Who we are

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

What we offer

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

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

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

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

What we deliver

Operational and competitive advantage
These three core offerings allow us to deliver operational advantage in the military context, or competitive advantage in the commercial context.
Our inherent strengths

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

Key to our success

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

In simple terms

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

Visit the website at www.QinetiQ.com

As a reminder

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

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

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

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

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

EMEA Services

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

£687.7m annual revenue
(FY18: £651.4m)

5,170 total employees
(FY18: 5,239)

Air & Space

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

Approximate revenue
£180m

Maritime, Land & Weapons

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

Approximate revenue
£310m

Cyber, Information & Training

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

Approximate revenue
£120m

International

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

Approximate revenue
£80m
Financial highlights

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

Orders
£776.4m
(FY18: £587.2m)

Statutory Operating Profit
£113.8m
(FY18: £141.0m)

Statutory Earnings per Share
20.1p
(FY18: 24.4p)

Revenue
£911.1m
(FY18: £833.0m)

Underlying Operating Profit
£123.9m
(FY18: £122.5m)

Underlying Earnings per Share
19.7p
(FY18: 19.3p)

Global Products

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

QinetiQ North America

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

Approximate revenue
£90m

OptaSense

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

Approximate revenue
£30m

Space Products

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

Approximate revenue
£20m

EMEA Products

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

Approximate revenue
£90m

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

891 total employees
(FY18: 826)
**Investment case**

Creating enduring value for our customers and shareholders

---

**Unique capabilities critical to national sovereignty**

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

---

**Increasing exposure to attractive international markets**

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

---

**Group revenue (£m)**

<table>
<thead>
<tr>
<th></th>
<th>FY17</th>
<th>FY18</th>
<th>FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>783.1</td>
<td>833.0</td>
<td>911.1</td>
</tr>
<tr>
<td>International</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Key:**
- UK
- International

---

**Over 3,000 scientists and engineers globally**

**34 sites across the UK**

**16 sites under the Long Term Partnering Agreement**

**30% international revenue (FY18: 27%)**

**4 acquisitions since the launch of new strategy**

**41% revenue increase for QinetiQ Target Systems in FY19**
A clear growth strategy

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

£3.1bn*

- total order backlog
  - (FY18: £2.0bn)

£370m

- investment into the Long Term Partnering Agreement

3

- years of revenue growth

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

Strong financial profile

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

74%

- revenue cover
  - (FY18: 69%)

102%

- cash conversion
  - (FY18: 103%)

£188.5m

- of net cash
  - (FY18: £266.8m)

Increasing returns to our shareholders

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

9%

- revenue growth
  - (FY18: 6%)

2%

- underlying EPS growth
  - (FY18: 7%)

5%

- increase in full year dividend
  - (FY18: 5%)
Business model
A sustainable business model enhanced by our strategy

A sustainable business model

People and domain know-how

>3,000 scientists, engineers and technicians

>95% of our UK employees have national security clearance

Technical expertise

>1,200 granted patents

Distinctive facilities

1.1m km²

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

Our unique position in the market

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

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

Sustaining our business model

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

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

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

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

How we generate revenue

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

We operate two divisions:

- **EMEA Services** generates revenue through the provision of advice and services, particularly test and evaluation. The division is underpinned by long-term contracts providing good visibility of revenue and cash flows.

- **Global Products** delivers products and solutions supported by research and development which is often funded by customers. The division is technology-based and has shorter order cycles so can have a more variable revenue profile.

How we deliver benefits to key stakeholders

**Customers**

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

**Shareholders**

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

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

**Employees**

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

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

A clear strategy for growth

**UK**

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

**International**

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

**Innovation**

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

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

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

OUR UNIQUE INTEGRATED VALUE PROPOSITION:
Capability Generation & Assurance

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

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

We deliver to our clients:

- Capability integration
  - Systems | Systems of systems

- Threat representation
  - Live | Virtual | Cyber

- Operational readiness
  - Team | Group | Joint

Create it
Test it
Use it

OUR DISTINCTIVE OFFERINGS:
Services & Products

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

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

OUR DISRUPTIVE EDGE:
Technology

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

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

OUR INHERENT STRENGTHS

- Academic & industrial partnerships
- Domain knowledge & experience
- Science & engineering expertise

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

Understanding future needs
Formidable Shield, testing integrated defence capabilities

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

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

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

A live firing taking place during Formidable Shield ’17.
With the advancement in defence capabilities and the sophistication of the threats our customers face, our modernisation ensures we continue to provide relevant test, training and rehearsal. Our investment into the Long Term Partnering Agreement (LTPA) will ensure we can support future UK programmes such as the Dreadnought submarine.

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

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

Our business model in action

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

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

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

Working across the capability lifecycle

Generating and assuring the capability of UK combat aircraft

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

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

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

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

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

Feedback from customers allows us to understand their future needs

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

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

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

GENERATION AFTER NEXT
Tempest
The Future Combat Air System, a stealth fighter that will replace current aircraft in 15-20 years, is in development and we are playing an essential role. Our knowledge and expertise supports our customer to understand and define the requirements for this cutting edge future aircraft so it is fit for purpose.
Our business model in action
Across the generation of these capabilities, we are helping to maintain, upgrade or bring new capabilities into service

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

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

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

---

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

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

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

International growth

Applying our business model in new markets

>£8bn addressable market

30% of revenue now from international customers

50% ambition to grow international revenue to 50%

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

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

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

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

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

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

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

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

4. INTEGRATED CAPABILITY GENERATION & ASSURANCE
   Provide a fully integrated offer
   Co-investing with our customer to create enhanced in-country capabilities positions QinetiQ as a long-term, fully integrated capability generation and assurance partner.
Our business model in action

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

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

- **Operational readiness**
  - Understanding the systems our customer uses, and an ability to cost-effectively emulate the threats they must respond to, are key aspects of creating operational readiness.
Chairman’s statement
A year of significant milestones

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

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

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

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

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

* Includes LTPA amendment signed post year end on 5 April 2019.
As a Board, we continue to invest time in ensuring we understand the evolving nature of the markets in which we operate so we are better able to provide the right constructive challenge to our management team. During the course of the year, we have undertaken a number of ‘deep dives’ into different aspects of the Company and its strategy. Each October, we spend two days working with the executive team on the integrated strategic business plan. This allows us to constantly evaluate our progress and refine aspects of the strategy. We have also engaged with other stakeholders, including customers, providing us with the holistic view needed to make better decisions. Overall, this supports our understanding of the strategic risks we face and how better to mitigate and manage them, a key part of ensuring good governance.

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

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

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

Mark Elliott
Non-executive Chairman
23 May 2019

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

A clear and disciplined approach to capital allocation

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

2. Balance sheet
   Maintaining the necessary level of balance sheet strength

3. Dividend
   Maintaining our progressive dividend in line with policy

4. Shareholder distributions
   Returning excess cash to shareholders
Our strategy is delivering – third year of growth

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

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

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

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

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

We are applying the same approach in markets outside of the UK to deliver our ambition of 50% of revenues from international customers.
In the US, we won two robotic programs of record: the Common Robotic System-Individual (CRS-I) program for small robots worth up to $164m over seven years, and a $12m order as part of the Route Clearance and Interrogation System (RCIS) program for route clearance vehicles which is worth up to $44m. This positions us well for future growth in an attractive and dynamic market. Our focus on strategic business winning will deliver greater stability in the performance of our Global Products division, through expansion of the product portfolio and larger, longer-term programmes.

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

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

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

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

**Outlook – FY20**

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

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

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

**Outlook – longer term**

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

Steve Wadey
Chief Executive Officer
23 May 2019
Q&A
Answers to some of our investors’ most frequently asked questions

Where are the growth opportunities within QinetiQ?

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

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

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

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

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

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

Q What is the culture like at QinetiQ?

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

Three key themes in our markets

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

Key themes

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

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

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

Increasing complexity

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

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

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

How we are responding

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

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

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

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

How we are responding

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

Value for money

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

How we are responding

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

A key market theme is the need for effective partnership to rapidly convert emerging technologies into assured deployable capability.”
Our addressable market
By focusing on our core offerings and target markets, we have an addressable market of over £8bn per annum. Growth in QinetiQ comes from increasing our share in existing markets and leveraging our strengths into attractive adjacent ones.

>£8bn
per annum
addressable market

Key
● Current market share ● Future market potential

Services and products
(Defence, security and critical infrastructure)

<table>
<thead>
<tr>
<th></th>
<th>Size</th>
<th>Growth</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK training</td>
<td>£1bn pa</td>
<td>+1% CAGR</td>
<td>~5% (£60m)</td>
</tr>
<tr>
<td>International training</td>
<td>£6bn pa</td>
<td>+4% CAGR</td>
<td>&lt;1% (£40m)</td>
</tr>
</tbody>
</table>

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

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

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

While the UK’s exit from the European Union could create short-term fiscal pressure for the Government, it is likely that the current geopolitical environment and the UK’s commitment to NATO will offer support to overall defence spending.
US
With a military budget of US$725bn in 2019, the US defence budget continues to dwarf that of other nations and is more than the next ten largest military budgets combined. In addition, continued trade tension between the US and China, a more assertive Russia and a deteriorating environment in the Middle East, supported by a strong US economy, could drive further growth in US defence spending.

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

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

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

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

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

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

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

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

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

Strategy

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

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

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

**Highlights in FY19**

**Modernising UK MOD capabilities to meet future needs**
- LTPA negotiations concluded in April 2019, securing revenue and investment until 2028
- Delivered new aircraft and syllabus for test aircrew training

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

**Major competitive campaign wins**
- Won two robotics “programs of record” in the US
- Won Engineering Delivery Partner for UK Defence Equipment & Support
- Won Battlefield & Tactical Communication Information Systems (BATCIS)

**Transformation programme**
To put in place the key changes we needed to deliver growth.
Strategy

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

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

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

UK Defence Test & Evaluation

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

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

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

www.QinetiQ.com/investors/investor-seminars

Highlights included:

- Agreeing, shortly after year end, a second amendment to the LTPA which secures £1.3bn of revenue until 2028 and allows us to invest £190m in modernising its capabilities. This transforms QinetiQ’s ability to enable the delivery of the MOD’s future programmes, such as the Queen Elizabeth Class aircraft carrier, Dreadnought submarine and future combat aircraft. Securing this amendment delivers significant benefits:
  - For our customers, it future-proofs our ability to help create and assure the next generation of defence capabilities, more efficiently and cost effectively;
  - For our people, it provides exciting career opportunities by introducing new ways of working and ensuring we continue to work on some of the most challenging issues our customers face; and
  - For our shareholders, it secures nine years of revenue and delivers appropriate returns which we can enhance further by delivering efficiencies, growing our UK market share, increasing the work we do with large defence prime contractors and attracting more international customers.
  - Successfully delivering our new fleet of aircraft and syllabus for test aircrew training. The enhanced facilities, which were part of our investment under the December 2016 LTPA amendment, are attracting international customers from Australia, the Netherlands, Switzerland and Singapore as well as the first students for the civil course.
  - The modern fleet of aircraft is significantly more cost effective to run and is civil, rather than military-certified, broadening their customer scope. With their modern “glass cockpits” that are representative of aircraft in customers’ fleets, they provide highly relevant training to students.
  - Investment in our air ranges is driving growth by supporting more complex and realistic exercises with increasing levels of threats. The US Navy has committed to running its large NATO ballistic missile training exercise, known as Formidable Shield, on a bi-annual basis at the Hebrides range we operate for the MOD. These exercises also demonstrate QinetiQ’s expertise to the other nations participating, and have led to subsequent work with the Canadian and Polish navies.

Focus for FY20

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

Rattler, our new supersonic target ready for launch during live trials.
We won our largest ever export sales order, a C$51m (c.£30m) QinetiQ North America delivered a strong performance in FY19 and We have established three joint ventures in countries in the Middle Our ground-breaking Solar Electric Propulsion System, developed Mature our sales pipeline in the Middle East and Asia. Our Australian business delivered record breaking orders of over Grow our recently acquired business in Germany by expanding our Focus for FY20: Further expand our presence in the Canadian market, building on the work that we are delivering to our customers in Ottawa and the unmanned aircraft services that we are delivering from Medicine Hat, Alberta. Grow our recently acquired business in Germany by expanding our current aerial training and aircraft modification services. Mature our sales pipeline in the Middle East and Asia.

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

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

Focus for FY20:
- Learning from the successes and losses in FY19, we are maturing our approach to delivering commercial innovation through our business winning activities in three areas:
  - Foundation sales, which are shorter-term opportunities that are normally won and delivered in year
  - Strategic captures, which are medium-term opportunities that are specific and competitive in nature
  - Global campaigns, where we are evolving our campaign-based approach to create and pursue longer-term opportunities globally

Ruth Vaughan, a QinetiQ Systems Engineer is debriefed by users on the effectiveness of a drone during the Army Warfighting Experiment 2018.
Engineering Delivery Partner (EDP)
An example of our commercial innovation was the signing in early October of the Engineering Delivery Partner Agreement covering the provision of all engineering services to DE&S, the UK MOD’s procurement and support agency.

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

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

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

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

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

Customer satisfaction
(Net Promoter Score)

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>50</td>
</tr>
<tr>
<td>2018</td>
<td>63</td>
</tr>
<tr>
<td>2017</td>
<td>45</td>
</tr>
</tbody>
</table>

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

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

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

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

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

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

Health and safety
(LTI)

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>4.4</td>
</tr>
<tr>
<td>2018</td>
<td>4.0</td>
</tr>
<tr>
<td>2017</td>
<td>5.7</td>
</tr>
</tbody>
</table>

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

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

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

Link to strategy
The safety, health and wellbeing of our people are intrinsically linked to our strategic success.
Apprentices and graduates (%)  

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>4.0%</td>
</tr>
<tr>
<td>2018</td>
<td>4.8%</td>
</tr>
<tr>
<td>2017</td>
<td>4.9%</td>
</tr>
</tbody>
</table>

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

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

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

Voluntary employee turnover (%)  

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>11.5%</td>
</tr>
<tr>
<td>2018</td>
<td>10.0%</td>
</tr>
<tr>
<td>2017</td>
<td>9.0%</td>
</tr>
</tbody>
</table>

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

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

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

Employee engagement (Score out of 10)  

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>6.3</td>
</tr>
<tr>
<td>2018</td>
<td>n/a</td>
</tr>
<tr>
<td>2017</td>
<td>n/a</td>
</tr>
</tbody>
</table>

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

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

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

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

Employee engagement is a metric used for the Bonus Banking Plan.
## Orders (£m)

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>776.4</td>
</tr>
<tr>
<td>2018</td>
<td>587.2</td>
</tr>
<tr>
<td>2017</td>
<td>675.3</td>
</tr>
</tbody>
</table>

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

**Rationale**
This provides a measure of the Group’s ability to sustain and grow QinetiQ.

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

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

## International revenue (£m)

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>273.7</td>
</tr>
<tr>
<td>2018</td>
<td>226.0</td>
</tr>
<tr>
<td>2017</td>
<td>175.7</td>
</tr>
</tbody>
</table>

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

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

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

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

## Organic revenue growth (%) (FY18: 3%) 

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>8</td>
</tr>
<tr>
<td>2018</td>
<td>3</td>
</tr>
<tr>
<td>2017</td>
<td>1</td>
</tr>
</tbody>
</table>

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

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

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

**Link to strategy**
Organic revenue growth is an important measure of progress of the implementation of our strategy, the objective of which is to deliver sustainable growth.
Underlying operating profit* (£m)  

<table>
<thead>
<tr>
<th>Year</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>123.9</td>
<td>122.5</td>
<td>116.3</td>
</tr>
</tbody>
</table>

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

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

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

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

Underlying earnings per share (EPS)* (p)  

<table>
<thead>
<tr>
<th>Year</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>19.7</td>
<td>19.3</td>
<td>18.1</td>
</tr>
</tbody>
</table>

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

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

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

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

Underlying net cash flow from operations* (£m)  

<table>
<thead>
<tr>
<th>Year</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>126.3</td>
<td>126.5</td>
<td>111.9</td>
</tr>
</tbody>
</table>

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

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

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

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

---

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

**How we protect our business**

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

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

**Risk management and assurance activity**

**Three lines of defence model**

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

<table>
<thead>
<tr>
<th>Board</th>
<th>Responsible for effective risk management across the QinetiQ Group. Sets risk appetite and assesses principal risks</th>
</tr>
</thead>
</table>
| Audit Committee/Risk & CSR Committee | - Receive reports from the assurance functions  
- Risk deep dives  
- The Audit Committee focuses primarily on risks with financial impacts  
- The Risk & CSR Committee focuses primarily on risks with non-financial impacts |
| Executive Committee | Identifies and monitors the principal risks, as well as the material risks (including operational) reported from the businesses and Group functions |
| 1st line of defence | Risk owners:  
- Managers identify and evaluate risks  
- Design and operation of internal controls to mitigate risks  
- Application of delegated authorities, policies, procedures and codes of practice |
| 2nd line of defence | Enterprise risk management:  
- Risk Management and other oversight functions with limited independence  
- Design and facilitate the risk management processes across the Group, provide risk expertise and support to the businesses and functions  
- Report to the Board and the Executive Committee |
| 3rd line of defence | Independent risk assurance:  
- Internal Audit and independent assurance providers  
- Review and evaluate risk management activity and provide assurance of the effectiveness of the control environment to manage risks  
- Manage the external confidential reporting process  
- Report to the Board and the Executive Committee |

**QinetiQ risk appetite**

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

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

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

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

### Commercial

<table>
<thead>
<tr>
<th>Cautious</th>
<th>Balanced</th>
<th>Eager</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opportunities relating to increased market share where we have proven delivery into existing markets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opportunities that translate proven delivery into new markets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opportunities that translate new capability or delivery into existing customers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opportunities that involve new capability or delivery into new markets</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Operational

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

### Strategic risks

#### UK defence test and evaluation strategy

**Risk**

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

**Impact**

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

**Mitigation**

- Our strategy is focused on leading and modernising UK test and evaluation in support of our customers’ objectives.
- Proactive engagement with our major customers enables us to support their objectives.
- Our investments into contracts enhance our offerings that support our customers with their efficiency challenges as well as ensuring that we provide the right services as the threat environment continues to evolve. We are delivering new types of evaluation and increasingly moving towards modelling and synthetics.
- We continue to grow our access to international growth from test and evaluation and post Brexit will maintain relationships with the UK Government to support bilateral relationships within Europe.

#### International strategy

**Risk**

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

**Impact**

- Unable to realise expected growth in the planned timeframes.

**Mitigation**

- Our international strategy is focused on the markets we feel we have the best routes to access with the most appropriate products or services.
- Adopting a focused approach ensures we can closely monitor our progress, adapting and responding as necessary.
- We undertake extensive due diligence, taking the appropriate professional advice to ensure structural, regulatory, legal and political risks are understood and minimised.
- We partner with or acquire, where appropriate, quality local businesses to leverage their infrastructure and de-risk local market access.

### Key

#### Proximity

- **0-1 years**
- **1-2 years**
- **2+ years**

#### Velocity

- **Low**
- **Medium**
- **High**

### Metrics

- **Customer satisfaction**
- **All financial KPIs**

### Responsibility

- **Group Director Business Development**

### Risk appetite

- **Eager**

### Likelihood/Impact

- **Medium/High**

### Proximity/Velocity
### Principal risks continued

#### Strategic risks

**Innovation strategy**

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

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

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

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

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

**Metrics**
- Customer satisfaction
- Employee engagement

**Responsibility**
Group Director Business Development
Group Director Strategy & Planning

**Risk appetite**
Balanced

**Likelihood/Impact**
Medium/High

**Proximity/Velocit**

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

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

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

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

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

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

**Metrics**
- All financial KPIs except orders
- Customer satisfaction

**Responsibility**
Group Director Business Development
Managing Director Maritime, Land & Weapons

**Risk appetite**
Balanced

**Likelihood/Impact**
Medium/Low

**Proximity/Velocit**

**Single source contract regulations**

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

**Impact**
The regulations could have an impact on the Group’s financial performance.

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

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

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

**Metrics**
- Customer satisfaction
- All financial KPIs

**Responsibility**
Chief Financial Officer

**Risk appetite**
Cautious

**Likelihood/Impact**
High/Medium

**Proximity/Velocit**

---

**Page 24**
Strategic progress – Innovation
Operational risks

Recruitment and retention

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

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

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

- Attraction through diverse and inclusive campaigns to ensure we meet the changing needs of the business but reflect the talent pools we hire from.
- Ensuring we have access to talent now and in the future such as STEM outreach and Early Careers development.
- Supporting our people to recognise, develop and fulfil their potential via the QinetiQ Talent approach, career frameworks, Academy & Training.

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

Responsibility
Group Director Human Resources

Risk appetite
Balanced

Likelihood/Impact
Low/Medium

Proximity/Velocity

Significant breach of relevant laws and regulations

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

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

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

- In addition to our robust policy, procedures and mandatory training, the QinetiQ Code of Conduct defines clear expectations for the Group and its employees.
- Key areas of focus include the following:
  - Safety of product and services, health, safety & environment, international trade controls and bribery and ethics, where the company adopts a zero tolerance approach to bribery and corruption.

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

Responsibility
Company Secretary/Group General Counsel

Risk appetite
Balanced

Likelihood/Impact
Medium/High

Proximity/Velocity

Security and IT systems

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

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

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

- Information systems are designed with consideration to single points of failure and comply with relevant accreditation standards.
- Mandatory security awareness training for all employees.
- Continuously reviewing the threats and adapting our security strategy and mitigations accordingly.

Metrics
- Cyber dashboard
- Security dashboard

Responsibility
Chief Financial Officer

Risk appetite
Cautious

Likelihood/Impact
Medium/High

Proximity/Velocity

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

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

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

Focusing heavily on robust but proportionate project and programme risk management, our approach ensures right first time requirements, lean delivery using standardised outputs and a proprietary output acceptance, performance and contract system. Building on this success, this approach is now being implemented on the Engineering Delivery Partner (EDP) programme to bring together previously disparate tasks into a manageable delivery service. Our implementation plan is building an effective partnership supported by our joint risk management approach with the MOD, our top-tier partners, Atkins and BMT, and our provider network of 122 engineering specialist companies. This ensures the full breadth of capability and capacity to deliver is available to MOD, minimising the supply chain risk exposure, increasing delivery standards and achieving cost efficiencies.
Assessing the prospects of the Group
The Group’s corporate planning processes involve the following individual processes covering differing time frames:
1. An annual Integrated Strategic Business Plan (ISBP) process that looks at the financial outlook for the following five years. This process commences with an assessment of the orders pipeline producing an order intake scenario. A review of the phased delivery profile and the cost base required to support this enables generation of base-case, high-case and low-case profit forecasts. Capex and working capital requirements are also collected, reviewed, approved and a cash flow produced for the plan period;
2. An annual budget process that covers the first year of the five-year planning horizon in detail;
3. A bi-annual forecast process to update the view of the first budget year (the year which would be in progress);
4. A rolling monthly ‘latest best estimate’ process to assess significant changes to the budget/forecast for the year in progress.

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

The scenarios are designed to be severe but plausible, and take full account of the availability and likely effectiveness of the mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks, and that realistically would be open to them in the circumstances. In considering the likely effectiveness of such actions, the conclusions of the Board’s regular monitoring and review of risk and internal control systems, as discussed on page 64 to 65, is taken into account.

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

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

The period over which we confirm longer-term viability
The period over which the Directors consider it possible to form a reasonable expectation as to the Group’s longer-term viability is the five-year period to 31 March 2024. This is the period covered by our strategic planning process and is subject to stress-testing and scenario planning around potential risks. It has been selected because it presents the Board and readers of the Annual Report with a reasonable degree of confidence whilst still providing an appropriate longer-term outlook.

Confirmation of longer-term viability
As noted on page 95, the Directors confirm that their assessment of the principal risks facing the Group was robust. Based upon the robust assessment of the principal risks facing the Group and their stress-testing based assessment of the Group’s prospects, all of which are described in this statement, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 March 2024.

Going concern statement

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

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

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

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

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

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

Safety metrics

<table>
<thead>
<tr>
<th></th>
<th>FY19</th>
<th>FY18</th>
<th>FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lost time incident (LTI) rate(^1)</td>
<td>4.4</td>
<td>4.0</td>
<td>5.7</td>
</tr>
</tbody>
</table>

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

We have introduced a new wellbeing framework as part of Safe for Life, and our goal is to help all of our people reach their potential by enabling them to have a healthy physical and mental balance at work. Whilst we provide access to services, information and training, we also ran campaigns on mental health and ‘wellbeing breakfasts’, to signpost the importance of good mental and physical health and the support available. We recently appointed 65 mental health first aiders and to find out about the support and tools available through QinetiQ as well as local services. 18 sites participated with 1,192 attendees and we had really positive feedback.

Creating our high performance culture
We are committed to developing the right environment where all our people can perform at their best and feel motivated, recognised and proud of what they do. Our performance culture enables all of our people to do the right thing, deliver on commitments and be inspired to deliver innovative solutions, contributing to overall Company performance, with personal accountability. In FY19, using feedback from our people and building on our values of integrity, collaboration and performance, we developed new cultural behaviours: listen, focus and keep my promises, to support customer focus and high performing teams. The behaviours have been embedded via culture workshops, in our leadership and management development programmes, corporate on-boarding and in all communications activity. Our values and cultural behaviours underpin who we are and how we do things in QinetiQ.

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

Feedback from Employee Roadshows

<table>
<thead>
<tr>
<th>%</th>
<th>Apr-16</th>
<th>Apr-17</th>
<th>Apr-18</th>
<th>Oct-16</th>
<th>Oct-17</th>
<th>Oct-18</th>
<th>Apr-19</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>10</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>20</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>30</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>40</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>50</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>60</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>70</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>80</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>90</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>100</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Key
• I enjoyed the roadshow presentation
• As a result of the roadshow I understand our future direction
• I am confident about the future
• I understand how I can contribute to our success

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

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

Where to find more information
Page 28
Non-financial KPIs
Page 35
Principal risks and uncertainties: recruitment and retention
www.QinetiQ.com/about-us/corporate-responsibility
increase engagement and Peakon will give us feedback in real time to target areas to improve. We also monitor voluntary employee turnover and, in the 12 months to March 2019, this figure stood at 11.5% (compared with 10.0% in FY18).

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

Creating a diverse and inclusive environment for innovation

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

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

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

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

<table>
<thead>
<tr>
<th>Gender</th>
<th>Female</th>
<th>Male</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board Directors¹</td>
<td>2 (20%)</td>
<td>8 (80%)</td>
</tr>
<tr>
<td>Senior managers²</td>
<td>52 (17%)</td>
<td>248 (83%)</td>
</tr>
<tr>
<td>All employees³</td>
<td>1,207 (21%)</td>
<td>4,552 (79%)</td>
</tr>
</tbody>
</table>

¹ For more information on Board diversity see page 73.
² Excluding senior managers who are also Board Directors (CEO and CFO).
³ Up from 15% in FY18.
⁴ Excluding senior managers.

Developing our people: learning and talent management

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

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

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

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

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

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

<table>
<thead>
<tr>
<th></th>
<th>FY19</th>
<th>FY18</th>
<th>FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apprentices</td>
<td>101</td>
<td>129</td>
<td>146</td>
</tr>
<tr>
<td>Graduates</td>
<td>90</td>
<td>109</td>
<td>106</td>
</tr>
<tr>
<td>Sponsored students</td>
<td>8</td>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td>% UK workforce</td>
<td>4.0%</td>
<td>4.8%</td>
<td>4.9%</td>
</tr>
</tbody>
</table>

1 Early careers apprentices only.

Rewarding and recognising our people

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

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

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

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

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

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

Strategy, materiality and governance
Our corporate responsibility and sustainability strategy reflects the material issues for our business – defined by our overall business strategy and taking into account stakeholder priorities and best practice.

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

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

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

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

We strive to create an environment in which our people feel included and confident to ‘speak up’ and so provide a number of routes for them to seek help or raise concerns. They are encouraged to talk to a manager, use our ethics email advice services and our independently run, 24/7 confidential reporting line. We have provided help and advice in response to all queries received via our ethics email advice services and all communication through the confidential reporting line is appropriately investigated (page 71). We provide guidance for managers on their role in creating an open and inclusive environment where our people feel confident to raise concerns, and how to listen to and support anyone who may come to them with an issue.

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

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

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

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

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

As the costs of raw materials and waste disposal rise, adopting best practice in waste management makes good business sense and meets stakeholder expectations. A review of waste management across QinetiQ Group was undertaken to inform a new environmental corporate target which aligns with our strategy: to achieve a year on year increase in the annual proportion (%) of waste re-used and recycled from FY18-20. Due to the variety of our operations, infrastructure, facilities and geographical...
locations, there is no single solution to meet this target. To address this, we have implemented Waste Management Action Plans at our significant waste producing sites which account for 95% of waste produced. The new target was achieved with 81.6% of underlying waste reused or recycled, a small increase (0.3%) compared to the previous year.

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

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

Sustainable solutions

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

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

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

Greenhouse gas emissions and energy management

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

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

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

<table>
<thead>
<tr>
<th></th>
<th>FY19¹</th>
<th>FY18 (Restated)</th>
<th>FY18 (Previously Reported)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Scope 1 Emissions (tCO₂e) from fuel combustion and operation of facilities</td>
<td>20,096</td>
<td>19,776</td>
<td>24,651</td>
</tr>
<tr>
<td>Total Scope 2 Emissions (tCO₂e) from purchased electricity</td>
<td>20,977</td>
<td>22,666</td>
<td>25,678</td>
</tr>
<tr>
<td>Total Scope 1 &amp; 2 Emissions (tCO₂e)</td>
<td>41,073</td>
<td>42,441</td>
<td>50,329</td>
</tr>
<tr>
<td>Intensity ratio (tCO₂e per £m of revenue)</td>
<td>.45</td>
<td>51</td>
<td>60</td>
</tr>
</tbody>
</table>

¹ FY19 data is subject to the new assurance process.

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

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

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

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

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

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

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

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

<table>
<thead>
<tr>
<th></th>
<th>2019 £m</th>
<th>2018 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Orders excluding LTPA amendments¹</td>
<td>534.6</td>
<td>355.9</td>
</tr>
<tr>
<td>Revenue</td>
<td>687.7</td>
<td>651.4</td>
</tr>
<tr>
<td>Underlying operating profit</td>
<td>96.3</td>
<td>94.3</td>
</tr>
<tr>
<td>Underlying operating margin</td>
<td>14.0%</td>
<td>14.5%</td>
</tr>
<tr>
<td>Book to bill ratio²</td>
<td>1.2x</td>
<td>0.8x</td>
</tr>
<tr>
<td>Funded order backlog</td>
<td>784.2</td>
<td>709.6</td>
</tr>
<tr>
<td>Total funded order backlog³</td>
<td>2,916.8</td>
<td>1,804.9</td>
</tr>
</tbody>
</table>

¹ Includes share of orders from joint ventures.
² B2B ratio is orders won divided by revenue recognised, excluding the LTPA.
³ 2019 includes LTPA amendment signed 5th April 2019.

### Overview

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

### Financial performance

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

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

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

### Underlying operating profit

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

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

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

### FY19 review

**Air & Space (26% of EMEA Services revenue)**

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

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

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

David Smith, Chief Financial Officer
In April 2019 we signed an amendment to the LTPA securing £1.3bn of revenue and saving taxpayers £85m, read more on page 25.

Several high value trials were delivered including ‘Information Warrior’, a three-week exercise with the Royal Navy exploring the adoption of emerging technologies to secure information advantage at sea.

We experienced strong demand from international customers. For example, in Australia we deployed our autonomous systems command, control and communication capabilities in support of a significant military exercise.

We continue to work closely with the Royal Navy to develop their approach to Carrier Task Group operations. Supporting the Royal Navy in developing this strategic capability should deepen our relationship with a key customer and lead to further potential opportunities.

Cyber, Information & Training (CIT) (18% of EMEA Services revenue)
The CIT business helps government and commercial customers respond to fast-evolving threats based on its expertise in training, secure communication networks and devices, intelligence gathering and surveillance sensors, and cyber security.

We are repositioning our CIT business to be a ‘Mission Assurance Partner’ to key strategic clients in the defence and security markets. This should result in a change in the revenue profile of the business unit from short-term contracts to multi-year service and product revenue streams, increasing visibility and supporting growth.

In line with this approach, in July 2018 we won a contract to support the UK Ministry of Defence in delivering next generation battlefield tactical communications and information systems (BATCIS) worth up to £95m, highlighting our progress in moving to multi-year service contracts. This win reflects our extensive technical capabilities and approach to delivering real innovation for customers.

We were awarded a £10m contract to provide support to key combat aircraft mission data systems in one of our target markets in the Middle East.

We completed our strategic investment into Inzpire, a leading provider of operational training, in November 2018. Inzpire is pursuing multiple opportunities in areas such as mission data and aircrew training.

We opened a new office in Lincoln to act as a hub for our CIT business in support of the work we do with the UK’s Royal Air Force in mission data and training. The hub will support our further growth in this critical area and our strategic investment into Inzpire.

Maritime, Land & Weapons (45% of EMEA Services revenue)
The Maritime, Land & Weapons business delivers operational advantage to customers by providing independent research, test, evaluation and training services.

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

International (11% of EMEA Services revenue)
Our International business leverages our expertise and skills developed in the UK, and applies them to opportunities in attractive markets globally. Revenue derived from outside of the UK is reported in many of our businesses, and are not exclusive to our International business.

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

In the Middle East we now operate three joint ventures, and are seeing encouraging opportunities in the region. We anticipate that in FY20 the investments in these joint ventures will start to deliver increased contract wins, development of indigenous capability and product sales, but recognise that geopolitical issues remain a risk.

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

<table>
<thead>
<tr>
<th></th>
<th>2019 £m</th>
<th>2018 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Orders</td>
<td>241.8</td>
<td>231.3</td>
</tr>
<tr>
<td>Revenue</td>
<td>223.4</td>
<td>181.6</td>
</tr>
<tr>
<td>Underlying operating profit</td>
<td>27.6</td>
<td>28.2</td>
</tr>
<tr>
<td>Underlying operating margin</td>
<td>12.4%</td>
<td>15.5%</td>
</tr>
<tr>
<td>Book to bill ratio</td>
<td>1.1x</td>
<td>1.3x</td>
</tr>
<tr>
<td>Funded backlog</td>
<td>216.8</td>
<td>200.5</td>
</tr>
</tbody>
</table>

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

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

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

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

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

5% Increase in orders
22% Organic revenue growth
60% of FY20 revenue under contract (FY18: 51%)
2% Decrease in operating profit

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

David Smith, Chief Financial Officer
Space Products (11% of Global Products revenue)
QinetiQ’s Space Products business provides satellites, payload instruments, sub-systems and ground station services.

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

EMEA Products (39% of Global Products revenue)
EMEA Products provides research services and bespoke technological solutions developed from intellectual property spun out from EMEA Services. It also includes various product-based acquired businesses including QinetiQ Target Systems (QTS).

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

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

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

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

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

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

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

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

Organic increase in orders

28%

Total backlog*

£3.1bn

FY18: £2.0bn

*= Includes LTPA amendment signed post year end.

Definitions of the Group’s ‘alternative performance measures’ can be found in the glossary on page 159.
Underlying operating profit was up 1% at £123.9m (2018: £122.5m), assisted by ~£7m (2018: ~£9m) non-recurring trading items including: a £6.9m gain on sale of aircraft following investment in a new fleet of aircraft for test aircrew training; a £5.4m benefit related to project risk re-assessments following technical successes on a major contract in the EMEA Services division; and a £5.0m charge relating to redundancy costs. During the year we completed the full acquisition of QinetiQ Germany and a strategic investment in Inzpire which together contributed £1.3m of operating profit in the five months of our ownership, as we increased investment to support future growth. Excluding the non-recurring trading items, the QinetiQ Germany acquisition and strategic investment into Inzpire, and the effect of foreign exchange, underlying operating profit for the Group increased by £3m (3%).

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

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

Underlying profit before tax increased 2% to £124.0m (2018: £122.1m), broadly in line with the increase in underlying operating profit, with underlying net finance income at £0.1m (2018: cost £0.4m). Total profit before tax fell to £123.2m (2018: £144.8m) due to higher specific adjusting items in FY18.

### Specific adjusting items

Specific adjusting items, shown in the ‘middle column’, at the profit after tax level amounted to a total net profit of £2.4m (2018: £2.9m). This included £3.9m (2018: £2.6m) amortisation of acquired intangible assets, £3.7m impairment of property and £2.0m acquisition costs, offset by £8.2m (2018: £4.2m) finance income related to the defined benefit pension asset and £3.2m (2018: £6.4m) of tax movements (see below). FY18 contained a significantly higher value of specific adjusting items due to a profit of £14.6m (2019: £0.2m) recognised on the disposal of property and a £5.9m gain (2019: £nil) on the sale of intellectual property.

### Net finance costs

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

### Tax

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

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

At 31 March 2019 the Group had unused tax losses and surplus interest costs of £114.9m which are available for offset against future taxable profits.
Cash flow, working capital, capex and net cash

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

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

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

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

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

Capital allocation

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

Earnings per share

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

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

Dividend

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

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

Pensions

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

Cash conversion (pre-capex)

102%

Operating cash flow

£126.3m

FY18: £126.5m
The Scheme is in a very healthy position with the most recently completed actuarial valuation (prior to the buy-in) showing a surplus of £139.7m (as at 30 June 2017) and the net asset position, post the buy-in transaction, was £259.1m on an accounting basis under IAS 19 as at 31 March 2019 (2018: £316.2m). As at year end the Scheme was hedged against approximately 93% of the interest rate risk and 100% of the inflation rate risk, as measured on the Trustees’ gilt-funded basis. Full details are set out in note 29.

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

**Implementation of IFRS 15 ‘Revenue from contracts with customers’**

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

**Implementation of IFRS 9 ‘Financial instruments’**

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

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

**Implementation of IFRS 16 ‘Leases’**

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

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

David Smith
Chief Financial Officer
23 May 2019