33.4	Aug 2025
Total for the year ended 31 March 2025	**8.85**	**49.1**	
Interim 2024	2.60	15.0	Feb 2024
Final 2024	5.65	32.2	Aug 2024*
Total for the year ended 31 March 2024	**8.25**	**47.2**	

* Total cash paid in the year to 31 March 2025 was £47.9m (FY24: £45.6m).

The proposed final dividend in respect of the year ending 31 March 2025 will be paid on 21 August 2025. The ex-dividend date is 24 July 2025 and the record date is 25 July 2025.

12. Business combinations

There were no acquisitions in the year ended 31 March 2025. In the year ended 31 March 2024, £5.1m of deferred consideration payments were made in respect of the Air Affairs acquisition and legacy acquisitions within Avantus. The specific adjusting items operating result for the year includes various acquisition related items as set out in note 4.

13. Goodwill

All figures in £ million	31 March 2025	31 March 2024
Cost		
At 1 April	551.7	562.7
Foreign exchange	(10.7)	(11.0)
At 31 March	**541.0**	**551.7**
Accumulated impairment		
At 1 April	(150.3)	(153.7)
Impairment charge	(143.9)	-
Foreign exchange	3.0	3.4
At 31 March	**(291.2)**	**(150.3)**
Net book value at 31 March	**249.8**	**401.4**

Goodwill analysed by cash-generating unit (CGU)

Goodwill is allocated across six cash-generating units within the EMEA Services segment and two CGUs within the Global Solutions segment. During the year, the Group determined that the US CGU is more appropriately defined at the Sector level. This avoids the need to allocate goodwill on an increasingly arbitrary basis and represents the lowest level at which business performance is now monitored by management. This followed the completion of post-acquisition integration activities, a market-led strategic review and new restructuring programme. Increasing numbers of new customer contracts and opportunities deliver capabilities and use resources which span the three legacy CGUs (Avantus, C5ISR and Technology Solutions).

The full list of CGUs that have goodwill allocated to them is as follows:

All figures in £ million	Primary reporting segments	31 March 2025	31 March 2024
US Sector (previously Avantus, C5ISR and Technology Solutions)	Global Solutions	181.1	331.6
Target Systems	Global Solutions	24.0	24.4
Germany	EMEA Services	2.6	2.7
Naimuri	EMEA Services	14.8	14.8
Inzpire	EMEA Services	11.7	11.7
QinetiQ Training & Simulation	EMEA Services	7.8	7.8
QinetiQ Australia PTY	EMEA Services	5.2	5.6
Air Affairs Australia	EMEA Services	2.6	2.8
Net book value at 31 March		**249.8**	**401.4**

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For the year ended 31 March

13. Goodwill (continued)

Goodwill is attributable to the excess of consideration over the fair value of net assets acquired and includes expected synergies, future growth prospects and employee knowledge, expertise and security clearances. The Group tests each CGU for impairment annually, or more frequently if there are indications that goodwill might be impaired. Impairment testing is dependent on management's estimates and judgements, particularly as they relate to the forecasting of future cash flows, the discount rates selected and expected long-term growth rates.

During the year an impairment charge has been recognised in respect of the combined US Sector CGU. Given that this resets the amount of headroom to nil, any downward revision to the key assumptions (which would be reasonably possible) would result in a further impairment. There are no likely variations in the key assumptions used for any of the other CGUs which would lead to an impairment being recognised.

Key assumptions

Cash flows

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

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

Terminal growth rates and discount rates

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

All figures % 31 March 2025: (2024)	US Sector*	Target Systems	Inzpire	QinetiQ Australia PTY	Air Affairs Australia	QinetiQ Germany	QinetiQ Training & Simulation	Naimuri
Terminal growth rate	2.3 (2.3)	2.3 (2.2)	2.3 (2.2)	2.3 (2.4)	2.3 (2.4)	2.4 (2.2)	2.3 (2.2)	2.3 (2.2)
Discount rate*	9.4 (9.0)	12.2 (11.1)	12.1 (11.1)	13.8 (13.0)	13.6 (12.8)	9.4 (8.8)	12.2 (11.1)	12.1 (11.0)

*All discount rates stated are on a pre-tax basis, except for the US which is on a post-tax basis per the fair value less costs to dispose calculation. To aid comparability the prior year discount rate has been re-presented on a consistent post tax basis. The pre-tax discount rate used in the calculation as at 31 March 2024 was 10.7%.

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

Results of impairment testing by CGU

US Sector

The carrying value of the goodwill for the US Sector CGU as at 31 March 2025 was £325.0m (2024: £331.6m) prior to the impairment charge. The recoverable amount of this CGU as at 31 March 2025 is based on a fair value less costs to dispose calculation which is derived from the latest cash flow projections. This better reflects the transaction structure and tax treatment of the historical acquisitions and hence gives a higher value than the equivalent value in use calculation. The calculation uses the assumptions noted above and is lower than the carrying value of the net operating assets (of £581.4m), and hence an impairment of £143.9m has been recognised. Our US operations performed below expectations for orders, revenue, profit and cash flow in the year with some key contract losses. During the second half of the financial year the change in US administration, together with the change in US Sector CEO and resultant change in strategy and start of required restructuring, has had a material impact on the future projections of the business. These factors, together with the impact of the discount rate which increased significantly in H2, has a knock-on impact for future years' profitability and cash flow and hence an impairment.

The key sensitivity impacting on the recoverable amount calculations is the terminal year cash flows. The key assumptions impacting those terminal year cash flows are the revenue growth rate applied over the period of the calculation, which is based on market growth rates for the high growth segments in which the business operates in, and the operating profit margin applied. A 400 basis point reduction in the compound annual revenue growth rate, or a 100 basis point reduction in operating margins, over the plan period which are considered reasonably possible changes, would further reduce the recoverable amount and result in an additional impairment of £48.9m and £45.9m respectively. An increase in the discount rate of 1% or a decrease in the terminal growth rate of 0.5%, both of which are also reasonably possible changes, would cause a further impairment of £53.3m and £22.1m respectively.

Target Systems
The carrying value of the goodwill for the Target Systems CGU as at 31 March 2025 was £24.0m (2024: £24.4m). The recoverable amount of this CGU as at 31 March 2025, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £76.4m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate of 1%, a decrease in the terminal growth rate of 0.5% or a decrease in the terminal year cash flows of £2.0m, all of which are reasonably possible changes, would not cause the net operating assets to exceed their recoverable amount.

Germany
The carrying value of the goodwill for the Germany CGU as at 31 March 2025 was £2.6m (2024: £2.7m). The recoverable amount of this CGU as at 31 March 2025, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £64.5m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate of 1%, a decrease in the terminal growth rate of 0.5% or a decrease in the terminal year cash flows of €2.0m, all of which are reasonably possible changes, would not cause the net operating assets to exceed their recoverable amount.

Naimuri
The carrying value of the goodwill for the Naimuri CGU as at 31 March 2025 was £14.8m (2024: £14.8m). The recoverable amount of this CGU as at 31 March 2025, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £20.8m). The key sensitivity affecting on the value in use calculations is the terminal year cash flows. An increase in the discount rate of 1%, a decrease in the terminal growth rate of 0.5% or a decrease in the terminal year cash flows of £1.0m, all of which are reasonably possible changes, would not cause the net operating assets to exceed their recoverable amount.

Inzpire
The carrying value of the goodwill for the Inzpire CGU as at 31 March 2025 was £11.7m (2024: £11.7m). The recoverable amount of this CGU as at 31 March 2025, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £20.5m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate of 1%, a decrease in the terminal growth rate of 0.5% or a decrease in the terminal year cash flows of £1.0m, all of which are reasonably possible changes, would not cause the net operating assets to exceed their recoverable amount.

QinetiQ Training & Simulation
The carrying value of the goodwill for the QinetiQ Training and Simulation CGU as at 31 March 2025 was £7.8m (2024: £7.8m). The recoverable amount of this CGU as at 31 March 2025, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £11.8m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate of 1%, a decrease in the terminal growth rate of 1% or a decrease in the terminal year cash flows of £1.0m, all of which are reasonably possible changes, would not cause the net operating assets to exceed their recoverable amount.

QinetiQ Australia PTY
The carrying value of the goodwill for the QinetiQ Australia PTY CGU, as at 31 March 2025 was £5.2m (2024: £5.6m). The recoverable amount of this CGU as at 31 March 2025, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £7.2m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate of 1%, a decrease in the terminal growth rate of 0.5% or a decrease in the terminal year cash flows of A$2.0m, all of which are reasonably possible changes, would not cause the net operating assets to exceed their recoverable amount.

Air Affairs Australia
The carrying value of the goodwill for the Air Affairs Australia CGU as at 31 March 2025 was £2.6m (2024: £2.8m). The recoverable amount of this CGU as at 31 March 2025, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £29.2m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate of 1% or a decrease in the terminal growth rate of 0.5% or a decrease in the terminal year cash flows of A$1.0m, all of which are reasonably possible changes, would not cause the net operating assets to exceed their recoverable amount.

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For the year ended 31 March

14. Intangible assets

For the year ended 31 March 2025

All figures in £ million	Acquired intangibles: Customer relationships	Acquired intangibles: Other acquired	Development costs	Other internally generated[1]	Total
Cost					
At 1 April 2024	303.8	92.6	51.1	80.4	527.9
Reclassifications from PPE	-	-	8.1	0.6	8.7
Reclassifications between categories	-	-	0.1	(0.1)	-
Additions – internally developed[2]	-	-	2.5	9.0	11.5
Additions – purchased[2]	-	-	1.2	0.4	1.6
Disposals	-	-	(0.7)	(14.3)	(15.0)
Foreign exchange	(5.9)	(1.7)	(0.4)	(0.7)	(8.7)
At 31 March 2025	**297.9**	**90.9**	**61.9**	**75.3**	**526.0**
Accumulated amortisation and impairment					
At 1 April 2024	(79.6)	(65.6)	(24.1)	(36.8)	(206.1)
Amortisation charge for year	(18.6)	(5.6)	(6.2)	(5.5)	(35.9)
Disposals	-	-	0.6	10.2	10.8
Impairment	-	-	(4.0)	-	(4.0)
Foreign exchange	1.6	1.4	0.1	-	3.1
At 31 March 2025	**(96.6)**	**(69.8)**	**(33.6)**	**(32.1)**	**(232.1)**
Net book value at 31 March 2025	**201.3**	**21.1**	**28.3**	**43.2**	**293.9**

[1] Includes Assets In Course Of Construction of closing net book value of £31.7m as at 31 March 2025 (2024: £22.6m).
[2] Additions per the table above are different to the capital expenditure included in the cash flow statement due to the relative timing of cash payments compared to the recognition of balance sheet assets.

'Other acquired' consists primarily of intellectual property and existing technology arising on past acquisition of businesses. Significant individual assets from past acquisitions include: customer relationships associated with US Avantus, US C5ISR, Germany and QinetiQ Training & Simulation Limited (NBV: £157.7m; £9.6m; £16.2m; £2.2m respectively) with remaining amortisation periods of approximately 14 years, 5 years, 8 years and 6 years respectively, and acquired technology associated with US Avantus, US C5ISR, Germany, and QinetiQ Training & Simulation Limited (£1.1m; £8.2m; £2.8m; £1.3m respectively) all with remaining amortisation periods of approximately 6 years.

For the year ended 31 March 2024

All figures in £ million	Acquired intangibles: Customer relationships	Acquired intangibles: Other acquired	Development costs	Other internally generated	Total
Cost					
At 1 April 2023	308.5	96.0	37.3	82.5	524.3
Reclassifications from PPE	-	-	7.4	(0.2)	7.2
Reclassifications between categories	-	-	1.5	(1.5)	-
Additions – internally developed*	-	-	6.1	1.1	7.2
Additions – purchased*	-	-	0.8	3.3	4.1
Disposals	-	-	(2.0)	(4.1)	(6.1)
Foreign exchange	(4.7)	(3.4)	-	(0.7)	(8.8)
At 31 March 2024	**303.8**	**92.6**	**51.1**	**80.4**	**527.9**
Accumulated amortisation and impairment					
At 1 April 2023	(59.4)	(63.1)	(22.3)	(36.5)	(181.3)
Amortisation charge for year	(19.0)	(6.2)	(3.5)	(3.9)	(32.6)
Reclassifications between categories	-	-	-	-	-
Disposals	-	-	1.7	3.5	5.2
Foreign exchange	(1.2)	3.7	-	0.1	2.6
At 31 March 2024	**(79.6)**	**(65.6)**	**(24.1)**	**(36.8)**	**(206.1)**
Net book value at 31 March 2024	**224.2**	**27.0**	**27.0**	**43.6**	**321.8**

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

15. Property, plant and equipment

For the year ended 31 March 2025

All figures in £ million	Owned assets: Land and buildings	Owned assets: Plant, machinery and vehicles	Owned assets: Computers and office equipment	Owned assets: Assets under construction	Right of use assets: Land and buildings	Right of use assets: Plant, machinery and vehicles	Right of use assets: Computers and office equipment	Total
Cost								
At 1 April 2024	375.7	324.4	140.9	142.3	92.4	3.4	0.4	1,079.5
Reclassifications to intangibles	-	-	(0.9)	(7.8)	-	-	-	(8.7)
Reclassifications/transfers	29.7	23.7	15.4	(68.8)	-	-	-	-
Additions – purchased*	5.9	24.8	5.6	67.5	23.9	2.3	-	130.0
Disposals	(240.6)	(25.0)	(4.7)	(3.6)	(14.5)	-	-	(288.4)
Foreign exchange	(0.8)	(2.7)	(0.6)	(0.2)	(1.9)	-	-	(6.2)
At 31 March 2025	**169.9**	**345.2**	**155.7**	**129.4**	**99.9**	**5.7**	**0.4**	**906.2**
Accumulated depreciation and impairment								
At 1 April 2024	(227.0)	(194.3)	(78.4)	-	(44.4)	(3.2)	(0.4)	(547.7)
Charge	(13.7)	(22.7)	(20.8)	-	(10.6)	(0.3)	-	(68.1)
Disposals	149.3	16.5	4.0	-	14.5	-	-	184.3
Impairment	-	(2.5)	-	-	(1.0)	-	-	(3.5)
Foreign exchange	0.1	0.9	0.3	-	0.8	-	-	2.1
At 31 March 2025	**(91.3)**	**(202.1)**	**(94.9)**	-	**(40.7)**	**(3.5)**	**(0.4)**	**(432.9)**
Opening Net Book Value	**148.7**	**130.1**	**62.5**	**142.3**	**48.0**	**0.2**	**-**	**531.8**
Closing Net Book Value	**78.6**	**143.1**	**60.8**	**129.4**	**59.2**	**2.2**	**-**	**473.3**

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

During the year a £36.6m loss (£2.1m gain) was recognised on the sale and leaseback of Cody Technology Park, this is included within operating costs as a specific adjusting item (see note 4). Whilst the Group will likely be impacted by climate change in the future to an extent, the impact on the carrying value of property, plant and equipment is not considered to be material.

For the year ended 31 March 2024

All figures in £ million	Owned assets: Land and buildings	Owned assets: Plant, machinery and vehicles	Owned assets: Computers and office equipment	Owned assets: Assets under construction	Right of use assets: Land and buildings	Right of use assets: Plant, machinery and vehicles	Right of use assets: Computers and office equipment	Total
Cost								
At 1 April 2023	365.7	309.3	124.3	115.5	68.7	6.5	0.4	990.4
Reclassifications to intangibles	-	-	0.2	(7.4)	-	-	-	(7.2)
Reclassifications/transfers	7.3	14.6	20.6	(42.5)	-	-	-	-
Additions – purchased*	4.2	3.8	6.5	79.5	31.4	-	-	125.4
Disposals	(1.3)	(1.2)	(10.4)	(2.4)	(5.6)	(3.1)	-	(24.0)
Foreign exchange	(0.2)	(2.1)	(0.3)	(0.4)	(2.1)	-	-	(5.1)
At 31 March 2024	**375.7**	**324.4**	**140.9**	**142.3**	**92.4**	**3.4**	**0.4**	**1,079.5**
Accumulated depreciation and impairment								
At 1 April 2023	(215.6)	(177.7)	(70.8)	-	(41.9)	(6.2)	(0.4)	(512.6)
Charge	(12.9)	(18.3)	(18.1)	-	(8.7)	(0.1)	-	(58.1)
Disposals	1.3	1.1	10.4	-	5.6	3.1	-	21.5
Impairment	-	-	-	-	(0.7)	-	-	(0.7)
Foreign exchange	0.2	0.6	0.1	-	1.3	-	-	2.2
At 31 March 2024	**(227.0)**	**(194.3)**	**(78.4)**	-	**(44.4)**	**(3.2)**	**(0.4)**	**(547.7)**
Net book value at 31 March 2024	**148.7**	**130.1**	**62.5**	**142.3**	**48.0**	**0.2**	**-**	**531.8**

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

16. Equity accounted investments

As at 31 March

All figures in £ million	31 March 2025 Joint Ventures' financial results	31 March 2025 Group net share of Joint Ventures	31 March 2024 Joint Ventures' financial results	31 March 2024 Group net share of Joint Ventures
Non-current assets	0.9	0.5	1.1	0.6
Current assets	3.4	2.4	5.9	3.7
	4.3	**2.9**	**7.0**	**4.3**
Current liabilities	(0.3)	(0.1)	(0.3)	(0.1)
Non-current liabilities	(1.5)	(0.7)	(4.1)	(2.0)
	(1.8)	**(0.8)**	**(4.4)**	**(2.1)**
Net assets of joint ventures	**2.5**	**2.1**	**2.6**	**2.2**

The profit from the Group's share of joint ventures for the year ended 31 March 2025 was £0.3m (FY24: £0.8m).

17. Deferred tax

For the year ended 31 March 2025

Deferred tax asset

All figures in £ million	Short-term timing differences	Carried forward interest expense	Lease liabilities	Tax losses	Total
At 1 April 2024	20.1	1.0	8.9	35.9	65.9
Charged to income statement	(8.8)	1.1	-	(30.7)	(38.4)
Credited to other comprehensive income	1.8	-	-	-	1.8
Foreign exchange	(1.0)	-	(0.1)	(0.4)	(1.5)
Gross deferred tax asset at 31 March 2025	**12.1**	**2.1**	**8.8**	**4.8**	**27.8**
Less: liability available for offset					(17.1)
Net deferred tax asset at 31 March 2025					**10.7**

Deferred tax liability

All figures in £ million	Pension surplus	Owned property, plant & equipment	Right of use assets	Acquisition intangibles	Total
At 1 April 2024	(9.6)	(80.4)	(7.6)	(26.0)	(123.6)
Credited to income statement	(0.6)	(2.4)	-	12.6	9.6
Charged to other comprehensive income	(4.4)	-	-	-	(4.4)
Foreign exchange	-	-	(0.2)	0.5	0.3
Gross deferred tax liability at 31 March 2025	**(14.6)**	**(82.8)**	**(7.8)**	**(12.9)**	**(118.1)**
Less: asset available for offset					17.1
Net deferred tax liability at 31 March 2025					**101.0**

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

At 31 March 2025 the Group had unused tax losses and carried forward interest expense of £305.3m (2024: £212.3m) which are available for offset against future taxable profits.

With our US operations performing below-expectations in the year, the change in the administration and the change in US Sector CEO, re-alignment of strategy and required restructuring, there has been a material impact on the future projections of the business. As a result, the Group de-recognised the deferred tax assets previously recognised in respect of net operating losses. No deferred tax asset is recognised in respect of £183.8m (2024: £109.8m) of US net operating losses and £85.9m (2024: £71.5m) of US interest deductions. There is also no deferred tax asset recognised in respect of £8.8m (2024: nil) of UK capital losses due to uncertainty over the timing and extent of their utilisation. Full recognition of the US and UK losses would increase the deferred tax asset by £72.7m. Of the £183.8m (2024:109.8m) of US net operating losses, £31.1m (2024: £32.4m) are time-limited of which £22.0m will expire in 2035 and £9.1m in 2036.

Deferred tax assets are recognised on the balance sheet of £6.9m (2024: £29.0m), being £4.1m in respect of £17.8m of Canadian net operating losses and excess interest, and £2.8m in respect of £9.0m of German trade losses and excess interest.

The Group made overseas losses in the period ended 31 March 2025 and recognition of deferred tax assets is dependent on future forecast taxable profits. The Group has reviewed the latest forecasts for these businesses which incorporate the unsystematic risks of operating in the defence business. In the period beyond the 5 year forecast we have reviewed the terminal period profits and based on these and our expectations for these businesses. We believe it is probable the losses, with the exception of the US and UK, will be fully utilised.

Based on the current forecasts the losses will be fully utilised over the next 2-5 years. A 10% change in the forecast profits would alter the utilisation period by 2 years.

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

For the year ended 31 March 2024

Deferred tax asset

All figures in £ million	Short-term timing differences	Carried forward interest expense	Lease liabilities	Tax losses	Total
At 1 April 2023	17.5	-	7.4	30.6	55.5
Credited to income statement	6.4	1.0	1.5	6.0	14.9
Charged to other comprehensive income	0.1	-	-	-	0.1
Reclassification to right of use assets	(3.2)	-	-	-	(3.2)
Foreign exchange	(0.7)	-	-	(0.7)	(1.4)
Gross deferred tax asset at 31 March 2024	**20.1**	**1.0**	**8.9**	**35.9**	**65.9**
Less: liability available for offset					(29.2)
Net deferred tax asset at 31 March 2024					**36.7**

Deferred tax liability

All figures in £ million	Pension surplus	Owned property, plant & equipment	Right of use assets	Acquisition intangibles	Total
At 1 April 2023	(35.4)	(65.7)	(9.7)	(24.1)	(134.9)
Charged to income statement	(1.4)	(14.8)	(1.4)	(2.4)	(20.0)
Credited to other comprehensive income	27.2	-	-	-	27.2
Reclassification from short-term timing differences	-	-	3.2	-	3.2
Foreign exchange	-	0.1	0.3	0.5	0.9
Gross deferred tax liability at 31 March 2024	**(9.6)**	**(80.4)**	**(7.6)**	**(26.0)**	**(123.6)**
Less: asset available for offset					29.2
Net deferred tax liability at 31 March 2024					**(94.4)**

18. Current tax

As at 31 March

All figures in £ million	31 March 2025	31 March 2024
Current tax receivable	1.6	5.8
Current tax payable	(3.6)	(6.6)
Net current tax payable	**(2.0)**	**(0.8)**

19. Inventories

As at 31 March

All figures in £ million	31 March 2025	31 March 2024
Raw materials	28.7	46.2
Work in progress	8.7	6.5
Finished goods	33.3	36.5
Total inventories	**70.7**	**89.2**

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

20. Trade and other receivables

As at 31 March

All figures in £ million	31 March 2025	31 March 2024
Trade receivables	148.9	179.5
Contract assets	154.5	171.6
Other receivables	48.1	58.1
Prepayments	36.9	47.6
Total trade and other receivables	**388.4**	**456.8**

Trade and other receivables includes assets that are realised as part of the business's normal operating cycle, including amounts of £nil (2024: £0.8m) that are not expected to be realised within 12 months of the year end. Credit risk is limited as a result of the high percentage of revenue derived from UK and US government agencies. Accordingly, the Directors believe that no credit provision in excess of the allowance for doubtful debts is required. As at 31 March 2025 the Group carried a loss allowance in respect of expected credit risk of £1.4m (2024: £1.7m).

Contract assets decreased during the year due to the timing of invoicing. Contract assets represents unbilled amounts recoverable under customer contracts (refer to accounting policies note 35).

Ageing of receivables and associated loss allowance for expected credit risk

As at 31 March 2025

	Current	Up to 30 days past due	30-120 days past due	>120 days past due	Total
Gross carrying amount - trade receivables (£m)	120.1	23.1	2.4	4.7	150.3
Gross carrying amount - contract assets (£m)	154.5	-	-	-	154.5
Expected loss rate (%)	0.0%	0.0%	0.0%	29.8%	0.5%
Loss allowance (£m)	-	-	-	1.4	1.4

As at 31 March 2024

	Current	Up to 30 days past due	30-120 days past due	>120 days past due	Total
Gross carrying amount - trade receivables (£m)	141.9	24.8	9.6	4.9	181.2
Gross carrying amount - contract assets (£m)	171.6	-	-	-	171.6
Expected loss rate (%)	-	-	-	34.7%	0.5%
Loss allowance (£m)	-	-	-	1.7	1.7

Movements in the provision for expected credit loss

	FY25		FY24	
All figures in £ million	Trade receivables	Contract assets	Trade receivables	Contract assets
At 1 April	1.7	-	1.6	-
Increase in loss allowance recognised in income statement	0.2	-	0.1	-
Unutilised amount reversed through income statement	(0.1)	-	-	-
Utilised (receivables written off)	(0.4)	-	-	-
At 31 March	**1.4**	**-**	**1.7**	**-**

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

21. Trade and other payables

As at 31 March

All figures in £ million	31 March 2025	31 March 2024
Trade payables	152.1	175.9
Other tax and social security	56.7	50.4
Contract liabilities	207.0	212.6
Accrued expenses and other payables	181.7	215.8
Total current trade and other payables	**597.5**	**654.7**
Contract liabilities	6.4	10.2
Other payables	2.0	1.4
Total non-current trade and other payables	**8.4**	**11.6**
Total trade and other payables	**605.9**	**666.3**

Accrued expenses and other payables includes £nil at 31 March 2025 (31 March 2024: £34.0m) relating to an irrevocable contract to purchase shares as part of the ongoing share buyback programme. This liability related to financing activities and was settled via a financing cash flow during FY25.

Contract liabilities, which are influenced by the timing of revenue recognition and invoicing on contracts, were broadly consistent with the prior year.

22. Provisions

For the year ended 31 March 2025

All figures in £ million	Property	Other	Total
At 1 April 2024	2.5	17.0	19.5
Created in year	24.3	21.7	46.0
Released in year	-	(1.2)	(1.2)
Utilised in year	(2.0)	(2.5)	(4.5)
Foreign exchange	-	(0.1)	(0.1)
At 31 March 2025	**24.8**	**34.9**	**59.7**
Current liability	23.0	33.2	56.2
Non-current liability	1.8	1.7	3.5
At 31 March 2025	**24.8**	**34.9**	**59.7**

Property provisions relate to obligations relating to the sale and leaseback transaction, dilapidations and under-utilised properties. The under-utilised property provision is affected by the timing of when properties can be sub-let and the proportion of space that can be sub-let. Other provisions includes £12.1m (2024: £12.8m) in respect of a civil liability for the Pendine incident. There is an equivalent balance in Other Receivables for an insurance recoverable. There is uncertainty around the timing of the utilisation of this balance although this will not impact cash or the P&L. Other provisions also includes £14.3m relating to the group-wide restructuring programme, the cost of which is included as a specific adjusting item. The remaining balance relates to environmental and other liabilities, the magnitude and timing of utilisation of which are determined by a variety of factors.

For the year ended 31 March 2024

All figures in £ million	Property	Other	Total
At 1 April 2023	6.6	20.2	26.8
Created in year	0.4	0.8	1.2
Released in year	(3.2)	(0.2)	(3.4)
Unwinding of discount	0.1	-	0.1
Reclassified	(0.9)	-	(0.9)
Utilised in year	(0.5)	(3.7)	(4.2)
Foreign exchange	-	(0.1)	(0.1)
At 31 March 2024	**2.5**	**17.0**	**19.5**
Current liability	-	15.3	15.3
Non-current liability	2.5	1.7	4.2
At 31 March 2024	**2.5**	**17.0**	**19.5**

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

23. Net debt

As at 31 March

All figures in £ million	31 March 2025 Assets	Liabilities	Net	31 March 2024 Assets	Liabilities	Net
Current financial assets/(liabilities)						
Deferred financing costs	1.3	-	1.3	1.0	-	1.0
Lease liabilities	-	(13.3)	(13.3)	-	(8.1)	(8.1)
Derivative financial instruments	3.6	(1.8)	1.8	5.2	(1.1)	4.1
Total current financial assets/(liabilities)	**4.9**	**(15.1)**	**(10.2)**	**6.2**	**(9.2)**	**(3.0)**
Non-current assets/(liabilities)						
Deferred financing costs	1.0	-	1.0	1.1	-	1.1
Borrowings – Term loan	-	(335.0)	(335.0)	-	(336.3)	(336.3)
Lease liabilities	-	(80.6)	(80.6)	-	(47.4)	(47.4)
Derivative financial instruments	2.0	(1.0)	1.0	3.8	(0.4)	3.4
Total non-current financial assets/(liabilities)	**3.0**	**(416.6)**	**(413.6)**	**4.9**	**(384.1)**	**(379.2)**
Total financial assets/(liabilities)	**7.9**	**(431.7)**	**(423.8)**	**11.1**	**(393.3)**	**(382.2)**
Cash	120.2	-	120.2	109.5	-	109.5
Cash equivalents	170.4	-	170.4	121.5	-	121.5
Total cash and cash equivalents	**290.6**	**-**	**290.6**	**231.0**	**-**	**231.0**
Total net debt as defined by the Group			**(133.2)**			**(151.2)**

At 31 March 2025 the Group held £0.7m (2024: £1.5m) of cash which is restricted in its use. The term loan was issued at floating rates as Tranche A £273.3m and Tranche B USD 79.6m. A proportion of Tranche A has been converted to fixed rate using interest rate swaps. Further analysis of the terms and maturity dates for financial liabilities are set out in note 26.

24. Cash flows from operations

All figures in £ million	FY25	FY24
(Loss)/profit after tax for the year	**(185.7)**	**139.6**
Adjustments for:		
Taxation expense	79.4	43.1
Net finance expense	15.8	9.8
Impairment of Goodwill	143.9	-
Loss/(gain) on sale of property	36.6	(2.1)
Loss on disposal of plant and equipment	4.6	-
Loss on disposal of intangibles	4.2	0.9
Impairment of property	1.0	0.7
Amortisation of purchased or internally developed intangible assets	15.7	7.4
Amortisation of intangible assets arising from acquisitions	24.2	25.2
Depreciation of property, plant and equipment	70.6	58.1
Share of post-tax profit of equity accounted entities	(0.3)	(0.8)
Share-based payments charge	9.8	9.4
Retirement benefit contributions in excess of income statement expense	(2.3)	(1.9)
Net movement in provisions	19.4	(5.1)
	236.9	**284.3**
Decrease/(increase) in inventories	16.5	(21.4)
Decrease/(increase) in receivables	56.3	(10.0)
(Decrease)/increase in payables	(23.0)	41.2
Changes in working capital	**49.8**	**9.8**
Net cash inflow from operations	**286.7**	**294.1**

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

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

All figures in £ million	FY25	FY24
Net cash flow from operations	**286.7**	**294.1**
Specific adjusting items:		
Add back specific adjusting item: digital investment	20.8	16.9
Add back specific adjusting item: restructuring costs	3.4	-
Add back specific adjusting item: acquisition integration and remuneration costs	4.2	6.5
Add back specific adjusting item: acquisition and disposal costs	1.1	2.7
Total specific adjusting items	29.5	26.1
Underlying net cash flow from operations	**316.2**	**320.2**
Less: tax and net interest payments	(65.4)	(51.0)
Less: net purchases of intangible assets and property plant and equipment	(108.4)	(96.1)
Free cash flow	**142.4**	**173.1**

Underlying cash conversion ratio

	FY25	FY24
Underlying EBITDA – £ million	301.7	307.9
Underlying net cash flow from operations – £ million	316.2	320.2
Underlying cash conversion ratio – %	**105%**	**104%**

25. Leases

Group as a lessor

The Group receives rental income on certain properties. Primarily these are properties partially occupied by Group companies, with vacant space sub-let to third-party tenants. There was £0.7m (FY24: £nil) of sublease income which related to right of use assets, following the sale and leaseback transaction of Cody Technology Park. The Group had contracted with tenants for the following future minimum lease payments:

All figures in £ million	31 March 2025	31 March 2024
Within one year	1.0	5.2
In the second to fifth years inclusive	2.3	6.6
Greater than five years	0.4	1.7
Total future minimum lease payments	**3.7**	**13.5**

Group as a lessee

Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

Right-of-use assets (included within Property, Plant & Equipment – see note 15)

All figures in £ million	31 March 2025	31 March 2024
Land and buildings	59.2	48.0
Plant, machinery and vehicles	2.2	0.2
Total right of use assets net book value	**61.4**	**48.2**

Lease liabilities (included within Net debt – see note 23)

All figures in £ million	31 March 2025	31 March 2024
Current	13.3	8.1
Non-current	80.6	47.4
Total lease liabilities	**93.9**	**55.5**

Additions to the right-of-use assets during FY25 were £26.2m (FY24: £31.4m). The total cash outflow for leases in FY25 was £15.0m (FY24: £9.6m). The Group had no expense relating to variable lease payments not included in the measurement of lease liabilities.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

25. Leases (continued)

Amounts recognised in the consolidated income statement

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

All figures in £ million	FY25	FY24
Depreciation charge		
Land and buildings	10.6	8.7
Plant, machinery and vehicles	0.3	0.1
Total depreciation charge (see note 15)	**10.9**	**8.8**
Interest expense (included in finance cost - see note 7)	4.2	2.8
Expense relating to short-term leases (included in operating costs)	0.8	0.6
Expense relating to low value leases (included in operating costs)	0.4	0.3
Total lease expense charged to profit before tax	**16.3**	**12.5**

Minimum lease payment commitments

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

All figures in £ million	31 March 2025	31 March 2024
Within one year	13.3	8.1
In the second to fifth years inclusive	54.8	25.4
Greater than five years	25.8	22.0
Total future minimum lease payment commitments	**93.9**	**55.5**

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

26. Financial risk management

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

Treasury and risk management policies, which are set by the Board, specify guidelines on financial risks and the use of financial instruments to manage risk. The instruments and techniques used to manage exposures include foreign currency and interest rate swap derivatives. Group treasury monitors financial risks and compliance with risk management policies during the year. There have been no changes in any risk management policies during the year or since the year end. For details of the Group's Treasury policy and management of financial instruments see 'Additional Financial Information' on page 199.

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity. The Group has a revolving credit facility and floating rate term loan with its relationship banks with a requirement for the half yearly testing period that the ratio of Net Debt to EBITDA will not exceed 3.5:1 and the ratio of EBITDA to net finance charges will not be less than 4:1. The Group complied with both covenants during the year. As at 31 March 2025, the ratio of Net Debt to EBITDA was 0.4:1 and the ratio of EBITDA to net finance charges was 20:1. The revolving credit facility is undrawn at the year end and matures in 2028. The floating rate term loan is repayable in 2027.

A) Fair values of financial instruments

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

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

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

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

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 March 2025:

All figures in £ million	Note	Level 1	Level 2	Level 3	Total
Assets					
Current derivative financial instruments	23	-	3.6	-	3.6
Non-current derivative financial instruments	23	-	2.0	-	2.0
Liabilities					
Current derivative financial instruments	23	-	(1.8)	-	(1.8)
Non-current derivative financial instruments	23	-	(1.0)	-	(1.0)
Total		**-**	**2.8**	**-**	**2.8**

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 March 2024:

All figures in £ million	Note	Level 1	Level 2	Level 3	Total
Assets					
Current derivative financial instruments	23	-	5.2	-	5.2
Non-current derivative financial instruments	23	-	3.8	-	3.8
Liabilities					
Current derivative financial instruments	23	-	(1.1)	-	(1.1)
Non-current derivative financial instruments	23	-	(0.4)	-	(0.4)
Total		**-**	**7.5**	**-**	**7.5**

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

All financial assets and liabilities had a fair value that is identical to book value at 31 March 2025 and 31 March 2024, other than lease liabilities where the book value is not reflective of changes in interest rates. Detailed analysis is provided in the following tables:

As at 31 March 2025

All figures in £ million	Note	Financial assets at fair value profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost	Derivatives used as hedges	Other	Total carrying value and fair value
Financial assets							
Non-current							
Derivative financial instruments	23	-	-	-	2.0	-	2.0
Deferred financing costs	23	-	1.0	-	-	-	1.0
Current							
Trade receivables and similar items		-	161.0	-	-	-	161.0
Derivative financial instruments	23	-	-	-	3.6	-	3.6
Deferred financing costs	23	-	1.3	-	-	-	1.3
Cash and cash equivalents	23	290.6	-	-	-	-	290.6
Total financial assets		**290.6**	**163.3**	**-**	**5.6**	**-**	**459.5**
Financial liabilities							
Non-current							
Bank borrowings	23	-	-	(335.0)	-	-	(335.0)
Derivative financial instruments	23	-	-	-	(1.0)	-	(1.0)
Lease liabilities	23	-	-	-	-	(80.6)	(80.6)
Current							
Trade payables and similar items		-	-	(302.5)	-	-	(302.5)
Derivative financial instruments	23	-	-	-	(1.8)	-	(1.8)
Lease liabilities	23	-	-	-	-	(13.3)	(13.3)
Total financial liabilities		-	-	**(637.5)**	**(2.8)**	**(93.9)**	**(734.2)**
Total		**290.6**	**163.3**	**(637.5)**	**2.8**	**(93.9)**	**(274.7)**

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

26. Financial risk management (continued)

As at 31 March 2024

All figures in £ million	Note	Financial assets at fair value profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost	Derivatives used as hedges	Other	Total carrying value and fair value
Financial assets							
Non-current							
Derivative financial instruments	23	-	-	-	3.8	-	3.8
Deferred financing costs	23	-	1.1	-	-	-	1.1
Current							
Trade receivables and similar items		-	192.3	-	-	-	192.3
Derivative financial instruments	23	-	-	-	5.2	-	5.2
Deferred financing costs	23	-	1.0	-	-	-	1.0
Cash and cash equivalents	23	231.0	-	-	-	-	231.0
Total financial assets		**231.0**	**194.4**	**-**	**9.0**	**-**	**434.4**
Financial liabilities							
Non-current							
Bank borrowings	23	-	-	(336.3)	-	-	(336.3)
Derivative financial instruments	23	-	-	-	(0.4)	-	(0.4)
Lease liabilities	23	-	-	-	-	(47.4)	(47.4)
Current							
Trade payables and similar items		-	-	(322.5)	-	-	(322.5)
Irrevocable share buyback		-	-	(34.0)	-	-	(34.0)
Derivative financial instruments	23	-	-	-	(1.1)	-	(1.1)
Lease liabilities	23	-	-	-	-	(8.1)	(8.1)
Total financial liabilities		**-**	**-**	**(692.8)**	**(1.5)**	**(55.5)**	**(749.8)**
Total		**231.0**	**194.4**	**(692.8)**	**7.5**	**(55.5)**	**(315.4)**

B) Interest rate risk

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

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

At 31 March 2025, the Group had 80% (2024: 80%) of fixed rate debt and 20% (2024: 20%) of floating rate debt based on gross debt of £335.0m (2024: £336.3m) after including the impact of debt-related derivative financial assets (interest rate swaps).

Financial assets/(liabilities)

As at 31 March 2025

	Financial assets			Financial liabilities		
All figures in £ million	Fixed or capped	Floating	Non-interest bearing	Fixed or capped	Floating	Non-interest bearing
Sterling	4.2	226.9	1.4	(63.8)	(273.3)	(2.6)
US dollar	-	45.2	-	(19.5)	(61.7)	-
Euro	-	3.0	-	(1.8)	-	-
Australian dollar	-	13.2	-	(8.8)	-	-
Other	-	2.3	-	(0.2)	-	-
Total	**4.2**	**290.6**	**1.4**	**(94.1)**	**(335.0)**	**(2.6)**

As at 31 March 2024

	Financial assets			Financial liabilities		
All figures in £ million	Fixed or capped	Floating	Non-interest bearing	Fixed or capped	Floating	Non-interest bearing
Sterling	8.5	173.6	0.5	(24.0)	(273.3)	(35.5)
US dollar	-	37.4	-	(19.5)	(63.0)	-
Euro	-	1.3	-	-	-	-
Australian dollar	-	14.9	-	(11.6)	-	-
Other	-	3.8	-	(0.4)	-	-
Total	**8.5**	**231.0**	**0.5**	**(55.5)**	**(336.3)**	**(35.5)**

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

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

	31 March 2025			31 March 2024		
	Fixed or capped £m	Weighted average interest rate %	Weighted average years to maturity	Fixed or capped £m	Weighted average interest rate %	Weighted average years to maturity
Financial assets:						
Sterling	4.2	3.5	2.4	8.5	3.1	2.2
Financial liabilities:						
Sterling	(63.8)	7.0	8.0	(24.0)	5.4	2.0
US dollar	(19.5)	5.1	5.1	(19.5)	5.9	11.4
Euro	(1.8)	2.6	4.7	-	-	-
Australian dollar	(8.8)	4.7	4.4	(11.6)	4.7	5.2
Other	(0.2)	4.6	1.9	(0.4)	4.8	2.8
Total financial liabilities	**(94.1)**	**6.3**	**7.0**	**(55.5)**	**4.9**	**6.2**

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

Interest rate risk management

The revolving credit facility (note 26E) is floating-rate and undrawn as at 31 March 2025.

As at 31 March 2025, the majority of the Group's floating rate bank borrowings were fixed through interest rate swaps which swap the Sterling floating rate interest payable into fixed rate Sterling. The notional principal amount of the outstanding interest rate swap contracts as at 31 March 2025 is £310m (2024: £270m), of which £40m (2024: nil) is effective from September 2025 replacing two £20m maturing contracts. The swaps have the economic effect of converting floating rate borrowings into fixed rate borrowings and are accounted for as cash flow hedges.

C) Currency risk

Transactional currency exposure

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

The currency and notional amount of the designated hedging instruments match the currency and principal amounts of the transactions being hedged, therefore the hedging instruments and hedged items have values which will generally move in opposite directions because of the same hedged risk. As the critical terms of the hedging instruments match those of the hedged items, an economic relationship can be demonstrated on an ongoing basis.

The hedge ratio is 1:1 on the basis that the notional amount of the designated hedging instruments matches the principal amount of the foreign currency sales/purchases designated as the hedged items. The Group does not designate groups of items with offsetting risk positions as hedged items.

The Group considers the potential sources of hedge ineffectiveness to be:

- valuation adjustments for credit risk made to derivative hedging instruments at each hedge effectiveness measurement date;
- changes to the timing and amount of transactions; and
- non-occurrence of the designated hedged items.

Ineffectiveness due to foreign currency basis was highly immaterial.

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

	Net foreign currency monetary assets/(liabilities)				
All figures in £ millions	US$	Euro	A$	Other	Total
31 March 2025 – Sterling	**14.4**	**(2.3)**	**2.8**	**7.6**	**22.5**
31 March 2024– Sterling	0.6	(0.3)	1.1	(0.5)	0.9

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26. Financial risk management (continued)

The amounts shown in the table take into account the effect of the forward contracts entered into to manage these currency exposures. The Group enters into forward foreign currency contracts to hedge the currency exposures that arise on sales and purchases denominated in foreign currencies, as the transaction occurs. The principal contract amounts of the outstanding forward currency contracts as at 31 March 2025 against Sterling are net US dollars sold of £105.7m (USD 136.1m), net Euros sold £32.5m (EUR 40.5m), net Canadian dollars sold £5.4m (CAD 12.2m), net Swiss Francs bought of £3.6m (CHF 3.6m), net Swedish Krona sold of £0.1m (SEK 0.8m), and net Australian dollars sold £33.7m (AUD 68.7m).

Translational currency exposure

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

D) Financial credit risk

The Group is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but does not currently expect any counterparties to fail to meet their obligations. Credit risk is mitigated by a Board-approved policy of only selecting counterparties with a strong investment grade long-term credit rating for cash deposits and setting a utilisation credit limit based on the credit rating. The cash and cash equivalents of the Group are invested in non-speculative financial instruments which are usually highly liquid, such as short-term deposits. Therefore, the Group believes it has reduced its exposure to counterparty credit risk through this process.

The cash and cash equivalents balance is subject to review for impairment, and due to the high credit ratings of the counterparties set out below, no impairment has been recognised within the year:

Counterparty credit rating	31 March 2025	31 March 2024
AAA to AA-	78%	69%
A+ to A-	22%	30%
BBB+ to BBB-	-	1%

The Group uses 3 year cumulative default rate metrics to determine the estimated credit-rated losses on our financial instruments. Based on the expected default rates, the financial instruments have an immaterial risk of credit impairment.

In the normal course of business the Group operates notional cash pooling systems and master netting agreements for derivatives, where a legal right of set-off applies.

The maximum credit-risk exposure in the event of other parties failing to perform their obligations under financial assets, excluding trade and other receivables, totals £296.2m (2024: £240.0m). This balance includes cash and cash equivalents and derivative financial assets. The cash and cash equivalents of £290.6m at 31 March 2025 (2024: £231.0m) represents the maximum credit exposure on these assets. The cash and cash equivalents were held with different financial institutions which were rated single A or better. Cash equivalents comprise £170.4m (2024: £121.5m) invested in AAA-rated money market funds. The Group's assessment is that credit risk is limited as a result of the high percentage of revenue derived from UK and US government agencies. Therefore the provision for expected credit losses is immaterial in respect of receivables from these customers.

E) Liquidity risk

Borrowing facilities

As at 31 March 2025 the Group had a revolving credit facility (RCF) of £290.0m (2024: £275.0m) and a floating rate term loan of £335.0m (2024: £336.3m). The RCF, which is unutilised, was refinanced in April 2024 and will mature on 22 April 2028. The term loan will mature on 27 September 2027. Total available funds, comprising the RCF, term loan and the Group's freely available cash and cash equivalents, are shown in the table below:

	Interest rate: Reference rate* plus	Total £m	Drawn £m	Undrawn £m
As at 31 March 2025				
Committed facilities – RCF	0.60%	290.0	-	290.0
Committed facilities – term loan	1.00%	335.0	335.0	-
Freely available cash and cash equivalents				289.9
Available funds 31 March 2025				**579.9**
As at 31 March 2024				
Committed facilities – RCF	0.53%	275.0	-	275.0
Committed facilities – term loan	1.00%	336.3	336.3	-
Freely available cash and cash equivalents				229.5
Available funds 31 March 2024				**504.5**

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

Gross contractual cash flows for borrowings and other financial liabilities

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

The £335.0m term loan is repayable on 27 September 2027, with interest periods set to three months. The loan bears interest at a variable margin over the relevant reference rate of between 1.00% and 2.50% dependent on the ratio of Net Debt to EBITDA.

As at 31 March 2025

All figures in £ million	Book value	Contractual cash flows	1 year or less	1–2 years	2–5 years	More than 5 years
Non-derivative financial liabilities						
Term loan	(335.0)	(375.8)	(15.7)	(15.7)	(344.4)	-
Revolving credit facility	-	-	-	-	-	-
Trade payables and similar items	(302.5)	(302.5)	(302.5)	-	-	-
Leases	(93.9)	(120.0)	(18.7)	(18.1)	(39.6)	(43.6)
Derivative financial liabilities						
Forward foreign currency contracts – cash flow hedges	(2.6)	(2.6)	(1.8)	(0.6)	(0.2)	-
Interest rate swaps	(0.2)	(0.2)	-	(0.1)	(0.1)	-
Total	**(734.2)**	**(801.1)**	**(338.7)**	**(34.5)**	**(384.3)**	**(43.6)**

As at 31 March 2024

All figures in £ million	Book value	Contractual cash flows	1 year or less	1–2 years	2–5 years	More than 5 years
Non-derivative financial liabilities						
Term loan	(336.3)	(356.8)	(7.4)	(8.8)	(340.6)	-
Revolving credit facility	-	-	-	-	-	-
Trade payables and similar items	(322.5)	(322.5)	(322.5)	-	-	-
Irrevocable share buyback	(34.0)	(34.0)	(34.0)	-	-	-
Leases	(55.5)	(70.4)	(10.8)	(9.7)	(23.0)	(26.9)
Derivative financial liabilities						
Forward foreign currency contracts – cash flow hedges	(1.5)	(1.5)	(1.1)	(0.1)	(0.3)	-
Interest rate swaps	-	-	-	-	-	-
Total	**(749.8)**	**(785.2)**	**(375.8)**	**(18.6)**	**(363.9)**	**(26.9)**

F) Derivative financial instruments

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

	31 March 2025			31 March 2024		
All figures in £ million	Asset gains	Liability losses	Net	Asset gains	Liability losses	Net
Forward foreign currency contracts – cash flow hedges	1.4	(2.6)	(1.2)	0.5	(1.5)	(1.0)
Interest rate swaps	4.2	(0.2)	4.0	8.5	-	8.5
Derivative assets/(liabilities) at the end of the year	**5.6**	**(2.8)**	**2.8**	**9.0**	**(1.5)**	**7.5**

The maturity of these derivative financial instruments is as follows:

	31 March 2025			31 March 2024		
All figures in £ million	Asset gains	Liability losses	Net	Asset gains	Liability losses	Net
Expected to be recognised:						
In one year or less	3.6	(1.8)	1.8	5.2	(1.1)	4.1
Between one and two years	1.3	(0.7)	0.6	2.7	(0.1)	2.6
More than two years	0.7	(0.3)	0.4	1.1	(0.3)	0.8
Derivative assets/(liabilities) at the end of the year	**5.6**	**(2.8)**	**2.8**	**9.0**	**(1.5)**	**7.5**

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26. Financial risk management (continued)

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

	31 March 2025			31 March 2024		
All figures in £ million	Cash flow hedges	Interest rate swaps	Total	Cash flow hedges	Interest rate swaps	Total
Notional amount (gross)	515.8	310.0	825.8	410.3	270.0	680.3
Carrying value (current and non-current assets and (liabilities))	(1.2)	4.0	2.8	(1.0)	8.5	7.5
Maturity date	2025-2028	2025-2027	2025-2028	2024-2027	2025-2027	2024-2027
Hedge ratio	1:1	1:1	1:1	1:1	1:1	1:1
Change in fair value of outstanding hedging instruments in the year	(0.2)	(4.5)	(4.7)	(1.1)	0.6	(0.5)
Change in value of hedged item used to determine hedge effectiveness	(0.2)	(4.5)	(4.7)	(1.1)	0.6	(0.5)
Weighted average hedged rate for the year*	1.29%	3.5%		1.26%	3.1%	

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

G) Maturity of financial liabilities

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

As at 31 March 2025

All figures in £ million	Trade payables and similar items payables	Bank borrowings and loan notes	Derivative financial instruments	Lease liabilities	Total
Due in one year or less	302.5	-	1.8	13.3	317.6
Due in more than one year but not more than two years	-	-	0.7	13.5	14.2
Due in more than two years but not more than five years	-	335.0	0.3	41.3	376.6
Due in five years or more	-	-	-	25.8	25.8
Total	**302.5**	**335.0**	**2.8**	**93.9**	**734.2**

As at 31 March 2024

All figures in £ million	Trade payables and similar items payables*	Bank borrowings and loan notes	Derivative financial instruments	Lease liabilities	Total
Due in one year or less	356.5	-	1.1	8.1	365.7
Due in more than one year but not more than two years	-	-	0.1	7.4	7.5
Due in more than two years but not more than five years	-	336.3	0.3	18.0	354.6
Due in five years or more	-	-	-	22.0	22.0
Total	**356.5**	**336.3**	**1.5**	**55.5**	**749.8**

* Trade payables and other similar items includes £nil (FY24: £34.0m) irrevocable share buyback liability

H) Sensitivity analysis

The Group's sensitivity to changes in foreign exchange rates and interest rates on financial assets and liabilities as at 31 March 2025 is set out in the following table. The impact of a weakening in Sterling on the Group's financial assets and liabilities would be more than offset in equity and income by its impact on the Group's overseas net assets and earnings respectively. Sensitivity on Group's assets other than financial assets and liabilities is not included in this analysis.

As at 31 March 2025

	1% decrease in interest rates		10% weakening in Sterling	
All figures in £ million	Equity*	Profit before tax	Equity	Profit before tax
Sterling	-	0.5	-	-
US dollar	-	0.2	(4.0)	0.9
Other	-	(0.2)	0.7	-

	1% increase in interest rates		10% strengthening in Sterling	
All figures in £ million	Equity*	Profit before tax	Equity	Profit before tax
Sterling	-	(0.5)	-	-
US dollar	-	(0.2)	3.2	0.1
Other	-	0.2	(0.4)	-

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

As at 31 March 2024

All figures in £ million	1% decrease in interest rates		10% weakening in Sterling	
	Equity*	Profit before tax	Equity	Profit before tax
Sterling	(0.1)	1.0	-	-
US dollar	-	0.3	1.6	0.4
Other	-	(0.2)	1.1	-

All figures in £ million	1% increase in interest rates		10% strengthening in Sterling	
	Equity*	Profit before tax	Equity	Profit before tax
Sterling	0.1	(1.0)	-	-
US dollar	-	(0.3)	(1.2)	(0.4)
Other	-	0.2	(1.0)	-

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

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

The estimated changes for interest rate movements are based on an instantaneous decrease or increase of 1% (100 basis points) in the specific rate of interest applicable to each class of financial instruments from the levels effective at 31 March 2025, with all other variables remaining constant. The estimated changes for foreign exchange rates are based on an instantaneous 10% weakening or strengthening in Sterling against all other currencies from the levels applicable at 31 March 2025, with all other variables remaining constant. Such analysis is for illustrative purposes only – in practice market rates rarely change in isolation. The impact of transactional risk on the Group's monetary assets/liabilities that are not held in the functional currency of the entity holding those assets/liabilities is minimal.

27. Post-retirement benefits

Defined contribution plans

The Group operates a number of defined contribution pension arrangements, the largest of which is in the UK and provided by the Mercer Master Trust. A defined contribution plan is a pension plan under which the Group and employees pay fixed contributions to a third-party financial provider. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as an employee benefit expense when they are due. The expense incurred during the year was £73.4m (FY24: £65.0m). Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Defined benefit pension plan

In the UK the Group operates the QinetiQ Pension Scheme ('the Scheme') for approximately 15% of its UK employees. The Scheme closed to future accrual on 31 October 2013 and there is no on-going service cost. After this date, defined active benefit members transferred to a defined contribution section of the Scheme. The Scheme is a final salary plan, which provides benefits to members in the form of a guaranteed level of pension payable for life.

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

Plan assets held in trusts are governed by UK regulations as is the nature of the relationship between the Group and the Trustees and their composition. Responsibility for the governance of the Scheme – including investment decisions and contribution schedules – lies with the Scheme Trustee with consultation with the Company as needed. Dalriada, one of the largest professional trustee firms in the UK, act as Professional Corporate Sole Trustee (PCST) for the Scheme. Being governed by a PCST is well suited to an ever-changing and highly regulated pension landscape.

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

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27. Post-retirement benefits (continued)

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

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

Triennial funding valuation

The most recent completed full actuarial valuation of the Scheme was undertaken as at 30 June 2023 and resulted in an actuarially assessed surplus of £11.4m (relative to the technical provisions i.e. the level of assets agreed by the Trustee and the Company as being appropriate to meet member benefits, assuming the Scheme continues as a going concern). The next triennial valuation will be performed as at 30 June 2026. Under the new schedule of contributions agreed at the conclusion of the recent triennial valuation, and reflecting the Scheme being in surplus, there are no employer contributions required. Separately to the schedule of contributions the Company does have a cash commitment to the Scheme in respect of an asset-backed funding arrangement established in 2012, see QinetiQ Pension Funding Partnership below.

QinetiQ's Pension Funding Partnership (PFP) structure

On 26 March 2012 QinetiQ established the QinetiQ PFP Limited Partnership (the 'Partnership') with the Scheme. Under this arrangement, properties to the capitalised value of £32.3m were transferred to the Partnership. The transfers were effected through a 20-year sale and leaseback agreement. The Scheme's interest in the Partnership entitles it to annual distributions from 2012. The annual distribution in the year to 31 March 2026 will be £3.6m, which will increase thereafter, indexed by reference to CPI, until 2032.

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

Other UK schemes

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

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

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

All figures in £ million	31 March 2025	31 March 2024
Total market value of assets – see table below for analysis by category of asset	1,176.7	1,316.2
Present value of Scheme liabilities	(1,137.3)	(1,297.8)
Net pension asset before deferred tax	**39.4**	**18.4**
Deferred tax liability	(14.6)	(9.6)
Net pension asset after deferred tax	**24.8**	**8.8**

The balance sheet net pension asset is a snapshot view which can be significantly influenced by short-term market factors. The calculation of the net asset depends on factors which are beyond the control of the Group – principally the value of the various categories of assets in which the Scheme has invested and long-term interest rates and inflation rates used to value the Scheme's liabilities. This is particularly pertinent at times when markets are volatile. Sensitivities and risks are described on page 176.

The key driver for the increase in the net pension asset since the March 2024 year end was a net actuarial gain on the net pension asset.

Total expense recognised in the income statement

All figures in £ million	FY25	FY24
Net finance income	1.0	5.6
Administrative expenses	(1.2)	(1.5)
Total net (expense)/income recognised in the income statement (excluding tax)	**(0.2)**	**4.1**

Movement in the net pension asset

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

All figures in £ million	FY25	FY24
Opening net pension asset	18.4	119.8
Net finance income	1.0	5.6
Net actuarial gain/loss & asset re-measurement gain/loss	17.7	(108.9)
Administrative expenses	(1.2)	(1.5)
Contributions by the employer	3.5	3.4
Closing net pension asset	**39.4**	**18.4**

Fair value of Scheme assets by type of asset

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

	31 March 2025			31 March 2024		
All figures in £ million	Quoted	Not quoted in an active market	Total	Quoted	Not quoted in an active market	Total
Equities	-	11.2	11.2	-	21.8	21.8
Liability Driven Investment	351.1	-	351.1	414.9	-	414.9
Asset backed security investments	75.0	-	75.0	35.5	-	35.5
Alternative bonds[1]	-	228.1	228.1	-	253.8	253.8
Corporate bonds[2]	-	98.6	98.6	31.1	120.6	151.7
Cash and cash equivalents	-	46.1	46.1	-	36.5	36.5
Equity derivative financial instruments[3]	(0.9)	-	(0.9)	15.8	-	15.8
Corporate credit derivative financial instruments[4]	1.8	-	1.8	2.2	-	2.2
Other derivatives (forward FX contracts)[5]	10.0	-	10.0	1.6	-	1.6
Insurance buy-in policies	-	450.7	450.7	-	507.4	507.4
Borrowings[6]	-	(95.0)	(95.0)	-	(125.0)	(125.0)
Total market value of assets	**437.0**	**739.7**	**1,176.7**	**501.1**	**815.1**	**1,316.2**

1 Primarily private market debt investments.
2 Includes unlisted corporate bonds with commercial property held as security.
3 The fair value of equity derivative financial instruments is -£0.9m. This reflects the marked to market valuation of all equity derivatives held by the Scheme. Therefore, the Scheme has a significantly larger exposure to equities through the use of equity derivative contracts. The notional value of the quoted equity exposure was £180.0m as at 31 March 2025. The economic exposure (notional exposure + MTM) was £179.1m as at 31 March 2025.
4 The fair value of corporate credit derivative financial instruments is £1.8m. This is in respect of various credit default swap financial instruments held by the Scheme. These instruments provide the Scheme with significantly greater exposure to corporate bonds. The notional value of the credit default swap contracts was £97.9m as at 31 March 2025. The economic exposure (notional exposure +MTM) was £99.7m as a 31 March 2025.
5 The fair value of other derivative financial instruments is £10.0m. This is in respect of various foreign exchange contracts held by the Scheme. The exposure to foreign exchange risk is significantly greater than the £10.0m marked to market value of the forward contracts. The notional value of these financial instruments was £311.1m as at 31 March 2025, with a total economic exposure value of £321.1m.
6 The £125m loan (arranged in September 2023 to facilitate an increase in liquidity to support increased levels of hedging) was partly repaid in the year. A further £25m is due to be repaid by 30 September 2025 with the final £70m due by 30 September 2026.

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

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

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

Changes to the fair value of Scheme assets

All figures in £ million	FY25	FY24
Opening fair value of Scheme assets	1,316.2	1,355.2
Interest income on Scheme assets	62.0	62.6
Re-measurement loss on Scheme assets	(149.0)	(49.6)
Contributions by the employer	3.5	3.4
Net benefits paid out and transfers	(54.8)	(53.9)
Administrative expenses	(1.2)	(1.5)
Closing fair value of Scheme assets	**1,176.7**	**1,316.2**

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

27. Post-retirement benefits (continued)

Changes to the present value of Scheme liabilities

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

All figures in £ million	FY25	FY24
Opening present value of Scheme liabilities	(1,297.8)	(1,235.4)
Interest cost	(61.0)	(57.0)
Actuarial gain/(loss) on Scheme liabilities based on:		
Change in demographic assumptions	17.4	(9.5)
Change in financial assumptions	149.6	28.1
Experience losses	(0.3)	(77.9)
Net benefits paid out and transfers	54.8	53.9
Closing present value of Scheme liabilities	**(1,137.3)**	**(1,297.8)**

Assumptions

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

	31 March 2025		31 March 2024	
All figures in £ million	Insured members	Uninsured members	Insured members	Uninsured members
Discount rate applied to Scheme liabilities	5.70%	5.75%	4.80%	4.80%
CPI inflation assumption	2.45%	2.50%	2.55%	2.60%
Net rate (discount rate less inflation)	3.25%	3.25%	2.25%	2.20%
Assumed life expectancies in years:				
At 60 for males currently aged 40	n/a	27.8	n/a	28.3
At 60 for females currently aged 40	n/a	30.3	n/a	30.7
At 60 for males currently aged 60	n/a	26.5	n/a	26.7
At 60 for females currently aged 60	n/a	28.9	n/a	29.1
At 65 for males currently aged 65	22.1	n/a	22.3	n/a
At 65 for females currently aged 65	24.6	n/a	24.8	n/a

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, because of the timescale covered, may not necessarily be borne out in practice. It is important to note that these assumptions are long term and, in the case of the discount rate and the inflation rate, are measured by reference to external market indicators.

The discount rate is based on observable yields on corporate bonds but there is no direct, observable market rate for CPI. A 'market approach' to deriving CPI involves adjusting a market-based RPI rate downward by an 'inflation risk premium' and an RPI-CPI adjustment factor (determined from relevant market yield curves). This market-based approach is required by IAS 19 and results in a CPI inflation rate in excess of the Bank of England long term target and also in excess of a consensus view of CPI (based on surveys of economists). However, adopting an economic consensus approach to setting CPI inflation is not acceptable under accounting standards.

The mortality assumptions for both the current and prior year were based on the S3 Normal Lives base tables, with various scaling factors based on sex and status. Allowance was made for improvements in mortality in line with CMI_2023 core projections (31 March 2024: CMI_2022 projections) and a long-term rate of improvement of 1.0% per annum (31 March 2024: 1.25%).

The funding of the Scheme is based on long-term trends and assumptions relating to market growth, as advised by qualified actuaries and investment advisors. The Scheme 'duration', calculated using discounted future cash flows, is an indicator of the weighted-average time until benefits are paid and is approximately 13 years for non-insured liabilities and 10 years for insured liabilities.

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

Sensitivity analysis of the principal assumptions

Assumption	Indicative impact on Scheme assets	Indicative impact on Scheme liabilities	Indicative impact on net pension asset
Decrease discount rate by 0.25%	Increase by £10.2m	Increase by £33.1m	Decrease by £22.9m
Increase rate of inflation by 0.25%	Increase by £9.9m	Increase by £32.6m	Decrease by £22.7m
Increase life expectancy by one year	Increase by £10.9m	Increase by £26.8m	Decrease by £15.9m

The impact of movements in Scheme liabilities will, to an extent, be offset by movements in the value of Scheme assets as the Scheme has assets invested in a Liability Driven Investment Portfolio. As at 31 March 2025 this portfolio hedged against approximately 100% of the interest rate risk and also approximately 100% of the inflation rate risk, as measured on the actuarial funding valuation basis.

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

In addition to the sensitivity of the liability side of the net pension asset (which will impact the value of the net pension asset) the net pension asset is also exposed to significant variation due to changes in the fair value of Scheme assets. A specific sensitivity on assets has not been included in the above table but any change in valuation of assets flows straight through to the value of the net pension asset e.g. if equities fall by £10m then the net pension asset reduces by £10m. The values of unquoted assets assume that an available buyer is willing to purchase those assets at that value. For the Group's portfolio of assets, the unquoted alternative bonds of £228.1m; the unquoted corporate bonds of £98.6 and the unquoted equities of £11.2m are the assets with most uncertainty as to valuation as at 31 March 2025.

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

Risks

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

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

In June 2023, in Virgin Media Limited v NTL Pension Trustees II Limited, the UK High Court ruled that specific historical amendments to contracted-out defined benefit schemes in the period from 6 April 1997 to 5 April 2016 were invalid as they lacked a confirmation under section 37 of the Pension Schemes Act 1993 from the scheme's actuary. Following a review of the equivalent documentation by the Scheme's lawyers, we consider that there is no need for any further investigation at this stage and that the probability of a significant financial impact is remote.

28. Share capital and other reserves

Shares allotted, called up and fully paid:

	Ordinary shares of 1p each (equity)		Special Share of £1 (non-equity)		Total	
	£	Number	£	Number	£	Number
As at 1 April 2024	5,743,959	574,395,891	1	1	5,743,960	574,395,892
Cancellation of shares	(208,654)	(20,865,436)	-	-	(208,654)	(20,865,436)
At 31 March 2025	**5,535,305**	**553,530,455**	**1**	**1**	**5,535,306**	**553,530,456**

During the year, the Group continued its share buyback programme. £102.9m was completed in cash in FY25 (FY24: £16.0m), which is shown in the table above as the 20,865,436 cancelled shares (FY24: 4,361,230). As at 31 March 2024 a further £34m (31 March 2025: £nil) had been committed to and was recognised as a liability.

	Ordinary shares of 1p each (equity)		Special Share of £1 (non-equity)		Total	
	£	Number	£	Number	£	Number
As at 1 April 2023	5,787,571	578,757,121	1	1	5,787,572	578,757,122
Cancellation of shares	(43,612)	(4,361,230)	-	-	(43,612)	(4,361,230)
At 31 March 2024	**5,743,959**	**574,395,891**	**1**	**1**	**5,743,960**	**574,395,892**

Except as noted below all shares in issue at 31 March 2025 rank pari-passu in all respects.

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For the year ended 31 March

28. Share capital and other reserves (continued)

Rights attaching to the Special Share

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

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

The Special Shareholder has an option to purchase defined Strategic Assets of the Group in certain circumstances. The Special Shareholder has, inter alia, the right to purchase any Strategic Assets which the Group wishes to sell. Strategic Assets are normally testing and research facilities (see note 30 for further details).

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

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

Other reserves

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

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

Own shares

Own shares represent shares in the Company that are held by independent trusts and include treasury shares and shares held by the employee share ownership plan. Included in retained earnings at 31 March 2025 are 3,442,435 shares (2024: 2,767,125 shares).

29. Share-based payments

The Group operates a number of share-based payment plans for employees. The total share-based payment expense in the year was £9.8m, all relating to equity-settled schemes (FY24: £10.2m, all relating to equity-settled schemes). The share-based payment charged to equity is £8.9m consisting of the £9.8m charge to the income statement offset by a £0.9m charge to equity in respect of dividends accruing on unvested awards.

Valuation of share-based awards

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

Group Share Incentive Plan (SIP)

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

	FY25 Number of matching shares	FY24 Number of matching shares
Outstanding at start of the year	753,447	745,986
Awarded during the year	256,966	295,731
Exercised during the year	(262,526)	(243,681)
Forfeited during the year	(40,053)	(44,589)
Outstanding at end of the year	**707,834**	**753,447**

SIP matching shares are equity-settled awards; those outstanding at 31 March 2025 had an average remaining life of 1.5 years (2024: 1.5 years). There is no exercise price for these SIP awards. Of the shares outstanding at the end of the year nil were exercisable (2024: nil).

Bonus Banking Plan (BBP)

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

	FY25 Number of awards	FY24 Number of awards
Outstanding at start of the year	892,416	892,416
Granted during the year	-	-
Exercised during the year	(833,623)	-
Forfeited during the year	(58,793)	-
Outstanding at end of the year	**-**	**892,416**

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

At 31 March 2025 the awards had an average remaining life of nil year (2024: 0.7 years). There is no exercise price for these awards. The fair value of the awards at 31 March 2025 was £nil (2024: £3.67) being the Group's 30 day average on 31 March. The weighted average share price at date of exercise was nil (2024: £nil). Of the awards outstanding at the end of the year nil were exercisable.

Deferred Share Plan (DSP)

During the year, the Group did not provisionally award any DSP awards as this share scheme has been replaced by the LTIP share scheme.

	FY25 Number of awards	FY24 Number of awards
Outstanding at start of the year	6,274,618	6,968,721
Granted during the year	9,795	-
Lapsed during the year	(502,662)	(142,194)
Exercised during the year	(2,021,364)	(551,909)
Outstanding at end of the year	**3,760,387**	**6,274,618**

The number of awards is dependent on the Group's performance during the year (specifically with respect to the Group revenue growth). This is provisionally quantified at year end based on Group performance and also the number of eligible employees in employment as at 31 March. Actual awards are made in the following June and the final number awarded will be slightly different to the number provisionally calculated.

Awards are then subject to a three-year vesting period and a further two-year holding period. Vesting of the awards is contingent upon Group operating profit in the year prior to vesting being maintained at the level reported during the year prior to award. Refer to the Directors' Remuneration Report for further details.

At 31 March 2025 the awards had an average remaining life of 0.6 years (2024: 1.3 years). There is no exercise price for these awards. The weighted average share price at date of exercise was £4.47 (2024: nil). Of the awards outstanding at the end of the year nil were exercisable.

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29. Share-based payments (continued)

Long Term Incentive Plan (LTIP)

During the year the Group granted LTIP awards to replace the DSP awards.

	FY25 Number of awards	FY24 Number of awards
Outstanding at start of the year	7,306,172	-
Granted during the year	6,519,447	7,556,268
Exercised during the year	-	-
Lapsed during the year	(1,693,863)	(250,096)
Outstanding at end of the year	**12,131,756**	**7,306,172**

At 31 March 2025 the awards had an average remaining life of 2.0 years (2024: 2.5 years). There is no exercise price for these awards. The weighted average fair value of grants made during the year was £4.44 (2024: £3.22). The weighted average share price at date of exercise was nil. Of the options outstanding at the end of the year nil were exercisable.

Restricted share plan (RSP)

RSP is a share award made to senior executives on a discretionary basis. For example, to offset a new senior executive joiner on a loss of stock options from their previous employer and it is a fixed number of shares. During the year the Group granted RSP awards to certain senior executives in the UK and US.

	FY25 Number of awards	FY24 Number of awards
Outstanding at start of the year	797,371	941,348
Granted during the year	263,186	213,277
Exercised during the year	(488,374)	(135,292)
Lapsed during the year	(98,127)	(221,962)
Outstanding at end of the year	**474,056**	**797,371**

At 31 March 2025 the awards had an average remaining life of 0.7 years (2024: 1.3 years). There is no exercise price for these awards. The weighted average fair value of grants made during the year was £4.11 (2024: £3.28). The weighted average share price at date of exercise was £4.02 (2024: £3.12). Of the options outstanding at the end of the year nil were exercisable (2024: nil).

Value Creation Plan (VCP)

VCP is a share award made on a discretionary basis with unique performance conditions. In FY23, the Group granted awards under a Value Creation Plan to certain senior executives in the US. During the current year, all the awards were forfeited as the performance conditions were not met.

	FY25 Number of awards	FY24 Number of awards
Outstanding at start of the year	-	175,099
Forfeited during the year	-	(175,099)
Outstanding at end of the year	**-**	**-**

At 31 March 2025 the awards had an average remaining life of nil year (2024: nil). There is no exercise price for these awards. The weighted average fair value of grants made during the year was £nil (2024: nil).

High Performance Share Award (HPSA)

In a prior year, as one of eight initial measures in response to the COVID-19 pandemic, the senior leaders agreed to, on average, a temporary base salary reduction of 15%. To both recognise the senior leaders for their sacrifice and to incentivise them to lead the Group through the crisis as quickly and effectively as possible, the Group adopted a new award called High Performance Share Award (HPSA). The HPSA was awarded in November 2020 as a 'Thank Q' to senior leaders for their sacrifice and enormous efforts to lead their teams out of unprecedented crisis. The fair value of QinetiQ shares on grant date was £2.70 and the awards vest in June 2023. At 31 March 2025 the awards had an average remaining life of nil year (2024: nil year). The weighted average share price at date of exercise was £nil (2024: £3.54).

	FY25 Number of awards	FY24 Number of awards
Outstanding at start of the year	-	1,323,331
Granted during the year	-	13,041
Exercised during the year	-	(1,336,372)
Lapsed during the year	-	-
Outstanding at end of the year	**-**	**-**

Annual Bonus Plan (ABP)

ABP is a share award made to senior executives. This award replaced the BBP.

	FY25 Number of awards	FY24 Number of awards
Outstanding at start of the year	292,067	-
Difference between actual awards in year and amount provisionally awarded in prior year	(64,891)	-
Lapsed during the year	-	-
Exercised during the year	-	-
Provisionally awarded during the year	-	292,067
Outstanding at end of the year	**227,176**	**292,067**

At 31 March 2025 the awards had an average remaining life of 1.3 years (2024: nil years). There is no exercise price for these awards. The weighted average fair value of grants made during the year was £4.49 (2024: £nil). The weighted average share price at date of exercise was £nil (2024: £nil). Of the options outstanding at the end of the year nil were exercisable (2024: nil).

30. Transactions with the Ministry of Defence (MOD)

The MOD continues to own its Special Share in QinetiQ which conveys certain rights as set out in note 28. Transactions between the Group and the MOD are disclosed as follows:

Freehold land and buildings and surplus properties

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

Restrictions on transfer of title

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

MOD's generic compliance regime

Adherence to the generic compliance system is monitored by the Risk & Security Committee. Refer to the Committee's report within the Corporate Governance Statement on page 108.

Strategic assets

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

i) dispose of or destroy all or any part of a strategic asset; or
ii) voluntarily undertake any closure of, or cease to provide a strategic capability by means of, all or any part of a strategic asset.

The net book value of assets identified as being strategic assets as at 31 March 2025 was £1.3m (2024: £2.1m).

Long Term Partnering Agreement

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

Other contracts with MOD

The LTPA is the most significant contract QinetiQ has with the MOD. In total approximately 57% (FY24: 57%) of the Group's revenue comes directly from contracts with the MOD.

31. Contingent liabilities and assets

Subsidiary undertakings within the Group have given unsecured guarantees of £49.7m at 31 March 2025 (2024: £56.7m) in the ordinary course of business, typically in respect of performance bonds and rental guarantees. The Company has on occasion been required to take legal action to protect its intellectual property rights, to enforce commercial contracts or otherwise and similarly to defend itself against proceedings brought by other parties, including in respect of environmental and regulatory issues. Provisions are made for the expected costs associated with such matters, based on past experience of similar items and other known factors, taking into account professional advice received, and represent management's best estimate of the likely outcome. The timing of utilisation of these provisions is uncertain pending the outcome of various court proceedings, ongoing investigations and negotiations. However, no provision is made for proceedings which have been or might be brought by other parties unless management, taking into account professional advice received, assesses that it is more likely than not that such proceedings may be successful. Contingent liabilities associated with such proceedings have been identified but the Directors are of the opinion that any associated claims that might be brought can be resisted successfully and therefore the possibility of any outflow in settlement is assessed as remote.

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For the year ended 31 March

32. Capital commitments

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

All figures in £ million	31 March 2025	31 March 2024
Total contracted	51.3	57.8

Capital commitments at 31 March 2025 include £47.2m (2024: £49.7m) in relation to property, plant and equipment that will be wholly funded by a third-party customer under long-term contract arrangements. These primarily relate to investments under the LTPA contract.

33. Related parties

During the year ended 31 March 2025 there were sales to joint ventures of £0.2m (FY24: £3.1m). At the year-end there were outstanding receivables from joint ventures of £0.2m (FY24: £2.8m).

34. Subsidiaries and other related undertakings

In accordance with section 409 of the Companies Act 2006, a full list of subsidiaries and other related undertakings as at 31 March 2025 is detailed below. Unless stated otherwise, the Group's holding comprises ordinary shares which are held indirectly by QinetiQ Group plc, with the exception of QinetiQ Group Holdings Limited which is held directly by QinetiQ Group plc.

Name of company	Country of incorporation	Registered office
Subsidiaries[1,6]		
Aerospace Training Services Pty Ltd*	Australia	Tower 4, Level 10, 727 Collins Street, Melbourne, VIC 3008 Australia
Air Affairs (Australia) Pty Ltd	Australia	Tower 4, Level 10, 727 Collins Street, Melbourne, VIC 3008 Australia
Air Affairs Aviation Pty Ltd.	Australia	Tower 4, Level 10, 727 Collins Street, Melbourne, VIC 3008 Australia
Air Target Services Pty Ltd.	Australia	Tower 4, Level 10, 727 Collins Street, Melbourne, VIC 3008 Australia
Astra Aerospace Pty Ltd.	Australia	Tower 4, Level 10, 727 Collins Street, Melbourne, VIC 3008 Australia
Avantus Federal LLC	USA	1800 Tysons Blvd, Ste 750, McLean, VA 22102, USA
Avantus Federal Services LLC	USA	1800 Tysons Blvd, Ste 750, McLean, VA 22102, USA
Avantus National Security Solutions LLC	USA	1800 Tysons Blvd, Ste 750, McLean, VA 22102, USA
cueSim Limited	England & Wales	C/O FRP Advisory Trading Limited Kings Orchard, 1 Queen Street, Bristol, BS2 0HQ
E3 Federal Solutions PR LLC	USA	1800 Tysons Blvd, Ste 750, McLean, VA 22102, USA
Far Ridgeline Engagements LLC	USA	1800 Tysons Blvd, Ste 750, McLean, VA 22102, USA
Foster-Miller Inc[2]	USA	350 2nd Avenue, Waltham, Massachusetts, MA 02451, USA
Hirose Holdings Pty Ltd.	Australia	Tower 4, Level 10, 727 Collins Street, Melbourne, VIC 3008 Australia
Inzpire Group Limited	England & Wales	C/O FRP Advisory Trading Limited Kings Orchard, 1 Queen Street, Bristol, BS2 0HQ
Inzpire Holdings Limited	England & Wales	C/O FRP Advisory Trading Limited Kings Orchard, 1 Queen Street, Bristol, BS2 0HQ
Inzpire Limited	England & Wales	C/O FRP Advisory Trading Limited Kings Orchard, 1 Queen Street, Bristol, BS2 0HQ
Lucid Perspectives LLC	USA	1800 Tysons Blvd, Ste 750, McLean, VA 22102, USA
Metrix UK Limited	England & Wales	C/O FRP Advisory Trading Limited Kings Orchard, 1 Queen Street, Bristol, BS2 0HQ
Naimuri Limited	England & Wales	Farnborough[3]
Occam's Razor Technologies LLC	USA	1800 Tysons Blvd, Ste 750, McLean, VA 22102, USA
Operational Intelligence LLC	USA	1800 Tysons Blvd, Ste 750, McLean, VA 22102, USA
Precis (2187) Limited	England & Wales	C/O FRP Advisory Trading Limited Kings Orchard, 1 Queen Street, Bristol, BS2 0HQ
Qinetic Limited	England & Wales	Farnborough[3]
QinetiQ Aerostructures Pty Ltd	Australia	Tower 4, Level 10, 727 Collins Street, Melbourne, VIC 3008 Australia
QinetiQ Australia Pty Ltd	Australia	Tower 4, Level 10, 727 Collins Street, Melbourne, VIC 3008 Australia
QinetiQ Consulting Pty Ltd	Australia	Tower 4, Level 10, 727 Collins Street, Melbourne, VIC 3008 Australia
QinetiQ Estates Limited	England & Wales	Farnborough[3]
QinetiQ GmbH	Germany	Flughafenstraße 65, 41066, Mönchengladbach, Germany
QinetiQ GP Limited	Scotland	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, Scotland
QinetiQ Group Canada Inc.[2]	Canada	5300 Commerce Court West, 199 Bay Street, Toronto ON M5L 1A9, Canada
QinetiQ Group Holdings Limited	England & Wales	Farnborough[3]
QinetiQ Holdings Limited	England & Wales	Farnborough[3]
QinetiQ Inc[2,]	USA	1800 Tysons Blvd, Ste 750, McLean, VA 22102, USA
QinetiQ Insurance PCC Limited	Guernsey	Mill Court, La Charroterie, St Peter Port, GY1 4ET Guernsey
QinetiQ Limited	England & Wales	Farnborough[3]
QinetiQ Novare Pty Ltd	Australia	Tower 4, Level 10, 727 Collins Street, Melbourne, VIC 3008 Australia
QinetiQ Overseas Holdings Limited	England & Wales	Farnborough[3]
QinetiQ Overseas Trading Limited	England & Wales	Farnborough[3]

Name of company	Country of incorporation	Registered office
QinetiQ Pension Scheme Trustee Limited	England & Wales	Farnborough[3]
QinetiQ PFP Limited Partnership[4]	Scotland	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, Scotland
QinetiQ Philippines Company, Inc	Philippines	22nd Floor Corporate Centre, 139 Valero Street, Salcedo Village, Makati City, Philippines
QinetiQ Pty Ltd	Australia	Tower 4, Level 10, 727 Collins Street, Melbourne, VIC 3008 Australia
QinetiQ Services Holdings Pty Ltd	Australia	Tower 4, Level 10, 727 Collins Street, Melbourne, VIC 3008 Australia
QinetiQ Solutions Sdn. Bhd.	Malaysia	Suite 6.01, 6th Floor, Plaza See Hoy Chan, Jalan Raja Chulan 50200, Kuala Lumpur, W.P. Kuala Lumpur, Malaysia
QinetiQ Sweden AB	Sweden	c/o MAQS Advokatbyra, Stureplan 19, 111 45 Stockholm Sweden
QinetiQ Target Services Limited	England & Wales	Farnborough[3]
QinetiQ Target Systems Limited	England & Wales	Farnborough[3]
QinetiQ Training and Simulation Limited	England & Wales	Farnborough[3]
QinetiQ US Holdings, Inc.	USA	5885 Trinity Parkway, Suite 130, Centreville, Virginia 20120-1969, USA
RubiKon Group Pty Limited	Australia	Level 33, 101 Collins Street, Melbourne, Victoria 3000, Australia
TSG International LLC	USA	350 2nd Avenue, Waltham, Massachusetts 02451, USA

Name of company	Country of incorporation	Registered office
Joint ventures[6]		
Avantus CTA, LLC[5]	USA	1800 Tysons Blvd, Ste 750, McLean, VA 22102, USA
Federal Mission Solutions, LLC[5]	USA	58 W Main Street, Suite B, Luray, VA 22835 USA
Houbara Defence & Security LLC[5,6]	United Arab Emirates	Unit 3, Zone 4, Tawazun Industrial Park, Abu Dhabi, United Arab Emirates, PO Box 128220
QinetiQ Dar Massader QDM Limited[5,6]	Saudi Arabia	Al Nakhla Tower, 3026-Prince Saud Bin Mohamed Bin Muqin Road, PO Box 2985, Riyadh 13321, Kingdom of Saudi Arabia
Quick Services LLC[5]	USA	409 Chicago Drive Suite 103 in Fayetteville, NC 28306

* Aerospace Training Services Pty Ltd was renamed QinetiQ Training Australia Pty Ltd on 30 April 2025.
1 As at 31 March 2025 the Group owned 100% of the ordinary shares of all subsidiary undertakings.
2 The class of shares is 'common share'.
3 Cody Technology Park, Ively Road, Farnborough, Hampshire, GU14 OLX.
4 Limited partnership. The partners are all wholly-owned Group companies.
5 As at 31 March 2025 the Group owned 90% of Avantus CTA, LLC, 49% of Federal Mission Solutions, LLC, LLC, 49% of Houbara Defence & Security LLC, 49% of QinetiQ Dar Massader QDM Limited, and 49% of Quick Services LLC.
6 The financial year end of each undertaking is 31 March other than Houbara Defence & Security LLC (31 December) and QinetiQ Dar Massader QDM Limited (31 December).

35. Basis of preparation and material accounting policies

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

Accounting policies

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

Specific adjusting items

Specific adjusting items include the following:

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

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

35. Basis of preparation and material accounting policies (continued)

Basis of preparation

The Group's financial statements, approved by the Directors, have been prepared on a going concern basis as discussed in the Strategic Report on page 69 in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. The Company has elected to prepare its parent company financial statements in accordance with UK GAAP (FRS 101); these are presented on page 194. The financial statements have been prepared under the historical cost convention, except for certain financial assets and liabilities (such as derivative financial instruments) measures at fair value. The Group's reporting currency is Sterling and unless otherwise stated the financial statements are rounded to the nearest £100,000.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary undertakings to 31 March 2025. The purchase method of accounting has been adopted. Those subsidiary undertakings acquired or disposed of in the period are included in the consolidated income statement from the date control is obtained to the date that control is lost (usually on acquisition and disposal respectively). An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. This is the IFRS 10 definition of 'control'.

The Group comprises certain entities that are operated within the terms of a Special Security Arrangement ('SSA'). Details of the SSA and QinetiQ's management of US subsidiaries are set out in the Corporate Governance section of this Annual Report (on page 90). IFRS 10 is the accounting standard applicable in respect of consolidation of entities. This does not specifically deal with SSA's. However, having considered the terms of the SSA, the Directors consider that the Group meets the requirements of IFRS 10 in respect of control over such affected entities and, therefore, consolidates these entities in the consolidated accounts. The impact of this specific judgement is full consolidation as opposed to treatment as a 100% associated undertaking.

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

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

Consideration of climate change

In preparing the financial statements, the Board have considered the impact to the organisation and its activities of climate change, particularly those risks highlighted on page 61 in line with the recommendations by the Task Force for Climate-related Disclosures (TCFD). The Board recognises its responsibilities for oversight of climate-related risks and opportunities. The QinetiQ Leadership Team support the Board through the implementation of a strategic led approach to monitor, assess and address climate transition risks and opportunities, which includes refining our capability to quantify, forecast and model financial statement impacts due to climate change.

Specific aspects of the financial statements that could potentially be impacted by climate change are the carrying value and useful economic lives of tangible assets and goodwill, future capability development and the financial performance of customer contracts.

Whilst the Group will likely be impacted by climate change in the future, the impacts on the financial statements as at 31 March 2025 are not considered to be material.

Recent accounting developments

Developments adopted by the Group for the year ended 31 March 2025 with no material impact on the Group's financial statements

The following standards, interpretations and amendments to existing standards became effective on 1 January 2024 and have not had a material impact on the Group:

- Amendments to IAS 1 Presentation of Financial Statements – Non-current Liabilities with Covenants and Deferral of Effective Date of the Amendment Classification of Liabilities as Current, effective from 1 January 2024;
- Amendments to IFRS 16 Lessee Lease – Liability in a Sale and Leaseback, effective from 1 January 2024; and
- Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements, effective from 1 January 2024

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

The following other standards, interpretations and amendments to existing standards have been issued but were not mandatory for accounting periods beginning on 1 April 2024. These either have been, or are expected to be endorsed by the UK Endorsement Board and are not expected to have a material impact on the Group:

- Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability, effective from 1 January 2025.

Material accounting policies

Revenue from contracts with customers

The Group recognises revenue primarily from the following major sources:

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

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

Service contracts

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

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

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

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

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

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

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

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

When the outcome of a distinct performance obligation in delivering services can be reliably estimated, revenue associated with the performance obligation is recognised over time using the input method. The input method recognises revenue over time on the basis of costs incurred to date to the satisfaction of a performance obligation relative to the total forecast costs to complete the performance obligation.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

35. Basis of preparation and material accounting policies (continued)

The Group has determined the input method to be appropriate as it best depicts the Group's performance in transferring control of the service to the customer as it incurs costs on a particular contract.

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

Goods sold

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

Licence revenue

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

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

Contract assets

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

Contract liabilities

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

Principal-agent arrangements

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

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

Contract bidding costs

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

Segmental information

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

Research and development expenditure

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

Borrowings and financing

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

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

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

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

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

Taxation

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

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

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

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

35. Basis of preparation and material accounting policies (continued)

The Group has applied the temporary exemption issued by the International Accounting Standards Board from the accounting for deferred taxes under IAS12 and neither recognises nor discloses information about deferred taxes related to OECD's Global Anti-Base Erosion Model Rules (Pillar Two) income taxes.

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

Research and Development Expenditure Credits (RDEC) are recognised within other operating income.

Non-current assets held for sale

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

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

Goodwill

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

Intangible assets

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

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

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

Property, plant and equipment

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

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

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

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

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

Leases

Leases – as a lessor

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term (note 25). Initial direct costs incurred in obtaining an operating leases are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature.

Leases – as a lessee

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

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

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

35. Basis of preparation and material accounting policies (continued)

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

Lease extension and termination options

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

Judgements in determining the lease term

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

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

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

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

As at 31 March 2025 no (undiscounted) potential future cash outflows have been included in the lease liability for extension or termination.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event of significant change in circumstance occurs, which affects this assessment, and that is within the control of the lessee. During the current financial year, the financial effect of revising lease terms to reflect the effect of exercising extension or termination options was nil (FY24: nil) in recognised lease liabilities and right-of-use assets.

Sale and leaseback transactions

The Group accounts for sale and leaseback transactions according to IFRS 16 "Leases", only recognising a sale if the criteria under IFRS 15 "Revenue from Contracts with Customers" are met. Upon meeting these criteria, the asset is derecognised from the balance sheet, and any resultant gain or loss is recognised immediately in the profit or loss statement, adjusted for any off-market terms present in the transaction.

For the leaseback component, the Group recognises a lease liability based on the present value of future lease payments, typically using the lessee's incremental borrowing rate unless the rate implicit in the lease is readily determinable. Concurrently, a right-of-use asset is recognised, reflecting the portion of the asset's value retained through control or benefit. This asset is initially measured using the proceeds from the sale relative to the asset's fair value.

Subsequently, the lease liability is adjusted to account for payments and finance charges, applying the effective interest method. The right-of-use asset is depreciated over the lesser of the asset's useful life or the lease term.

Investments in debt and equity securities

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

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

Inventories

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

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

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

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and short-term, highly liquid investments that are readily convertible into a known amount of cash and which are subject to an insignificant risk of changes in value. The Group holds various short-maturity money market funds (see note 23) across numerous financial institutions which meet the IAS 7 criteria to be classified as cash equivalents. In the cash flow statement overdraft balances are included in cash and equivalents. Cash and cash equivalents includes an element that is restricted in use (note 23).

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 March

35. Basis of preparation and material accounting policies (continued)

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

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

Cash flow hedging

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

Foreign currencies

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

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

Post-retirement benefits

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

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

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

Share-based payments

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

Share capital

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

Non-controlling interests

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

36. Critical accounting estimates and judgments in applying accounting policies

Critical accounting estimates

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

Estimated goodwill impairment

The Group tests annually whether goodwill has suffered any impairment. This process relies on the use of estimates of the future profitability and cash flows of its cash generating units which may differ from the actual results delivered. In addition, the Group reviews whether identified intangible assets have suffered any impairment. Further details on the sensitivity of the carrying value of goodwill to changes in the key assumptions are set out in note 13.

Estimation of the Group’s defined benefit pension net surplus

The Group’s defined benefit pension obligations (and hence the net surplus) are based on key assumptions, including discount rates, mortality and inflation. Management exercises its best judgement, in consultation with actuarial advisors, in selecting the values for these assumptions that are the most appropriate to the Group. Small changes in these assumptions at the balance sheet date, individually or collectively, may result in significant changes in the size of the net surplus/deficit. Further details of these assumptions and the sensitivity of the net pension surplus to changes in these assumptions are set out in note 27.

In addition to the sensitivity of the liability side of the net pension surplus (which will impact the value of the net pension surplus) the net pension surplus is also exposed to significant variation due to changes in the fair value of Scheme assets. A specific sensitivity on assets has not been included in note 27 but any change in valuation of assets flows straight through to the value of the net pension surplus e.g. if equities fall by £10m then the net pension surplus reduces by £10m. The values of unquoted assets assume that an available buyer is willing to purchase those assets at that value. For the Group’s portfolio of assets, the unquoted alternative bonds of £228.1m; the unquoted corporate bonds of £98.6m and the unquoted equities of £11.2m are the assets with most uncertainty as to valuation as at 31 March 2025.

Estimates of costs to complete on long-term contracts

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

For firm price contracts the impact of actual costs being above or below estimated costs would generally impact the contract profitability and the timing of revenue recognition. Costs could increase or decrease based on the level of inflation and the outcome of assumed risk and identified savings positions. As an example, an increase in total forecast costs to complete of 1% in one of the Group’s most significant contracts, would reduce profit by approximately £1m to £2m per annum, on average over the remaining contract duration. Depending on the timing of such cost increases there would be an adjustment to the timing of revenue recognition, which would have no impact on total contract revenue but could impact an individual years revenue by £2m to £3m. In many cases fixed price contracts include inflation uplift clauses, such that inflation of costs would create additional contract value and revenue, thus resulting in increased profit.

Critical accounting judgements

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

Basis of consolidation

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

This does not specifically deal with SSA’s. However, having considered the terms of the SSA, the Directors consider that the Group meets the requirements of IFRS 10 in respect of control over such affected entities and, therefore, consolidates these entities in the consolidated accounts. The impact of this specific judgement is full consolidation as opposed to treatment as a 100% associated undertaking. Treatment as a 100% associated undertaking would reduce Group revenue by a material amount (c.£350m per annum) but would have no impact on reported profit, which would include an equivalent amount of profit reported within Other Income as ‘Share of profits of joint ventures’.

Company balance sheet

As at 31 March

All figures in £ million	Note	31 March 2025	31 March 2024
Non-current assets			
Investments in subsidiary undertakings	2	540.1	530.6
		540.1	**530.6**
Current liabilities			
Creditors: amounts falling due within one year	3	(107.8)	(131.3)
Net current liabilities		**(107.8)**	**(131.3)**
Total assets less current liabilities		**432.3**	**399.3**
Net assets		**432.3**	**399.3**
Equity			
Share capital	4	5.5	5.7
Capital redemption reserve		41.0	40.8
Share premium		147.6	147.6
Retained earnings		238.2	205.2
Total equity		**432.3**	**399.3**

The profit for the year ended 31 March 2025 was £146.9m (FY24: profit of £44.0m).

The financial statements of QinetiQ Group plc (company number 4586941) on pages 194 to 197 were approved by the Board of Directors and authorised for issue on 22 May 2025 and signed on its behalf by:

Steve Wadey
Group Chief Executive Officer

Martin Cooper
Group Chief Financial Officer

Company statement of changes in equity

For the year ended 31 March

All figures in £ million	Share capital	Capital redemption reserve	Share premium	Retained earnings	Total equity
At 1 April 2024	5.7	40.8	147.6	205.2	399.3
Profit for the year	-	-	-	146.9	146.9
Purchase of own shares	(0.2)	0.2	-	(74.9)	(74.9)
Dividend paid	-	-	-	(47.9)	(47.9)
Share-based payments	-	-	-	8.9	8.9
At 31 March 2025	**5.5**	**41.0**	**147.6**	**238.2**	**432.3**
At 1 April 2023	5.8	40.8	147.6	249.0	443.2
Profit for the year	-	-	-	44.0	44.0
Purchase of own shares	(0.1)	-	-	(51.0)	(51.1)
Dividend paid	-	-	-	(45.6)	(45.6)
Share-based payments	-	-	-	8.8	8.8
At 31 March 2024	**5.7**	**40.8**	**147.6**	**205.2**	**399.3**

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

Notes to the Company Financial Statements

1. Accounting policies

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

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

Basis of preparation

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

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

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

Investments

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

Share-based payments

The cost of share-based payments in respect of employees of Group subsidiaries is charged to those subsidiary undertakings. In the Company financial statements the recoverable from subsidiaries is credited directly to equity as a capital contribution. The fair value of equity-settled awards for share-based payments is determined on grant and expensed in subsidiary undertakings (and credited to equity in the Company) on a straight line basis over the period from grant to the date of earliest unconditional exercise. The charges for equity-settled share-based payments are updated annually for non-market-based vesting conditions. Further details of the Group's share-based payment charge are disclosed in note 29 to the Group financial statements.

Current liabilities

Current liabilities include amounts due within the normal operating cycle of the Company. Costs associated with the arrangement of bank facilities or the issue of loans are held net of the associated liability presented in the balance sheet.

Share capital

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

2. Investments in subsidiary undertakings

All figures in £ million	31 March 2025	31 March 2024
Subsidiary undertaking – 100% of ordinary share capital of QinetiQ Group Holdings Limited	424.3	424.3
Capital contributions arising from share-based payments to employees of subsidiaries	102.2	92.7
Capital contributions arising from share-settled liabilities	13.6	13.6
Total investment in subsidiary undertakings	**540.1**	**530.6**

The increase in investments in subsidiary undertakings in FY25 mainly relates to equity-settled schemes during the year.

A list of all subsidiary undertakings of QinetiQ Group plc is disclosed in note 34 to the Group financial statements.

3. Creditors: amounts falling due within one year

All figures in £ million	31 March 2025	31 March 2024
Amounts owed to Group undertakings	107.8	97.3
Irrevocable share buyback liability	-	34.0
Creditors: amounts falling due within one year	**107.8**	**131.3**

Amounts owed to Group undertakings are unsecured, repayable on demand and bear no interest, with the exception of a £23.3m intercompany loan which bears interest at a margin of 1.39% over SONIA.

4. Share capital

The Company's share capital is disclosed in note 28 to the Group financial statements.

5. Share-based payments

The Company's share-based payment arrangements are set out in note 29 to the Group financial statements.

6. Parent company guarantees

The Company has provided guarantees to various customers of subsidiaries to the value of £21.0m as at 31 March 2025 (2024: £21.0m) in the ordinary course of business. The company has also provided a guarantee of £332.7m as at 31 March 2025 (2024: £336.3m) in respect of the term loan.

7. Other information

Directors' emoluments, excluding Company pension contributions for the year to 31 March 2025 were £4.1m (FY24: £4.4m). These emoluments were all in relation to services provided on behalf of the QinetiQ Group with no amount specifically relating to their work for the Company. Details of the Directors' emoluments, share schemes and entitlements under money purchase pension schemes are disclosed on page 112 in the Directors' Remuneration Report.

The remuneration of the Company's auditors for the year to 31 March 2025 was £0.6m (FY24: £0.6m), which was for audit of the Group financial statements and Company financial statements and audit related assurance services. No other services were provided by the auditors to the Company.

The monthly average number of employees for the year to 31 March 2025 was nil (FY24: nil).