QinetiQ Group plc
Annual Report & Accounts 2021


# Accelerating global ambition

# Our purpose

QinetiQ is dedicated to protecting lives, defending sovereign capability and securing the vital interests of our customers.

# Who we are

We are a leading science and engineering company operating primarily in the defence and security markets. We are an information, knowledge and technology based company with the breadth and depth of more than 6,500 highly dedicated employees.

# What we do

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

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

* Throughout this report FY21/2021 refers to QinetiQ's financial year ended 31 March 2021.

** The report also refers to "Underlying" measures of performance. Definitions of the Group's alternative performance measures can be found on page 183.

See more online at **www.QinetiQ.com**

# How we have performed

## Financial highlights

A strong financial performance, delivering our fifth consecutive year of revenue growth

| | |
|---|---|
| 2021 | £1,151.0m |
| 2020 | £972.1m |
| 2019 | £776.4m |

Orders

£1,151.0m

(FY20: £972.1m)

| | |
|---|---|
| 2021 | £1,278.2m |
| 2020 | £1,072.9m |
| 2019 | £911.1m |

Revenue

£1,278.2m

(FY20: £1,072.9m)

| | |
|---|---|
| 2021 | £151.8m |
| 2020 | £133.2m |
| 2019 | £124.9m |

Underlying operating profit

£151.8m

(FY20: £133.2m)

| | |
|---|---|
| 2021 | £112.3m |
| 2020 | £117.6m |
| 2019 | £114.8m |

Statutory operating profit

£112.3m

(FY20: £117.6m)

| | |
|---|---|
| 2021 | 22.1p |
| 2020 | 20.0p |
| 2019 | 19.7p |

Underlying earnings per share

22.1p

(FY20: 20.0p)

| | |
|---|---|
| 2021 | 21.9p |
| 2020 | 18.7p |
| 2019 | 20.1p |

Statutory earnings per share

21.9p

(FY20: 18.7p)

## Non-financial highlights

Positioning ourselves for long-term sustainable global growth

**Full operating capability on the LTPA**

After a two-year transition period, we successfully reached full operating capability on the renegotiated LTPA contract, on schedule, with positive customer feedback.

**Leveraging capabilities to drive growth**

We won a number of strategically significant contracts in the period, demonstrating our ability to leverage our global expertise to drive UK and international growth.

**Grown international revenue to 33% of Group**

Supported by strong US business growth and continued organic growth in other international markets, international revenues increased to 33% of Group revenue.

**Improved employee engagement**

We adapted our ways of working in the midst of COVID-19 and continued to listen to our people to understand what matters to them, with employee engagement increasing by 6%.

**Embedding sustainability into the business**

We introduced a new sustainability KPI as part of our drive to embed sustainability into our strategy. We also made significant progress against our greenhouse gas emissions target.

**Strategic portfolio optimisation**

We completed the disposal of three non-core businesses (OptaSense, Boldon James and Commerce Decisions) and acquired Naimuri, a highly complementary advanced data analytics business.

## Contents

# Where we operate

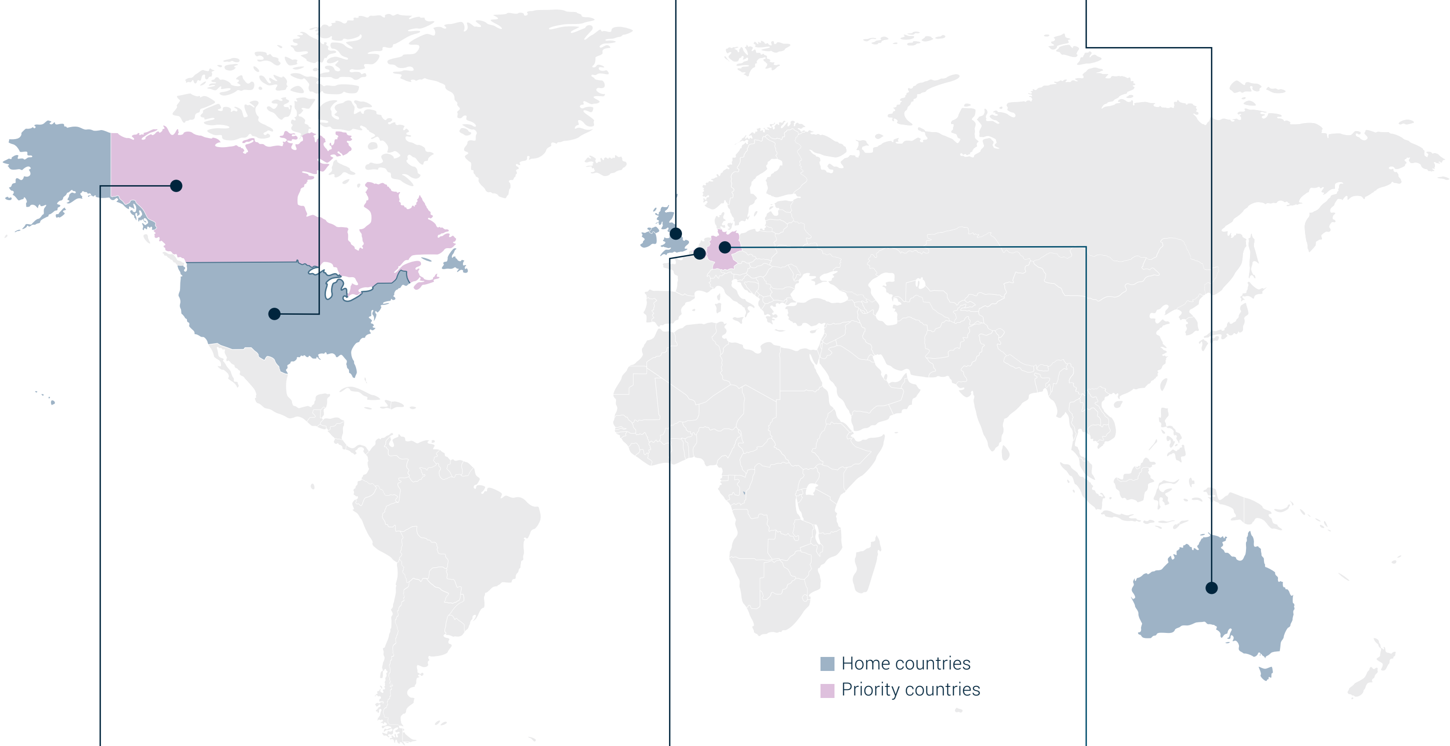
## We are a global company delivering mission-led innovation around the world

Our home countries, where we have more than 500 people in-country are the UK, US and Australia. We also have a significant in-country presence in Canada, Germany and Belgium. Many of our facilities around the world are unique assets that are critical to maintaining national defence capabilities, and are often the only place where certain trials can take place.

### US
**Sites:** 6
**Employees:** 638

### UK
**Sites:** 32
**Employees:** 5,368

### Australia
**Sites:** 5
**Employees:** 532

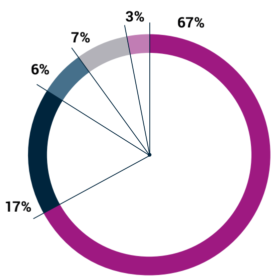



### Canada
**Sites:** 2
**Employees:** 76

### Belgium
**Sites:** 1
**Employees:** 156

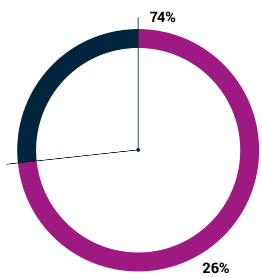
### Germany
**Sites:** 3
**Employees:** 111

### Revenue by customer location




| | |
|---|---|
| UK | £857.8m |
| US | £215.6m |
| Australia | £77.9m |
| Europe | £88.2m |
| Rest of world | £38.7m |

### Revenue by division




| | |
|---|---|
| EMEA Services | £939.9m |
| Global Products | £338.3m |

# How we are structured

## We report through two divisions; EMEA Services and Global Products

Within these two divisions our business units are aligned to customer domains or geographies.

## 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 generation.**

### Maritime & Land

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

Approximate revenue

£360m

FY20: £315m

### Air & Space

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

Approximate revenue

£225m

FY20: £200m

### Cyber & Information

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

Approximate revenue

£250m

FY20: £185m

### International

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

Approximate revenue

£105m

FY20: £100m

## Global products

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

### United States

Develops and manufactures innovative defence products specialising in robotics, autonomy and sensing solutions.

Approximate revenue

£210m

FY20: £120m

### Space Products

Develops small satellites, payload instruments, subsystems and ground station services.

Approximate revenue

£40m

FY20: £25m

### EMEA Products

Provides 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

FY20: £105m

### Our business model

See how we create value for our stakeholders in our business model on pages 10 to 11.

### Our growth strategy

Read more about our strategy to drive long-term growth for the benefit of all stakeholders on page 16.

### Our people and culture

Our success is dependent on our people and ability to foster the right culture. Learn more about our people and culture on pages 42 to 46.

# Our stakeholders

## Creating value for all of our stakeholders is critical to our long-term success


### Primary stakeholders

| Customers | Shareholders | Employees |
|---|---|---|
| Our customers are at the centre of our vision and the foundation of our success. We strive to apply our strengths to their advantage to deliver mission-led innovation, and invest time in understanding and responding to their needs. | Our shareholders' ongoing support enables us to invest in our business and execute our growth strategy for the benefit of all stakeholders. In return we aim to deliver long-term sustainable growth and attractive returns. | We are a people business and our employees are critical to our success. Their health, safety and wellbeing is vital and we are committed to providing fulfilling careers where our employees can perform meaningful and intellectually stimulating work. |

### Other stakeholders

| Suppliers | Communities | Regulators |
|---|---|---|
| We occupy a unique position in defence, working in partnership with various suppliers to deliver the best solutions for our customers. We strive to adopt a collaborative approach and ensure we treat our suppliers with integrity, taking a fair and sustainable approach. | We strive to be a good neighbour, having a positive impact on our local communities and wider society; from our outreach programme, inspiring the next generation of scientists and engineers, to providing services to ensure the safety and security of members of society. | Various aspects of our business involve oversight from regulators. We engage with regulators to understand changing regulations, ensuring we can meet these requirements. |

### Our approach to engagement:

In order to deliver responsibly and for the benefit of all stakeholders we must understand what matters to our stakeholders. To do this we engage in a variety of ways in an open and transparent manner, trying to identify common goals. In some cases the Board will engage directly with certain stakeholders, however in others the relevant delivery teams will manage this engagement. This is dependent on the stakeholder and issues considered, with engagement led by those best placed to effect any necessary change. We expect that our approach and how we engage with our stakeholders will continue evolving as we pursue further growth and geographic expansion.

→ See **Stakeholder engagement** on page 38.

→ See **Section 172 (1) statement** on page 48.

# Investor proposition

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

**Our investment case is underpinned by five key attributes:**

## Unique capabilities and relevant offerings

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

- A key partner to sovereign nations, operating critical Test and Evaluation capabilities in multiple domains
- Leading scientific and technical expertise and state of the art facilities with high barriers to entry
- Relevant offerings for emerging threats with leading expertise in cyber, information, robotics, autonomy and sensing solutions

**6,500+**
highly skilled employees

**>50**
specialised sites around the world

## Attractive financial characteristics

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

- Long-term contracts and a growing order pipeline provide a high level of revenue visibility
- A cash generative business model with the ability to self-fund organic and finance inorganic investment
- A clear capital allocation policy and strong return on capital employed

**£800m**
of FY22 revenue under contract

**28%**
return on capital employed in FY21

## Significant opportunity for international growth

We have a clear growth strategy in each of our international markets which will support us in delivering:

- Strong organic growth and targeted acquisitions in our home and priority countries
- International revenue of more than 50% of Group revenue by 2026
- Global leverage of capabilities across the Group

**>£20bn**
addressable market

**166%**
growth in international revenue over five years

## A clear strategy to deliver sustainable global growth

We have an evolved strategy and renewed ambition to deliver long-term sustainable growth, complemented with a targeted investment programme and a well-defined ESG strategy. Our strategy is focused on:

- Delivering distinctive offerings to customers which offer exceptional value
- Leveraging our global capabilities to drive growth
- Applying disruptive innovation to support our customers' mission

**£750m**
invested and committed in the last five years

**£2bn+**
revenue ambition by FY26+

## Delivering growth and shareholder returns

By focusing on our customers' needs and executing our strategy we are delivering long-term sustainable growth and strong shareholder returns:

- Fifth year of organic revenue growth, despite the impact from COVID-19
- Complemented with targeted and strategically aligned acquisitions
- Increasing returns to shareholders with a progressive dividend policy

**c.70%**
revenue growth in the last five years

**56%**
total shareholder return in five years

# Chairman's statement

*"QinetiQ has demonstrated its resillience through this last year, but we also took a number of bold steps to drive future growth."*

See our **Board of Directors** on page 58.
See our **Governance framework** on page 57.

## Our values

### Integrity

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

### Collaboration

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

### Performance

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

The last year has been like no other, with every aspect of our lives affected by the COVID-19 pandemic. While all individuals and businesses have been impacted in one way or another, QinetiQ has continued to focus on our core purpose; to protect lives, defend sovereign capability and secure the vital interests of our customers.

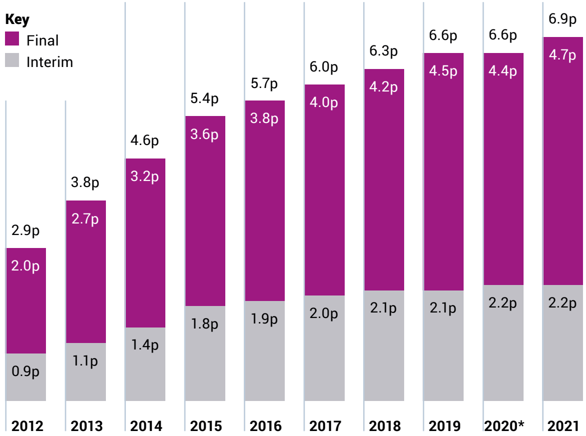
I am extremely proud of how we have delivered mission critical outputs for our customers in these uncertain times. This has been made possible by the commitment, dedication and resilience of our people. We took difficult decisions at the start of the year to preserve cash and ensure we emerged from the pandemic well positioned for future growth. These decisions were tough, but nonetheless necessary as we adapted to the initial disruption and new ways of working.

### Maintaining the health, safety and wellbeing of our people

As we navigated the challenges presented by the pandemic, our first priority was safeguarding the health, safety and wellbeing of our people. Like many organisations, we were forced to quickly adapt to home and hybrid working models. As a defence and security business there were naturally a number of activities which could not be conducted from home, and we introduced all necessary social distancing and PPE requirements to facilitate this. We placed a firm emphasis on communicating openly with our people throughout the pandemic to ensure we had a shared understanding and approach.

More generally we continued to focus on engaging with our employees through the "Global Employee Voice" network to understand the issues they face in order to improve how it feels to work at and be a part of the QinetiQ family. Encouragingly, employee engagement increased again this year by 6%, following a 10% increase in engagement in the prior year.

## Historical dividend payments




* Following the onset of COVID-19 we deferred our final FY20 dividend until the full impact was known. We subsequently paid the final FY20 dividend in November 2020.

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

As a Board we recognise the importance of delivering results in the right way. We considered our wider purpose during the year and remain focused on creating the right culture to support long-term growth for the benefit of all interested parties. From our engagement process it is apparent that sustainability is becoming increasingly important to all of our main stakeholder groups; our customers, our shareholders and our employees.

QinetiQ currently possesses strong ESG credentials and I am pleased that we are rated "AA" by MSCI and as the "Sector Leader" in Aerospace and Defence by Sustainalytics. Despite this we must not be complacent or stand still and as expectations on businesses continue to grow, we are committed to improving our ESG credentials. Sustainability issues were previously discussed at the Risk & CSR Committee meetings, however ESG has now become a topic for discussion at main Board level, not just at a sub-committee. We have been focusing on how we can further embed sustainability into our core business strategy, and introduced a new sustainability-linked performance metric as a key performance indicator for the business during the year. We are working on our net zero plan and intend to publish this in due course.

## Board changes

There were some changes to the membership of the Board during the year. Admiral Sir James Burnell-Nugent retired at the end of 2020 having served on the Board for over nine years. On behalf of us all, I want to thank James for his outstanding contribution to the Board and wider business over that period. He was replaced by General Sir Gordon Messenger who brings a wealth of military experience having served as a Royal Marine for 37 years, finally retiring as Vice-Chief of the Defence Staff. Deputy Chair, Michael Harper, who has now served on the Board for nine years will also be stepping down in due course, once a replacement for him has been agreed. James and Michael have guided the company with skill and diligence through a difficult transition to where we are now and I am sincerely grateful to both of them for their contribution. Overall I am confident we have the right mix of skills and experience on the Board to provide effective challenge and support to the business as it continues to grow.

It was with great sadness that we received the news that Ian Mason, who had served on the Board since 2014, unexpectedly passed away in April 2021. Ian will be greatly missed, not only for his strong contribution to the Board, but also as a trusted friend and colleague. Our thoughts are with Ian's family.

## Emerging with strength to deliver long-term success

We made some tough decisions at the start of the year to maintain the resilience of our business, however FY21 has been a truly encouraging year for QinetiQ. Despite difficulties and challenges in adapting to our new ways of working and in managing a global business in the current environment, our performance has been excellent. We have delivered a fifth year of growth, something made possible by the ongoing commitment and hard work of our people, who I would again, like to thank for their contribution. In this context I would particularly like to thank Steve and the Global Leadership Team for their dedication and hard work.

QinetiQ has demonstrated its resilience through this last year but we also took a number of bold steps to drive future growth; we launched an evolved strategy and renewed ambition, and we accelerated our digital investment to improve collaboration and digital solutions for our customers. I am confident that these, combined with our increased focus on sustainability and the continued resilience of our people, will support us in achieving excellent results and exceeding our stakeholders' expectations over the long-term.

**Neil Johnson**
**Non-executive Chairman**
20 May 2021

# Chief Executive Officer's review

*"Throughout this challenging year, QinetiQ has proven its commitment and focus to deliver critical defence and security capabilities for our customers."*

See **Our business model** on page 10.

See **Our growth strategy** on page 16.

Through continued and disciplined execution of our strategy we have delivered our fifth year of growth, despite the challenging market environment due to the COVID-19 pandemic. Our FY21 performance was strong, with the largest order intake in a decade growing orders by 18% (11% on an organic basis), delivering revenue growth of 19% (10% on an organic basis), growing underlying operating profit by 14% (6% on an organic basis) with underlying operating profit margins at the top end of our short-term target range at 11.9%. We also delivered a strong cash performance with 131% underlying cash conversion before capital expenditure. International revenue now represents 33% of Group revenue, grown from £158m in FY16 to £420m in FY21.

Strong organic growth was complemented by revenue and profit contribution from recently acquired businesses. This includes the advanced sensing solutions business formerly known as MTEQ, acquired in December 2019, training specialist NSC, acquired in February 2020, and Naimuri, a specialist in software development and data analytics, acquired in July 2020. This contribution was partially offset by the disposals of Boldon James, Commerce Decisions and OptaSense in the year. These transactions were all strategy-led choices to allow increased focus on our core offerings and reflect our ambition to grow the company by delivering mission-led innovation for our defence and security customers' advantage.

This year has proved to be an important further step in the maturity and development of the company, demonstrating our strength, resilience and delivering on our promises for all our stakeholders. This year we have not only navigated the challenging dynamics of COVID-19 but we have pushed forward, launching our evolved strategy, increasing the scale of our ambition and delivering a strong set of financial results. With our strategy firmly embedded and producing consistent results, we are making good progress in building a truly integrated global defence and security company.

We are committed to providing a safe environment at all Company sites for the benefit of our employees, contractors, tenants and visitors. In March 2021 there was an incident at our Pendine site in the UK, which resulted in one of our employees sustaining serious injuries. Our focus will remain on supporting our colleague and their family over the coming months and anyone across the business who has been affected by the incident. We are continuing to support the external investigations into the incident and we have launched our own, to better understand what happened and any lessons we can learn and apply so to continue to improve our safety first culture.

## Successfully mitigating the challenges of COVID-19

The COVID-19 pandemic has had a profound impact on people and our society throughout 2020. With a long-term vision-based strategy focused on anticipating and adapting to our customers' needs, a strong balance sheet and a significant order backlog, QinetiQ is well placed to continue delivering growth, as we have seen through our financial results and customer feedback this year. Our response focused on our three strategic priorities of protecting the health and wellbeing of our employees, continuing to deliver critical work for our customers and maintaining the strength of QinetiQ for the long-term.

As we entered the COVID-19 crisis, we took necessary and decisive action to maintain the strength of our company and ensure we retained the critical skills and capabilities to drive long-term growth. We implemented a series of short-term temporary actions which included salary reductions, stringent cost control, incentives paid in shares and deferral of the dividend decision. The actions taken increased the resilience of the company, allowing us to maintain a strong balance sheet, deliver for our customers and to position the company for growth as we emerged from the crisis. We adapted our ways of working to ensure we continued to deliver for our customers while ensuring we protected the health and wellbeing of our employees.

As the COVID-19 pandemic continues to evolve in all of the countries in which we operate, we continue to follow national guidelines, providing testing and equipment as appropriate to support our employees and interactions with our customers. This "new normal" is continuing to prove effective and will be a catalyst for change in our ways of working. Like all businesses, QinetiQ has been impacted by the COVID-19 pandemic, by differing amounts across the company, but we have successfully managed to offset the negative impacts through our strong, decisive and collective actions pulling together as a company to deliver a strong financial performance even in the face of this unprecedented global pandemic.

## The changing market dynamics present opportunities for the Group

As a global defence and security company we operate in six home and priority markets with a multi-domestic strategy, supporting the development and sustainment of indigenous capabilities.

As the threat environment becomes increasingly complex, enabled by rapid technological advances and our adversaries' alternative approaches to warfare, Western forces must rethink their approach to defence and security. The importance of information advantage, emerging technologies, cyber capabilities and autonomous systems is increasing significantly. In addition, the interoperability between platforms to create integrated systems and seamless co-ordination between forces and nations, to ensure a concerted approach to countering modern threats, including those that sit below the threshold of conventional warfare, is of paramount importance.

Pressure on Government resources world-wide will intensify and global Defence departments will need to balance investment in traditional platforms against investment in new technologies including data and information capability. With our domain knowledge, partnering skills and a track record of delivering mission-led innovation to create and assure capabilities with agility and at pace, whilst delivering efficiencies and savings to customers, we are well positioned to benefit from this transition. We are investing significantly in digital transformation to enhance customer solutions. While the world around us continues to change, our offerings are becoming more relevant than ever. Furthermore, in our home countries of the UK, US and Australia we are well aligned with the key areas of future increased spend, such as data analytics, robotics, autonomy and sensing – partnering alongside our customers to help solve their complex challenges.

## Evolution of the strategy to accelerate future growth

Our strategy to apply mission-led innovation for our customers' advantage has enabled us to grow in an uncertain world over the last five years. We have delivered c.70% revenue growth and c.40% operating profit growth, more than doubled our order backlog, increased our qualified order pipeline by three times to over £6bn and increased our 3 year forward revenue under contract by c.60%. We have made seven acquisitions and three disposals, invested significantly to drive organic growth and modernised the LTPA contract and relationship with the UK MOD.

In light of the changing market dynamics and our successful track record of growth, at our Interim Results we announced an evolution of our strategy to reflect our global business, our distinctive offerings, and the innovative approach we take to solving our customers' problems.

Following five years of growth we have evolved our strategy and created greater focus for our next five years of growth, building distinctive offerings to provide high-value solutions, supporting nations with a shared defence and security mission. We have redefined our addressable market from >£8bn to >£20bn per year, with increased clarity around our distinctive offerings into our target markets in the UK and Australia and specific inclusion of the RDT&E market in the US (£15bn addressable market) and reduced our Rest of World addressable market to reflect our reprioritised focus. We are targeting global expansion through careful investment decisions and execution of a multi-domestic strategy, delivering value for our customers and growing our revenues to over £2bn. The next phase of growth will have a lower capital intensity, thereby supporting a strong return on capital (ROCE) for our shareholders.

## Environmental, Social and Governance (ESG)

Our core purpose as a company is clear, and what drives us as a company and as employees is our critical role in defence and security; protecting the lives of our armed forces and the societies in which we operate, and defending sovereign capability. This core purpose is central to our organisation and at the heart of what we do.

Across the company we take our ESG responsibility seriously. Ensuring it is embedded into our operations and strategy reduces risk and creates value, something we have done for many years. While we uphold the highest ethical standards and a sensitive approach to conservation, we also support and enable our customers' ESG needs and expectations through the services and products we deliver. In FY19 we set a target to reduce our scope 1 and scope 2 greenhouse gas emissions by 25% from an FY19 baseline, by FY25 – we have exceeded this target in FY21, with a 28% reduction, earlier than targeted due to the change in working patterns through COVID-19. We will publish our plan towards Net Zero in the next year.

Our value proposition is in providing mission-led innovation for our customers to help solve their complex defence and security challenges – this value proposition helps both to support the achievement of operational outcomes and the implementation of strong ESG values, for both us and for our customers. We help our customers "Create it", for example in the development of new bomb disposal equipment, or new sensing and autonomy platforms using robotics to take our armed forces out of harm's way; we help our customers "Test it", ensuring the equipment works as it should improving safety and accuracy; and we help our customers "Use it", supporting our customers with their training needs, often in a combined live and synthetic environment reducing emissions, cost and improving safety.

Our purpose is underpinned by our commitment to operate responsibly and sustainably for the benefit of all our stakeholders, looking after the environments in which we operate, acting as a strong ethical leader in defence and helping to make society safer for us all.

**Steve Wadey**
**Chief Executive Officer**
20 May 2021

# Our business model

A sustainable business model creating value for all stakeholders

## Our fundamental strengths

### Customer focus

Our employees are inherently customer focused and adopt innovative and leading approaches to exceed our customers' expectations. This approach is underpinned by a high-performance culture where employees are engaged and empowered, supporting strong customer relationships and enabling us to act as a trusted partner' in the delivery of critical services.

### Distinctive offerings

We operate some of the most advanced Research, Development, Test & Evaluation facilities around the world. These facilities are often unique assets that are of strategic importance to national defence capabilities. By combining these facilities with the unique expertise of our people we are able to support our customers in countering current, future and emerging threats.

### Technical expertise

Many of our employees are highly skilled scientists and engineers with deep domain knowledge and know-how. Their technical expertise is critical to delivering mission-led innovation for our customers and our success is dependent on our ability to recruit, retain and engage high-calibre people.

### Collaborative approach

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

## Stakeholder value creation

### Customers

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

### Employees

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

### Suppliers

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

### Shareholders

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

**49**
our Net Promoter Score is in the category of "Good"

**6%**
increase in employee engagement

**1,000**
SMEs paid ahead of schedule during COVID-19

**11%**
increase in underlying EPS

### Financial characteristics and sustaining our business model

A large proportion of our work is delivered under long-term contracts and we typically start the year with a significant proportion of revenue under contact, providing a high level of revenue visibility. In addition our business is cash generative by nature, meaning we are able to organically invest in our capabilities and sustain our business model.

Our people are critical to our success and we are continually investing to support their career development, wellbeing and engagement. We are also investing in our facilities and digital infrastructure tools, ensuring we can continue to support our customers against the future and emerging threats they must contend with.

# Our customer value proposition

## Create it

**Developing cutting-edge technology and rapidly turning it into capability**

Utilising our research and experimentation capabilities, our test and evaluation expertise and extensive domain knowledge, we develop and apply cutting-edge technology to help our customers create a true capability. We evaluate, integrate and secure the platforms, systems, information and assets on which missions depend.

QINETIQ

## What do we do?

We deliver mission-led innovation by applying our inherent strengths to support the agile development of solutions that meet our customers' needs; helping them to create, test and use critical defence and security capabilities.

## Test it

**Assuring a capability will work when it is critically needed**

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

## Use it

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

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

**131%**
underlying cash conversion (pre-capex) in FY21

**£800m**
of FY22 revenue under contract

# Trading environment

The UK, US and Australia are our home countries and collectively represent 90% of our revenue. We also have a significant presence in our three priority countries of Canada, Germany and Belgium.

## UK

**Current revenue**

**Revenue** £858m

**Market share** <30%

**Market opportunity**

**>£3bn**
**+2–3% growth**

In March 2021, the UK published the Integrated Review, which will determine defence and security policy moving forwards. This followed the previous announcement of the allocation of an additional £24.1bn in funding over a four-year period in November 2020, the largest investment in UK defence since the Cold War period. The Integrated Review has placed science and technology at the heart of the UK's defence policy with innovation cited as critical to UK success. Over the next four years, the UK will invest over £6.6bn in research and development to develop next generation and emerging technologies in areas such as cyber, space, directed energy weapons, and advanced high-speed missiles.

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

## US

**Current revenue**

**Revenue** £216m

**Market share** <2%

**Market opportunity**

**>£15bn**
**+3% growth**

The US maintains the largest defence budget worldwide, with the FY21 budget of $741bn, more than the next ten largest countries combined. Despite the impact of COVID-19, the FY22 budget request of $753bn is broadly flat in real terms and highlights the need to counter the threat from China as the Department of Defence's top challenge. It also cited the need to deter destabilising behaviour by Russia and emphasised the need for collaboration with partners and allies to build the concepts, capabilities, and posture necessary to meet these challenges.

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

# Australia

| Current revenue | | Market opportunity |
|---|---|---|
| Revenue | £78m | >£0.5bn +3–5% growth |
| Market share | <15% | |

Tensions in the Indo-Pacific region remain heightened with the area becoming the main theatre for competition between global powers. In light of the increased possibility of conflict in the region, Australia published its Defence Strategic Update and Force Structure Plan in July 2020, placing an increased emphasis on force readiness and capability modernisation. Despite the economic impact of COVID-19, the Defence Strategic Update stated that defence spending would rise to AUD 74bn by 2029-30, from AUD 42bn in 2020-21, with AUD 270bn of investment to modernise defence capabilities over the next decade. With growing expertise in Test & Evaluation and Engineering Services in Australia and the ability to leverage expertise from across the wider Group, we see many opportunities to support the Australian forces in modernising sovereign defence capabilities as they seek to deter adversaries and maintain stability in the region.

# Other international markets

| Current revenue | | Market opportunity |
|---|---|---|
| Revenue | £126m | >£1.5bn +1–3% growth |
| Market share | <10% | |

In order to achieve our ambition of growing international revenue to more than 50% of Group revenue, we aim to drive growth in our three home countries and in our three priority countries of Canada, Germany and Belgium. Leveraging Group-wide capabilities is a critical part of our international growth strategy which supports allies in developing sovereign defence capabilities.

Canada is an attractive market for QinetiQ where we see opportunities to support the Canadian Armed Forces in modernising their own capabilities. The outlook for Canadian defence spending is positive with spending of $18bn in 2020 expected to grow by 3% per annum over the next five years, underpinned by Canada's drive to hit NATO spending targets.

Europe is also an attractive market for QinetiQ, where the need to modernise defence capabilities creates exciting opportunities for growth. Within this, Germany is a key market for QinetiQ where we currently offer airborne training. Recent performance has been below expectation and a significant contract loss and competitive market dynamics have resulted in a £25m goodwill impairment in the year, but new management are growing the pipeline in other areas and we do expect future growth from this important market. Belgium is another key market within Europe, where we are seeing increasing demand for our space products driven by the European Space Agency.

**Sources**

Jane's Market Budget Forecast April 2021, UK MOD and US DOD forecasts for RDT&E, Australia Defence publications and QinetiQ estimates.

Market share based on FY21 revenue.

CAGR: Compound Annual Growth Rate.

Higher growth rate than US market due to focus on high priority growth segments.

# Market themes

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

The markets in which we operate are continually evolving as our customers adapt to the dynamic threat environment around them. Most of our customers now seek to rapidly modernise their defence and security capabilities so they can better address current and future threats. They want to achieve operational advantage over an adversary, protect themselves and their stakeholders against the impact of action against them, or project power at range to deter malicious actors.

The level of modernisation required to achieve these outcomes in today's environment relies on successful innovation through the effective application of science, engineering and technology to enhance existing capabilities, create and assure new ones, and train users to deploy them effectively. That innovation must be focused solely where it needs to deliver an impact for defence and security users and in essence, to be successful must always be "mission-led".

### How are defence and security markets changing?

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

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

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

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

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

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

#### 4. Resilience of supply chains

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

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

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

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

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

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

### 3. Partnering for innovation

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

### 4. A multi-domestic strategy

Our strategy is a multi-domestic strategy aimed at developing sovereign defence capabilities within the countries in which we operate. A key example of this approach in action is the recent development of an unmanned aerial systems flight test range in Australia on behalf of the Queensland Government, which will act as a critical component of many unmanned aerial systems programmes and initiatives (read more on page 20).

# Our growth strategy

## Evolving our strategy

Since we launched our vision-based strategy in 2016 we have delivered excellent growth in an uncertain environment. While our vision and drive to deliver mission-led innovation for our customers' advantage remains unchanged, in light of our growth to date and the changing threat environment, we have evolved our strategy to support the next phase of our global growth.

## Our vision

Our vision is to be the chosen partner around the world for mission-critical solutions, innovating for our customers' advantage.

## Our strategy

Our three strategic pillars that will help us to achieve our vision are complementary and mutually reinforcing. These are global leverage, distinctive offerings and disruptive innovation.

### Global leverage

We are building an integrated global defence and security company and will leverage our capabilities through single routes to market in the UK, the US, Australia, Canada, Germany and Belgium.

### Distinctive offerings

By co-creating distinctive products and services we will offer exceptional value for our customers in engineering, experimentation, test, training, information and autonomous systems.

### Disruptive innovation

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

## Strategic enablers

Our strategy is underpinned by our strategic enablers, which support long-term growth in our business. These strategic enablers are sustainability, a high performance culture, complementary acquisitions and our digital transformation programme.

### Sustainability / ESG

We are continuously improving our ESG focus to ensure we deliver responsibly and sustainably for the benefit of all stakeholders. Sound governance structures and effective risk management are critical to the execution of our strategy and will ensure that progress against our strategy is sustainable.

### A high performance inclusive culture

We are nurturing a high-performance inclusive culture, where employees are engaged and understand how they contribute to our success. This is supported by our core values of integrity, collaboration and performance, which encompass who we are and how we operate.

### Digital transformation and globalisation

Our digital transformation will help support our next phase of global growth and our investment in digital is aimed at:

- Enhancing customer solutions
- Enabling collaboration
- Developing modern, integrated tools and systems

### Complementary acquisitions

We accelerate our strategic progress by acquiring highly complementary companies. These strategically aligned businesses often add a unique capability to the Group, supporting the delivery of distinctive offerings to customers and accelerating growth, sometimes in international markets.

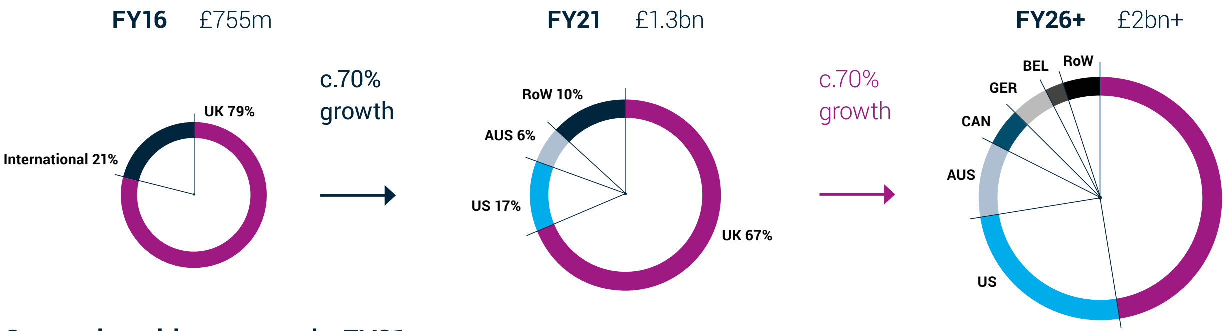
# Strategic progress

## Our achievements over the last five years

- c.70% revenue growth, c.40% underlying operating profit growth
- More than doubled our order backlog
- Invested significantly to drive organic growth: LTPA, R&D, Digitisation
- Strategy-led portfolio decisions: Seven acquisitions and three disposals
- Increased international share of revenue from 21% to 33%
- Delivering sustainably and responsibly – 28% reduction in Scope 1 & 2 emissions since FY19

## Our ambition for the next five years

- The same level of growth to deliver >£2bn revenue at stable margins
- Strong Return on Capital Employed
- Investment to drive continued organic growth: LTPA, R&D, Digitisation, ESG
- Continued disciplined acquisition strategy – both in acquisition and delivery
- Significant growth in our international markets, targeting >50% of our revenue from international
- Net Zero plan published and making good progress




## Strategic achievements in FY21

### Global leverage

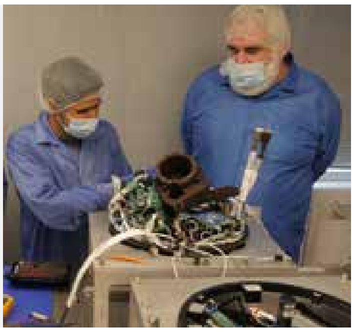
- Successfully leveraging our capabilities into the global Test and Evaluation market, with notable contract wins in Australia and Canada.
- Increasing international utilisation of UK ranges with a five year contract signed with the US Air Force to train at MOD Aberporth and MOD Hebrides.
- Our Modular E-X-Drive technology developed in the UK is being integrated onto an existing combat vehicle under a US Army contract to trial hybrid electric drive technology.

### Distinctive offerings

- Completed the two-year transition programme under the LTPA achieving "Full Operating Capability".
- Made significant progress integrating our combined US operations. Our US business delivered four prototype vehicles to the US DoD, under the Robotic Combat Vehicle Light (RCV-L) programme.
- Acquired Naimuri, a highly complementary advanced data analytics business, and disposed of three non-core businesses (Boldon James, Commerce Decisions and OptaSense).

### Disruptive innovation

- Signed a pre-collaboration agreement to work alongside industry partners and the UK MOD on the UK's next generation fighter concept known as Tempest.
- Appointed to lead the Weapons Sector Research Framework by DSTL to research and develop new and novel technologies including laser and radio-frequency directed energy weapons.
- Engineering Delivery Partner, our innovative delivery model for the provision of engineering services to the UK MOD, surpassed 1,100 tasks and £600m of orders since inception.



# Operating review

## EMEA Services

### Overview

EMEA (Europe, Middle East and Australasia) Services combines world-leading expertise with unique facilities to provide capability generation and assurance, underpinned by long-term contracts that provide good visibility of revenue and cash flows. The division is also a market leader in research and advice in specialist areas such as Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR), weapons and energetics, and cyber security.

| Financial performance | 2021 £m | 2020 £m |
|---|---|---|
| Orders[1] | 866.0 | 670.0 |
| Revenue | 939.9 | 797.4 |
| Underlying operating profit | 118.6 | 100.6 |
| Underlying operating margin | 12.6% | 12.6% |
| Book to bill ratio[2] | 1.2x | 1.1x |
| Total funded order backlog | 2,710.6 | 2,797.7 |

1 Includes share of orders from Joint Ventures and excludes the LTPA contract amendment signed in FY20.

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

Orders for the year increased by 29% to £866.0m (2020: £670.0m), including £19.3m from acquisitions and growing £173.2m (26%) on an organic basis. The organic increase was driven by £158m of orders for Typhoon phase 1 under the Engineering Delivery Partner (EDP) framework contract.

Revenue increased by 18% to £939.9m (2020: £797.4m), including £18.3m from acquisitions, and grew by 15% on an organic basis, principally driven by new work under the EDP contract, Defence Digital contracts (in Cyber & Information) and ongoing growth in Australia.

At the beginning of FY22, £684m of the division's FY22 revenue was under contract, compared to £656m (of the FY21 revenue) at the same point last year. This reflects the contribution from the acquired business in the year together with the 26% organic increase in orders won in the year.

Underlying operating profit grew by 18% to £118.6m (2020: £100.6m) assisted by the inorganic contribution from acquisitions. Organic underlying operating profit growth was 13% driven by revenue growth, good margin performance on LTPA and EDP, and cost actions, including lower travel whilst most employees were working from home.

Including the Long Term Partnering Agreement (LTPA), the proportion of EMEA Services revenue derived from single source contracts has reduced slightly to approximately 68% (2020: approximately 70%). While we have increased revenue derived from competitive contracts this has continued to be complemented by growth in single source EDP work.

### FY21 review

#### Maritime & Land (39% of EMEA Services revenue)

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

- We successfully completed the Reinvigorated LTPA two-year transition programme and achieved Full Operating Capability (FOC) on 31 March 2021. Following the 2016 and 2019 LTPA amendments, we have transformed the Test, Evaluation and Training Services contract from an availability-style approach to one that delivers clear outputs to customers measured through delivery of Event Types (trials and other activities) and by improving our capabilities through our investment programme. Over the transition period we have delivered all milestones on or ahead of schedule improving our services, enhancing customer engagement and maximising value for money. The transition phase also saw a significant mobilisation of our investment programme with over 50 projects commencing and a number reaching a conclusion, for example, new weapons facilities at the Hebrides and Shoeburyness ranges and the delivery of a new range helicopter supporting operations in Scotland.
- Leveraging our investment in UK T&E, we were awarded a five year $27m contract with the US Air Force in Europe (USAFE) to provide training events and targets for their F-15E and F-35 5th generation fighter aircrafts, utilising facilities at MOD Aberporth and MOD Hebrides ranges. This is an important example of our LTPA investment attracting international customers to our UK ranges – the first return to the UK for the USAFE since 2015 for their training needs. Initial air-to-air missile target firings at our Hebrides range in the financial year have been successful.
- In June 2020, alongside industry partners MBDA and Thales, we were appointed to lead the Weapons Sector Research Framework (WSRF) by DSTL, expected to be worth £300m over five years. The framework, which brings together over 70 industry and academic partners to develop and exploit technology for the benefit of the UK, replaces the previous Weapons Science and Technology Centre (WSTC) contract, with a broader scope of research activities including laser and radio-frequency directed energy weapons.

### Air & Space (24% of EMEA Services revenue)

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

- Engineering Delivery Partner (EDP) has continued to drive performance, surpassing 1,100 tasks and £600m of orders since inception in October 2018. Delivery in the year has remained strong with over 3,400 deliverables to our customers through the EDP contract. Key contract awards through EDP include:
  - A five-year contract valued at £158m to provide a range of engineering services for Typhoon, from planning and acceptance through to regulatory assurance, trials support and optimisation of in-service capability.
  - Two five-year contracts totalling £28m to provide engineering and safety services for the A400M and P8 Poseidon aircrafts. Services include providing support to the multi-nation certification and qualification programme, release to service, safety and airworthiness, structural integrity, environmental management support and trials.
  - An extension of the EDP contract with a multi-year agreement named Futures Lab, replacing and building on the former Niteworks contract, to bring EDP's network of SMEs and technology organisations to solve complex defence challenges, maximising innovation and exploitation of new capabilities to the front line.
- QinetiQ has signed a pre-collaboration agreement to work alongside industry partners and the UK MOD on the UK's next generation fighter concept known as Tempest. Drawing on our extensive T&E expertise and investment in new digital techniques we will provide capability assurance, helping streamline the development programme while also exploring how our advanced technologies could be used to enhance operational capability of the platform.
- In June 2020 we completed an Army Warfighting Experiment, with an airborne team comprising a manned helicopter and semi-autonomous unmanned aircraft working together to identify targets, the first time such a trial has taken place in the UK.
- As outlined in our 4 March 2021 Investor Seminar, *Renewed ambition to accelerate sustainable growth*, to ensure we are even more relevant to the changing character of warfare and stay ahead for our customers' advantage, one important area of our digital transformation programme is our investment in digital T&E to enable the rapid development of next generation products & services. This investment will expand our strong physical offerings into the virtual world to add greater value and pace to our customers and enable our future growth.

### Cyber & Information (27% of EMEA Services revenue)

The Cyber & Information 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.

- As cyber capabilities and informational advantage become increasingly critical we are seeing growing demand for C4ISR (Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance), data intelligence and training services across our markets.
- In July 2020 we acquired Naimuri, a leading software development and data analytics company for £24.4m, net of cash received. Naimuri partners with QinetiQ on a number of key programmes delivering mission-led innovation to UK intelligence and law enforcement customers. We aim to invest in their capabilities to drive growth in existing security markets and new defence markets.
- Vivace is our agile QinetiQ-run programme for the Home Office where we are working with over 250 organisations to rapidly bring the best minds to bear on the most complex digital challenges for front line law enforcement and security – this programme has been renewed and is delivering significant wider benefits to society, for example, supporting how human trafficking cases can be solved quicker in a more technically advanced way, and using technology to catch child abuse offenders and keeping children safe online.
- We have been recognised as a key strategic supplier to Strategic Command (Defence Digital and Defence Intelligence), winning orders in excess of £82m in the period across the UK Army's communication and information programme (BATCIS contract), Defence's new operational IT programme (New Style of IT contract), supporting the transformation of Defence Intelligence, intelligence solution contracts and various ongoing services including support to crypt-key developments and Skynet 5 operations.
- Included in the above, we have won a £18m contract through EDP in support of the ongoing transformation of Strategic Command's Defence Intelligence capabilities. This contract will support many areas of the transformation of Defence Intelligence including training, information assessment and operation, and Typhoon mission data production; providing advice and technical leadership to improve interoperability of systems and platforms, the broader exploitation of key information assets and support to the modernisation of the defence information enterprise. Also included is a new Rapid Innovation Capability based on similar agile services provided to the Home Office under the Vivace contract, bringing ideas from concept to operational capability at pace. This contract has been won in collaboration with Naimuri, Inzpire and NSC – a great example of leveraging our acquired capabilities into an important core and growing market.
- In December 2020 we acquired the final 15% share capital of Inzpire Group Limited, two years after our initial strategic investment. Both Inzpire and NSC, leading providers of operational training, mission rehearsal and simulation across the Air and Land domain, are performing well and delivering strong growth.

# Operating review continued

**International (10% of EMEA Services revenue)**

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

- Leveraging our T&E expertise from the UK we won two important contracts in Australia, to design & construct and operate & maintain an unmanned aerial systems (UAS) flight test range in Queensland. The test range was opened on schedule and has completed its first customer exercise in December 2020. This demonstrates excellent progress in leveraging our UK capabilities to support international growth.
- In November 2020 we won a framework contract with the Australian Space Services Training Areas and Simulation Branch (SSTASB) worth up to AU$55m over five years, to provide consultancy and advice for satellite communications, PNT (position, navigation and timing), simulation, health knowledge management, and records digitisation.
- We have commenced a multi-million investment programme in Australia to create and operate an Engineering and Innovation Centre, to leverage our global engineering capabilities and products, such as targets and robotics into the Australian market.
- In Canada we are making good progress and secured a contract to develop a roadmap for the modernisation of Royal Canadian Air Force (RCAF) air weapons ranges. This is a critical step in accommodating Canada's next generation of fighter aircraft and a major step in becoming a trusted partner in the region.
- In Germany, despite COVID-19 impacting flying hours in Q1, flying activity recovered strongly resulting in revenue for the year being roughly flat compared to the prior year. However, order intake in the year was less than target and new orders are taking longer to convert than our original expectations. As a result of this and re-baselining the future business plan with the new Managing Director of the business, we have written down £25m of goodwill associated with the acquisition in anticipation of the financial impact of lower revenue and margins. We continue to seek ways to leverage our capabilities within QinetiQ Germany and see good opportunities to drive long-term growth in this significant European defence market.

## Global Products

### Overview

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

| Financial performance | 2021 £m | 2020 £m |
|---|---|---|
| Orders | 285.0 | 302.1 |
| Revenue | 338.3 | 275.5 |
| Underlying operating profit | 33.2 | 32.6 |
| Underlying operating margin | 9.8% | 11.8% |
| Book to bill ratio[1] | 0.8x | 1.1x |
| Funded backlog | 233.5 | 307.2 |

1 B2B ratio is orders won divided by revenue recognised.

Orders decreased by 6% to £285.0m (2020: £302.1m) following the significant €75m order for the European Space Agency Altius contract in FY20 and delays in US contracting due to COVID-19 and the change in administration, offset by an £83m inorganic contribution from the prior year MTEQ acquisition. The organic orders decline was 26%.

At the beginning of FY22, £117m of the division's FY22 revenue was under contract, compared to £193m (of the FY21 revenue) at the same point last year. This decrease reflects the lost contribution from the disposed business in the year together with the timing of orders and delivery, especially in the US and QTS.

Revenue was up 23% on a reported basis at £338.3m (2020: £275.5m), primarily due to a whole year's contribution from the MTEQ business acquired in December 2019. On an organic basis, revenue decreased by 6% due to COVID-19 impacting delivery of small robotics in the US and shipments in QTS and OptaSense (before disposal).

Global Products underlying operating profit grew by 2% to £33.2m (2020: £32.6m) reflecting a whole year's trading of MTEQ. On an organic basis operating profit decreased by 20%. This was driven primarily by QTS delays of high margin products and a loss in OptaSense prior to disposal.

## FY21 review

### United States (62% of Global Products revenue)

Our US operations are managed as a single business, bringing together our expertise in robotics with the acquired capabilities (from MTEQ in December 2019) of autonomy and sensing solutions.

- In July 2020 we signed an agreement with the Defense Counterintelligence & Security Agency enabling us to operate all of our US defence operations under a Special Security Agreement. This replaces the previous Proxy Agreement, fundamentally changing how we approach the world's largest defence market.
- Our US business has experienced some COVID-19 and change of administration delays impacting performance. MTEQ, that we acquired in December 2019, has delivered revenue growth compared to the previous 12 months on a like-for-like basis (part of which was before QinetiQ's ownership) and positive momentum is growing, with continued growth in key sectors, strong delivery and cost efficiencies.
- We won a number of notable contracts in the year including: a $24m four-year sensor services contract; a $21m three-year contract to provide architecture and multi-modal sensor integration for mounted and dismounted war fighters; and three contracts totalling $47m across sensor research, development, engineering services. We are successfully leveraging our capabilities into our global markets, with the hybrid electric drive technology in the US, supporting expanded targets capabilities and pursuing sales of US robotics systems into Australia. Our orders won provide a strong foundation for growth, in many areas of increased customer funding. We continue our expansion into Airborne ISR, large robotic combat vehicles and early development on Space payloads.
- In partnership with Pratt Miller Defense, we delivered the four prototype vehicles required to the US DoD ahead of schedule, under the Robotic Combat Vehicle Light (RCV-L) programme, in advance of testing and experimentation in 2021.
- We delivered over 300 thermal sighting units to the US Army national training centres to support enhanced soldier training, and completed multiple critical ISR, Maritime and Robotics systems for the US Army and other customers, providing higher confidence in target detection and engagement.
- With our focus on larger and longer-term programs of record we are establishing strategic relationships on major programmes, including the Pratt Miller partnership on the RCV-L, with Hypersat for the launch of six commercial hyperspectral satellites and with General Atomics for our work on aircraft carrier launch and recovery systems and our ISR systems.

### Space Products (12% of Global Products revenue)

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

- We have won a number of significant new contracts in our Belgium Space business, including a new contract with the European Space Agency worth €8.5m for the development and production of microgravity based heat transfer experiments, expected to be installed on the International Space Station in 2026. This represents further progress as we build on our €4m investment into new, higher grade cleanroom facilities in Belgium.

### EMEA Products (23% 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 our QinetiQ Target Systems (QTS) business.

- Working in partnership with BAE Systems, our E-X-Drive technology has been selected for use by the US Army for their prototype hybrid-electric Bradley Fighting Vehicle. This is a £7m prototype contract as a testbed for integrating the E-X-Drive as part of a series hybrid powertrain under the Combat Vehicle Power and Energy architecture and mobility capabilities development program. It is an excellent example of deploying our IP to enhanced operational performance whilst improving the sustainability of the platform.
- QinetiQ Target Systems experienced significant disruption due to COVID-19 during the first half with cancellations of trials and deployments due to travel restrictions around the world. The business saw a good level of recovery in the second half with customers resuming trials and exercises. Furthermore, in the second half we won some significant orders giving further confidence in business recovery and growth. We expect to return to pre-COVID levels from FY22 and we remain extremely positive on the longer-term outlook for the business.

### Disposals (3% of Global Products revenue)

During FY21 we completed three disposals of non-core businesses resulting in a net cash benefit of £54.4m (combined enterprise value of £69m). The decision to divest of these three businesses was a strategic choice to allow increased focus on our core capabilities:

- In June 2020 we completed the sale of Boldon James to HelpSystems International Limited for an enterprise value of £30m. Boldon James was acquired by QinetiQ in 2007 and it has become a leading provider of data classification and secure email solutions. In the year ended 31 March 2020 Boldon James generated revenue of £9m.
- In November 2020 we completed the sale of Commerce Decisions to Harris Computer, a division of Constellation Software, for an enterprise value of £8.5m and deferred consideration of up to £1.5m contingent on performance to March 2022. QinetiQ acquired Commerce Decisions in 2008 and it has become a market leader providing software and consultancy services to enable some of the largest and most complex procurements around the world. In the year ended 31 March 2020 Commerce Decisions generated revenue of £8.3m.
- In December 2020 we completed the sale of OptaSense to Luna Innovations Inc. for an enterprise value of £29m. QinetiQ created OptaSense in 2008 and it has become a global leader in distributed fibre optic sensing solutions, delivering decision-ready data in multiple vertical markets, including pipelines, oil and gas, border and perimeter security, transportation, and power and utilities. In the year ended 31 March 2020 OptaSense generated revenue of £24.2m.

# Chief Financial Officer's review

*"Our rigorous focus on performance and ensuring we keep costs under control means we were successfully able to offset the impact from COVID-19."*

→ See our **Financial KPIs** on pages 28 to 29.

## Financial performance

| | Statutory results | | Underlying* results | |
|---|---|---|---|---|
| **(£m)** | **2021** | **2020** | **2021** | **2020** |
| Revenue | 1,278.2 | 1,072.9 | 1,278.2 | 1,072.9 |
| Operating profit | 112.3 | 117.6 | 151.8 | 133.2 |
| Profit after tax | 124.7 | 106.5 | 126.1 | 113.7 |
| **(p)** | | | | |
| Earnings per share | 21.9 | 18.7 | 22.1 | 20.0 |
| Dividend per share | 6.9 | 6.6 | 6.9 | 6.6 |

| | Underlying* results | |
|---|---|---|
| **(£m)** | **2021** | **2020** |
| Total funded order backlog | 2,944.1 | 3,104.9 |
| Total orders[1] | 1,151.0 | 972.1 |
| Net cash inflow from operations | 199.0 | 177.8 |
| Cash conversion ratio | 131% | 133% |
| Free cash flow | 103.1 | 59.5 |
| Net cash | 164.1 | 84.7 |

1 Includes share of orders from Joint Ventures and excludes LTPA contract amendment signed post year end in 2019.

* Definitions of the Group's alternative performance measures can be found on page 183.

## Overview of full year results

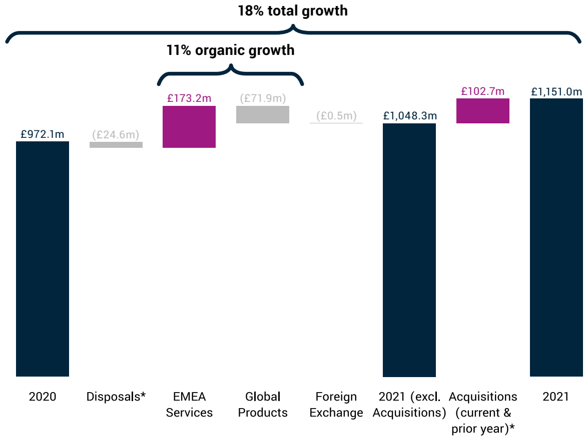
We reported a strong performance in FY21, delivering growth across orders, revenue and profitability as we continue to successfully implement our strategy. Our rigorous focus on performance and ensuring we keep costs under control means we were successfully able to offset the impact from COVID-19. We enter FY22 in a strong position, with a large order backlog and a robust balance sheet. Strong cash generation from the company has continued in FY21 with 131% cash conversion, and a net cash position of £164.1m continues to provide support for investment opportunities.

Orders in the year totalled £1,151.0m (2020: £972.1m), an 18% increase, 11% on an organic basis. This included £158m of Typhoon phase 1 orders under the EDP framework contract in EMEA services.

At the beginning of FY22, approximately £800m of the Group's FY22 revenue was under contract, compared to £850m (of the FY21 revenue) at the same point last year. This reflects the disposal of businesses and converting backlog on long-term contracts into revenue during the year.

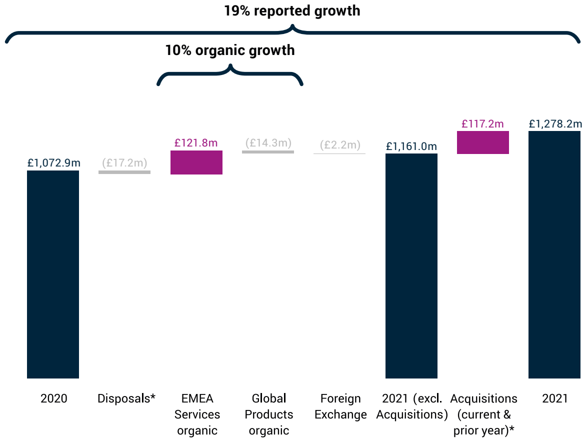
Revenue increased 19% to £1,278.2m (2020: £1,072.9m), assisted by an additional £117.2m from a full-year of trading from our FY20 acquisitions and a small contribution from Naimuri which completed in the first half of FY21. Revenue grew by 10% on an organic basis, with a 15% organic increase in EMEA Services primarily due to Engineering Delivery Partner (EDP) offset by a 6% organic decrease in Global Products driven by COVID-19 related impacts in QTS, OptaSense and our US business.

## Order bridge




* *Acquisitions* comprise of £98.9m for MTEQ and NSC for period with no prior year comparator and £3.8m for Naimuri.
*Disposals* comprise £24.6m for Optasense, Boldon James and Commerce Decisions (sold in FY21), for the equivalent periods after disposal in prior year (FY20).

## Revenue bridge




* *Acquisitions* comprise of £109.6m for MTEQ and NSC for period with no prior year comparator and £7.6m Naimuri.
*Disposals* comprise of £17.2m of revenue from Optasense, Boldon James and Commerce Decisions (sold in FY21), for the equivalent periods after disposal in prior year (FY20).

Underlying operating profit was up 14% at £151.8m (2020: £133.2m). The majority of the increase was due to a full year contribution from businesses acquired in the prior year (offset partially by the impact of three disposals in the current year) but the organic performance was still an increase of 6% (£7.3m), a strong performance considering the impact on operations due to COVID-19. The inorganic growth also included a small contribution from Naimuri, which was acquired in the first half of FY21.

EMEA Services operating profit grew 18% assisted by a full-year of trading from our FY20 NSC acquisition and FY21 acquisition of Naimuri. On an organic basis EMEA Services profit grew by 13% due to revenue growth and significant cost savings. Global Products underlying operating profit grew by 2% reflecting a full year of trading from our FY20 MTEQ acquisition. On an organic basis Global Products profit declined by 20% due to COVID-19 significantly impacting shipments in QTS and OptaSense (before disposal).

Total operating profit was £112.3m (2020: £117.6m), net of a £39.5m expense in respect of specific adjusting items (2020: £15.6m), as set out opposite.

Underlying profit before tax increased 13% to £149.9m (2020: £132.2m) in line with the increase in underlying operating profit, with underlying net finance expense at £1.9m (2020: £1.0m). Total profit before tax was £146.2m (2020: £123.1m).

## Specific adjusting items

Specific adjusting items, shown in the “middle column”, at the profit after tax level amounted to a total net loss of £1.4m (2020: net loss of £7.2m). This included a gain on sale of businesses and investments of £28.7m (2020: £nil) and finance income of £7.1m (2020: £6.5m) related to the defined benefit pension net surplus, offset by a £25.4m goodwill impairment (2020: £14.1m) in relation to the QinetiQ Germany business and £10.9m amortisation of acquisition-related intangibles (2020: £7.5m). The tax effect of items impacting profit before tax was an income of £2.3m (2020: expense of £1.4m). The tax line also included a £3.3m gain in the prior year from recognising US tax losses.

Further analysis is set out in note 4 with goodwill (and impairments of) discussed in note 14.

## Net finance costs

Net finance income was £5.2m (2020: £5.5m). The underlying net finance expense was £1.9m (2020: £1.0m) with additional income of £7.1m (2020: £6.5m) in respect of the defined benefit pension net surplus reported within specific adjusting items.

# Chief Financial Officer's review continued

## Tax

The total tax charge was £21.5m (2020: £16.6m). Deferred tax has been calculated at the rate at which the timing difference is expected to reverse. The underlying tax charge was £23.8m (2020: £18.5m) with an underlying effective tax rate of 15.9% for the year ending 31 March 2021 (2020: 14.0%). 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 for under IAS 12 within the tax line. An adjusted effective tax rate before the impact of RDEC would be 19.4%. 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 deferred tax assets and while the benefit of net RDEC retained by the Group remains in the tax line.

The tax in respect of the pre-tax specific adjusting items of £3.7m (note 4) was a £2.3m net income. The prior year tax in respect of the pre-tax specific adjusting items of £9.1m was a £1.4m net expense. Together with a £3.3m credit in respect of recognition of tax losses in the US the total specific adjusting items tax income in the prior year was £1.9m.

At 31 March 2021 the Group had unused tax losses and US carried forward interest expenses of £73.2m (2020: £90.3m) which are available for offset against future taxable profits.

## Cash flow, working capital, capex and net cash

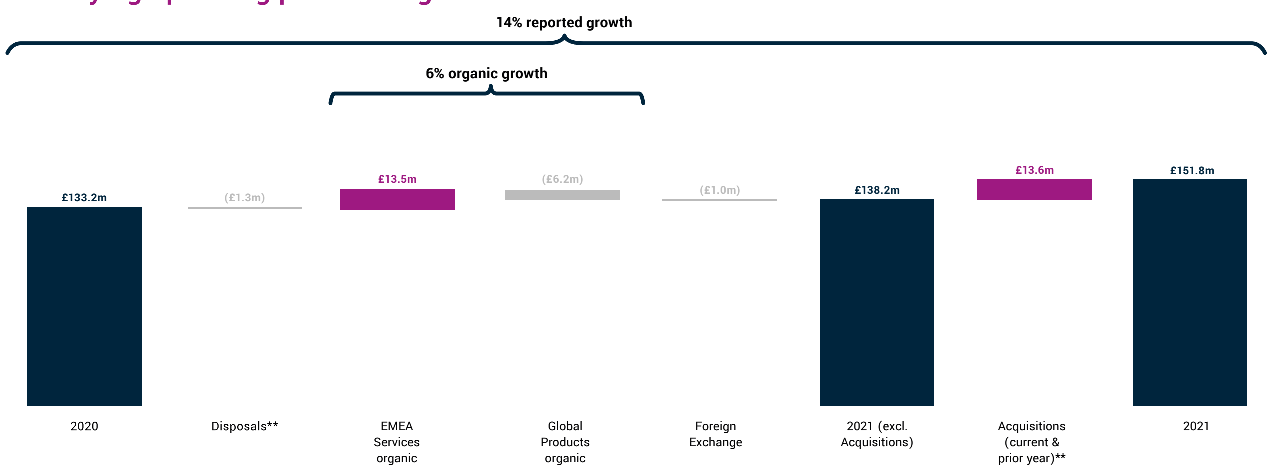
Underlying net cash flow from operations was £199.0m (2020: £177.8m) with an underlying operating cash conversion pre-capex of 131% (2020: 133%). This included a £12.7m working capital unwind driven by the timing of contract receivables

Capital expenditure decreased to £79.5m (2020: £107.8m) impacted by project delays due to COVID-19. We continue to invest in core contracts including the LTPA following the contract amendment announced in April 2019. After paying tax and net interest of £16.4m the Group generated free cash flow of £103.1m (2020: £59.5m), before business disposal proceeds, net of cash divested and transaction costs, of £54.4m (2020: £nil) and business acquisition consideration of £28.5m (2020: £90.2m). Looking forward, given the nature of our business model, we expect to continue to fund our capex requirements from operational cash flow.

As at 31 March 2021 the Group had £164.1m net cash (2020: £84.7m). The increase in net cash was primarily due to the £103.1m free cash flow and business disposal proceeds of £54.4m, offset by business acquisition consideration of £28.5m and dividend payments of £37.7m (2020: £38.0m).

The Company is party to a £275m multi-currency revolving credit facility (with an "accordion" feature to expand up to a maximum of £400m), provided by a consortium of banks, of which £65m will mature on 27 September 2024 and £210m will mature on 27 September 2025. The facility, undrawn as at 31 March 2021, contains a modest pricing adjustment (+/- 2bps), aligned to delivering our FY25 (Scope 1 and 2) carbon reduction target.

## Underlying operating profit* bridge




* Definitions of the Group's alternative performance measures can be found on page 183.

** *Acquisitions* comprise of £11.8m for MTEQ and NSC for period with no prior year comparator and £1.8m for Naimuri.
*Disposals* comprise of £1.3m from Optasense, Boldon James and Commerce Decisions (sold in FY21), for the equivalent periods after disposal in prior year (FY20).

## Capital allocation

Priorities for capital allocation remain in the long-term as:

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.

The Group is not subject to any externally imposed capital requirements.

Through FY21 we have demonstrated our capital allocation policy in action, continuing our investment in our core international business, disposing of non-core assets and acquiring strategically aligned capabilities to drive long-term growth.

## Return on Capital Employed (ROCE)

In order to help understand the overall return profile of the Group, last year we reported our Return on Capital Employed, using the calculation of: Underlying EBITA / (average capital employed less net pension asset), where average capital employed is defined as shareholders equity plus net debt (or minus net cash).

For FY21 Group ROCE was 28%, in line with the previous year (2020: 28%). As we continue to invest in our business to support sustainable long term growth our ROCE is forecast to decrease but to remain attractive, at the upper end of the 15-20% range.

## Earnings per share

Underlying basic earnings per share increased by 11% to 22.1p (2020: 20.0p) benefiting from the higher underlying profit after tax. Basic earnings per share for the total Group (including specific adjusting items) increased 17% to 21.9p (2020: 18.7p).

The average number of shares in issue during the year, as used in the basic earnings per share calculations, was 569.7m (2020: 567.0m) and there were 571m shares in issue at 31 March 2021 (all net of Treasury shares).

## Dividend

The Board proposes a final FY21 dividend per share of 4.7p (2020: 4.4p) making the full year dividend 6.9p (2020: 6.6p). 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 FY21 dividend will be paid on 26 August 2021 to shareholders on the register at 30 July 2021.

## Pensions

The net pension asset under IAS 19, before adjusting for deferred tax, was £214.3m (31 March 2020: £309.7m). The key driver for the decrease in the net pension asset since the March 2020 year end was losses due to changes in financial assumptions (primarily in respect of inflation), which increase the present value of scheme liabilities, partially offset by an increase in value of scheme assets.

The key assumptions used in the IAS 19 valuation of the scheme are set out in note 28.

For the avoidance of doubt, the strategic report covering pages 1 to 51 has been approved by the Board and signed on their behalf by:

**David Smith**
**Chief Financial Officer**
20 May 2021

# Non-financial KPIs

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

Our progress is measured by a range of financial and non-financial key performance indicators (KPIs). Understanding measurements that give us insight into issues such as customer satisfaction, health and safety and employee engagement help us enhance our performance and are vital in ensuring our progress is sustainable.

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

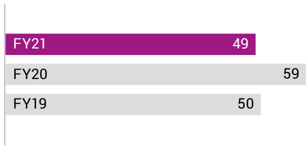
During FY21 we reviewed and updated our non-financial KPIs to reflect our priorities and those of our stakeholders. We added greenhouse gas emissions as a KPI, evolved our early careers KPI to be global (previously UK only) and while we will continue to report and monitor voluntary employee turnover, it is no longer a KPI. We have evolved our early careers target from UK only to global.

→ See **Responsible & sustainable business** on pages 39 to 47.

## Customer satisfaction (Net Promoter Score)

49

(FY20: 59)




**Description**

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

**Performance this year**

Our customer feedback score remains in the category of "Good" supported by our continual improvement approach to actioning customer feedback. We have seen a decrease in score against the prior year with the sample size increasing, however no systemic trends have been identified.

**Link to strategy**

Measuring customer satisfaction provides us with insight into our customers' views. Complemented with qualitative surveys, this provides us with actionable insights that enable us to improve our customer experience.

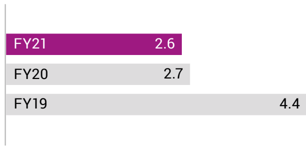
This supports our ambition of becoming our customers' chosen partner which requires a relentless focus on meeting their needs in both our home countries and overseas.

Customer satisfaction is a metric used for the Bonus Banking Plan.

## Health and safety (LTI)

2.6

(FY20: 2.7)




**Description**

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

**Performance this year**

Our LTI decreased slightly in FY21 to 2.6, from 2.7 in FY20, supported by our ongoing commitment to safety through our Safe for Life programme and new EHS strategy (see page 42).

**Link to strategy**

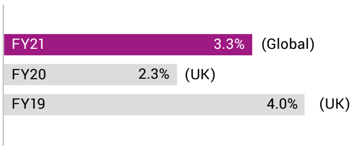
As a company it is imperative we operate with the highest level of safety. Not only is this the right thing to do for our people, but for our customers who entrust us with safety-critical work.

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

## Early careers talent (%)

3.3

(FY20: 2.3% UK)




**Description**

The total number of our early careers community (apprentices, graduates, sponsored students) as a percentage of our global workforce. (We have previously only reported our UK performance).

**Performance this year**

We have increased our investment in early careers and in the UK our early careers population increased from 2.3% to 3.6% of the UK workforce. We are now measuring this metric globally and the global proportion is 3.3% (see page 44).

**Link to strategy**

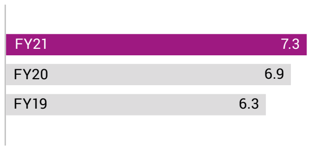
As a knowledge-based business it is critical to our long-term viability that we develop the next generation of employees.

This year we updated this KPI to be global, to reflect our global business and the maturing nature of our international operations.

## Employee engagement (Score out of 10)

7.3

(FY20: 6.9)




**Description**

In FY19 we implemented Peakon, an employee engagement measurement tool, which provides regular insights into how our people feel about working at QinetiQ, enabling us to identify what we are doing well, but also where we can improve and take action.

**Performance this year**

At the end of FY21 our engagement score increased to 7.3, supported by our "Engagement in Action" programme. There is still more to do and we will continue to build on our progress, implementing initiatives aimed at improving the experience of our employees (see page 43).

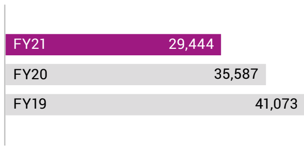
**Link to strategy**

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

## Greenhouse gas emissions Scope 1 & 2 (tonnes $CO_2e$)

29,444

(FY20: 35,587)




**Description**

In FY19 we set a target to reduce our scope 1 and scope 2 greenhouse gas emissions, by 25% from the FY19 baseline, aligned with science based targets.

**Performance this year**

In FY21 we achieved a significant reduction in our scope 1 & 2 emissions (see page 40) making good progress towards our FY25 target. This benefitted from changes to ways of working due to COVID-19, reducing our emissions.

**Link to strategy**

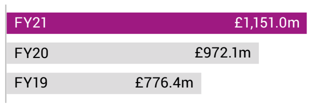
Setting a target and measuring and reporting our greenhouse gas emissions is an important way to demonstrate our commitment to addressing climate change, a critical part of our sustainability strategy, and underpinning our wider business performance.

# Financial KPIs

## Orders (£m)

£1,151.0m

(FY20: £972.1m)




**Description**

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

**Performance this year**

Orders in the year were £1,151.0m, up by 18%, or by 11% on an organic basis. This organic increase was driven by EMEA Services where orders grew by 26% on an organic basis due to excellent growth in EDP orders. In Global Products orders declined by 26% on an organic basis due to contracting delays in the US and a large order for the European Space Agency in the prior year. This was offset by the contribution from MTEQ in the US.

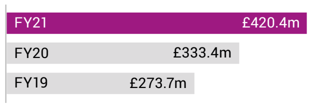
**Link to strategy**

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

## International revenue (£m)

£420.4m

(FY20: £333.4m)




**Description**

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

**Performance this year**

Non-UK revenue grew by 26% (£87.0m) to £420.4m in FY21. This was driven by an inorganic contribution of £98.9m in the US, following the acquisition of MTEQ in 2019. On an organic basis international revenue marginally declined due to COVID-19 significantly impacting Global Products shipments in QTS and OptaSense (before disposal).

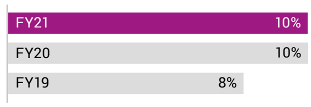
**Link to strategy**

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

## Organic revenue growth (%)

10%

(FY20: 10%)




**Description**

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

**Performance this year**

Revenue grew by 10% on an organic basis, driven by a strong performance in EMEA Services where organic revenue growth was 15%, due to excellent growth in EDP and good delivery on the LTPA contract. This was partially offset by an organic decline of 6% in Global Products, reflecting COVID-19 disruption in QinetiQ Target Systems, OptaSense and our existing US operations.

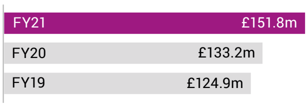
**Link to strategy**

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

## Underlying operating profit (£m)

£151.8m

(FY20: £133.2m)




**Description**

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

**Performance this year**

Underlying operating profit increased by 14% (£18.6m) to £151.8m. This includes an inorganic contribution of £11.8m from the acquisitions of MTEQ and NSC, completed in the prior year, as well as a £1.8m contribution from the acquisition of Naimuri, completed in July 2020. This was partially offset by the disposals of Boldon James, Commerce Decisions and OptaSense. On an organic basis underlying operating profit increased by 6%.

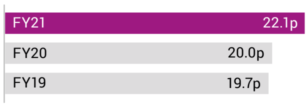
**Link to strategy**

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

## Underlying earnings per share (p)

22.1p

(FY20: 20.0p)




**Description**

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

**Performance this year**

Underlying earnings per share grew by 11% (2.1p) to 22.1p, with the higher growth in underlying operating profit partially offset by a higher effective tax rate (see note 9).

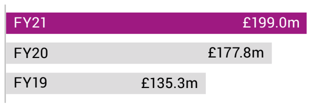
**Link to strategy**

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

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

£199.0m

(FY20: £177.8m)




**Description**

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

**Performance this year**

Underlying net cash flow from operations was particularly strong, growing by 12%. This reflects a strong profit performance and low working capital unwind from the good position at the end of FY20.

**Link to strategy**

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

# Risk management

## Our approach to identifying and managing risks

### How we protect our business

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

Risk processes cannot operate in isolation and, like safety and security, must work within an appropriate culture to create effective risk based decision making. Our Group-wide risk management framework supports and develops the risk culture within the organisation to inform our decision-making at both the strategic and operational levels, adopting both a top-down and bottom-up approach. Our culture and risk management processes together enable us to be stronger and more resilient in the face of challenges, managing threat and optimising opportunity, to support the long-term success of our business. The risk management framework continues to evolve with our business and the rapidly changing external environment in which we operate to ensure we are best placed to deliver results, while simultaneously innovating for our customers' advantage.

### Principal risks

The Group Risk Register consists of material risks relating to the effective delivery of our strategy. The Board and Global Leadership Team look to assess these principal risks from a number of different perspectives, both individually and collectively. The Board recognises that some risks may be affected by factors outside the control of the Company and that despite the robustness of the risk management processes they cannot provide absolute assurance and unknown risks may manifest without warning. We have proven processes in place to rapidly deploy appropriate management in these situations, and utilise lessons learned across the organisation as part of our ongoing drive for continuous improvement. These were successfully deployed in the early stages of the COVID-19 pandemic and proved to be effective and deliver business resilience.

Over the past 12 months one new material risk has been included in our Group risk profile relating to the successful delivery of our ambitious US growth strategy. The Mergers and Acquisition risk has increased in likelihood due to the heightened growth ambition coupled with our recent acquisition in the US (read more on our performance in the US on page 21). Despite the major global crisis created by the COVID-19 pandemic and the rapidly changing external environment all other risks have remained stable owing to the resilience of our business model and our effective crisis and risk management processes. Identifying, attracting and retaining the right people now and in the future is essential to QinetiQ's success and while the associated Group risks have previously been mitigated to a level that they are no longer considered to pose a principal risk to QinetiQ, they remain a key consideration in our operational and strategic planning and, where localised risk remains, are included and managed within other identified risks.

### Emerging risks

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

The evolving COVID-19 pandemic has, to date, had limited impact on our operations. Our sites and facilities have remained open; we quickly transitioned to a hybrid remote working model and accelerated our digital transformation programme to support new ways of working. Overall this has meant we are more globally connected and have maintained our top priority of protecting our people's health and wellbeing. Looking forward the potential global economic impacts of the pandemic and their subsequent effect on QinetiQ remain uncertain.

Whilst Brexit has had negligible operational impact on QinetiQ to date we continue to monitor this as a developing risk because of the ongoing uncertainty around the potential broader, including economic, ramifications. We have and continue to undertake robust mitigation throughout the Brexit transition, including proactive management of supply chain dependencies and ensuring our employees and systems were prepared for any resultant changes, including in the regulatory environment.

We recognise that ESG concerns are rapidly moving up our investors' and stakeholders' agenda and our subsequent need to ensure we provide visibility on the materiality of the potential risks and how we are managing them. We have a well-established Corporate Responsibility & Sustainability (CR&S) Programme in place, bolstered by robust sponsorship from the Global Leadership Team and our Board, to ensure we are identifying and managing the ESG risks to our company, including compliance with legislative and reporting requirements.

Through 2020 issues such as climate change, the COVID-19 pandemic, a growing focus on diversity and inclusion, new customer requirements (e.g. social value in UK Government procurement) and defence ethics were all key topics. We carefully track the emerging ESG risks, assessing their potential impacts and where necessary building in additional workstreams under the CR&S Programme to ensure robust mitigation is undertaken. To reflect the growing importance and necessary focus, our CR&S Director now reports on the Programme directly to the Board, rather than via a sub-committee.

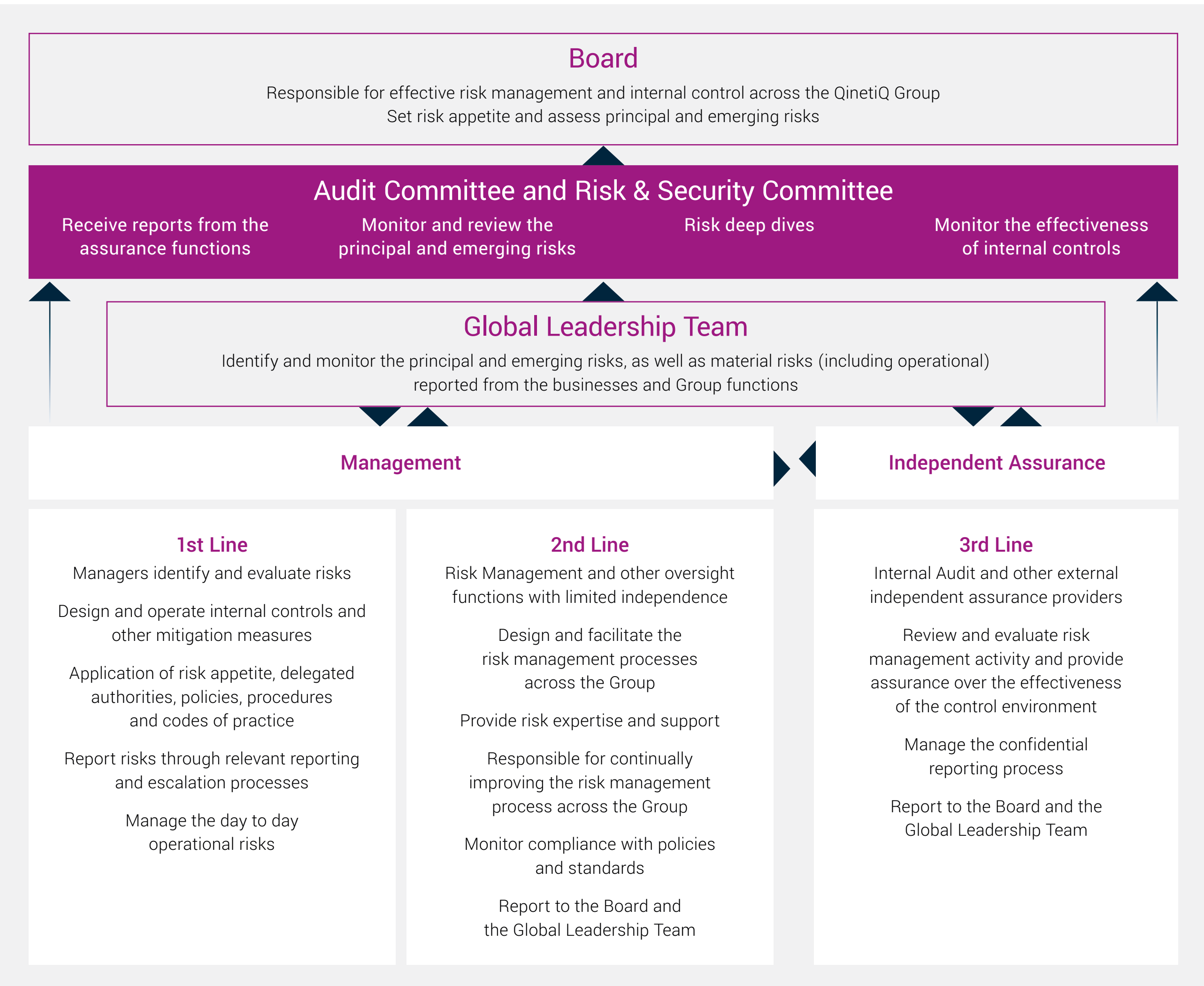
We have described our approach to ESG in more detail in the responsible and sustainable business section of this report (pages 39 to 47).

## Risk management and assurance activity

### Three lines model

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

## The three lines model



# Risk management continued

## QinetiQ risk appetite

The Board identifies and reviews its tolerance to 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

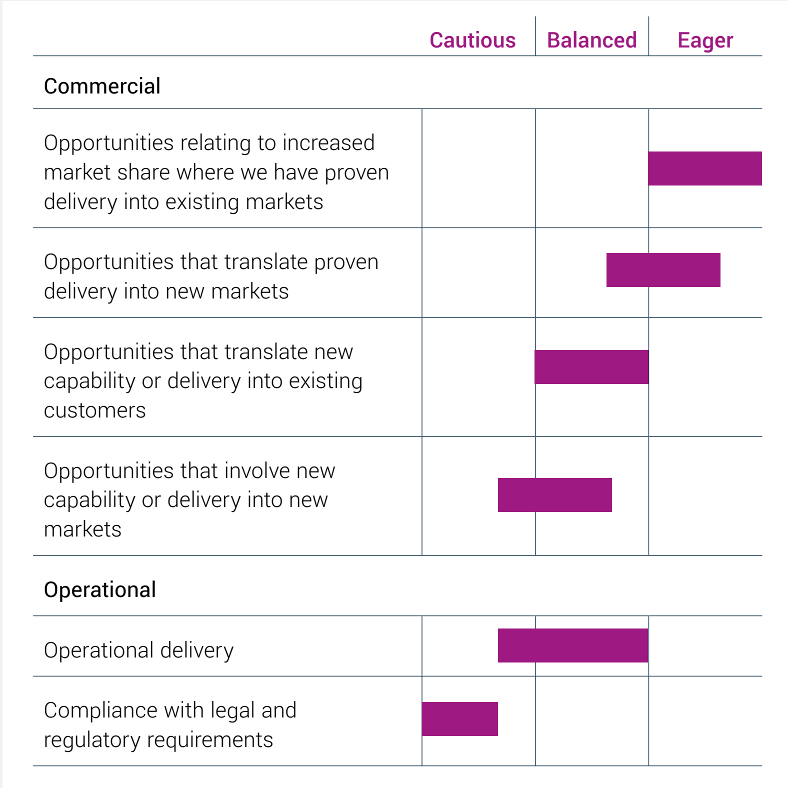
Avoidance of uncertainty – with negligible or low residual risk. Applying innovation prudently where the risks are fully understood.

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




## Strategic risks

### Execution of our UK growth strategy

| Risk | Impact | Mitigation | |
|---|---|---|---|
| UK Government budget constraints lead to reduced spending in core markets in which we operate. This and the ever increasing pace required to introduce new technology to respond to emerging threats results in a risk that our approaches/ offerings for evaluating capability may not remain relevant.<br><br>COVID-19:<br>There remains the potential for this risk to be exacerbated by the impact of COVID-19 both requiring different approaches to deliver in a COVID secure way and any impact on Government spending. | A reduction in revenue and associated profitability from the Group's UK Defence and Security contracts. | Our strategy is focused on leading and modernising UK test and evaluation in support of our UK and overseas customers' objectives and developing our training and mission rehearsal and data intelligence/cyber businesses. This includes ongoing proactive engagement with our major customers to enable us to support their objectives through mission-led innovation.<br><br>Our focused investment into contracts enhances 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 continue to deliver new customer solutions and are increasingly moving towards modelling and synthetics, as well as embracing the next generation of digital transformation.<br><br>We are expanding the links between our UK and global Test & Evaluation business as evidenced through securing the contract to build and operate the Queensland Flight Test Range and post Brexit will maintain relationships with the UK Government to support bilateral relationships within Europe; there is increased recognition that T&E is an enabler to military capability and prosperity. | **Metrics**<br>Customer satisfaction<br>All financial KPIs<br><br>**Responsibility**<br>Group Function Director Business Development<br>Managing Directors A&S, M&L and C&I<br><br>**Risk appetite**<br>Eager<br><br>**Likelihood/Impact**<br>Medium/Medium<br><br>**Proximity/Velocity**<br>1-2 yrs/Medium<br><br>**Strategy**<br>Global Leverage<br>Distinctive Offerings<br>Disruptive Innovation |

## Execution of our US growth strategy

| Risk | Impact | Mitigation | |
|---|---|---|---|
| There is a risk that the US Business will be unable to establish a robust and distinct position in the marketplace and deliver our significant growth ambitions, resulting in impact to the strategic direction of the Group and potential reputational damage.<br><br>COVID-19:<br>The ongoing impact of the pandemic may exacerbate this risk through increased customer budget constraints. | Adverse impact on the Group's financial performance. | Our US strategy is focused on developing our relationships with the DoD through mission-led innovation at pace in areas of technology such as robotics and autonomy, sensor solutions and systems, artificial intelligence and maritime systems where we feel we have strong technology capability and the ability to deliver the most appropriate products or services. We have developed specific and ambitious growth strategies for the US and are developing our capability to enact those strategies through robust operational integration.<br><br>We undertake extensive due diligence, taking the appropriate professional advice to ensure structural, regulatory, legal and political risks are understood and minimised. In addition, our US business is included in our Group Audit and Assurance plans.<br><br>The creation of single routes to market enables our in-country team to leverage the global QinetiQ brand and our Group-wide capabilities; maximising the opportunities to cross-sell and offer more comprehensive solutions to the domestic challenges our US customers face.<br><br>We are maturing our global end-to-end processes and systems, and the integration of our US business, as well as the global leverage of capabilities, such that we can act with agility and pace in response to our US customer requirements. | **Metrics**<br>All financial KPIs<br>US revenue as % of total revenue<br><br>**Responsibility**<br>President US Business<br><br>**Risk appetite**<br>Balanced to Eager<br><br>**Likelihood/Impact**<br>High / Very High<br><br>**Proximity/Velocity**<br>0-1 yrs/Medium<br><br>**Strategy**<br>Global Leverage<br>Distinctive Offerings<br>Disruptive Innovation |

## International strategy

| Risk | Impact | Mitigation | |
|---|---|---|---|
| Our International Business conducts business in a number of markets, including Australia, Canada and Germany. Plans to grow these businesses to achieve our Global Leverage may be impacted by external influences outside of our control, such as geo-political risks, or specific risks arising from working in new markets and globalised operation. Political uncertainties, including the UK leaving the EU could also impact the availability and focus of customer budgets.<br><br>COVID-19:<br>The ongoing impact of the pandemic may exacerbate this risk through increased budget constraints and restrictions on International travel however the acceleration of our digital investment programme has resulted in increased connectivity across our international businesses. | Unable to realise expected growth in the planned timeframes. | Our international strategy is focused on our home and priority markets where we feel we have the best routes to access with the most appropriate products or services. We have developed specific and ambitious growth strategies for Australia and our three priority markets.<br><br>We undertake extensive due diligence, taking the appropriate professional advice to ensure structural, regulatory, legal and political risks are understood and minimised. In addition, our international businesses are included in our Group Audit and Assurance plans.<br><br>The creation of single routes to market enables our in-country teams to leverage the global QinetiQ brand and our Group-wide capabilities; maximising the opportunities to cross-sell and offer more comprehensive solutions to the domestic challenges our customers face.<br><br>We are maturing our global end-to-end processes and systems, as well as the global leverage of capabilities, such that we can act with agility and pace in response to our customer requirements. | **Metrics**<br>All financial KPIs<br>International revenue as % of total revenue<br><br>**Responsibility**<br>Managing Director, International<br>Managing Director, A&S<br><br>**Risk appetite**<br>Balanced to Eager<br><br>**Likelihood/Impact**<br>High/High<br><br>**Proximity/Velocity**<br>0-1 yrs/Medium<br><br>**Strategy**<br>Global Leverage<br>Distinctive Offerings<br>Disruptive Innovation |

# Risk management continued

## Strategic risks continued

| Innovation strategy | | | |
|---|---|---|---|
| **Risk** | **Impact** | **Mitigation** | |
| Failure to innovate to enable the realisation of new ideas for our customers and our organisation in the face of market and environmental changes such as rapidly evolving customer needs, technological change and increased competition.<br><br>Specifically failure to:<br>• Create a culture of innovation;<br>• Develop relevant business models, processes and products/services;<br>• Attract and retain the right talent.<br><br>COVID-19:<br>The global implications of the pandemic, both internally and for our customers, have provided an opportunity for increased innovation in collaborative working and customer engagement through digital means. | Negative impact on the Group's market position, competitiveness, future growth. | Global initiatives to ensure innovation and the necessary underlying culture is embedded across the Group, including:<br>• Investment in innovative approaches and tools, for example the use of digital platforms to provide enhanced collaboration environments for our employees and customers, and virtual environments to demonstrate our capabilities;<br>• Diversity and Inclusion programmes to drive and foster diverse thinking;<br>• Commercial innovation, including agile approaches to contracting;<br>• Ensure we identify, attract and retain the right people now and for the future.<br><br>Ongoing Group-wide communications and training to drive understanding and adoption of our mission-led innovation ethos, to deliver better operational outcomes for customers and end-users; working collaboratively to solve complex problems, at pace. | **Metrics**<br>Customer satisfaction<br>Employee engagement<br><br>**Responsibility**<br>Group Function Director Business Development<br>Group Function Director Strategy & Planning<br>Group Function Director Technical<br>Group Function Director Human Resources<br><br>**Risk appetite**<br>Balanced<br><br>**Likelihood/Impact**<br>High/High<br><br>**Proximity/Velocity**<br>1-2yrs/Low<br><br>**Strategy**<br>Global Leverage<br>Distinctive Offerings<br>Disruptive Innovation |

| A material change to the UK Government's use of existing large contracts | | | |
|---|---|---|---|
| **Risk** | **Impact** | **Mitigation** | |
| The Long Term Partnering Agreement (LTPA) is a 25-year partnering contract with the UK MOD to provide test, evaluation, and training services.<br><br>The Engineering Delivery Partnership (EDP) programme is a 10 year agreement delivered by the Aurora Engineering Partnership and is established as the default route for contracted engineering services for UK MOD Defence Equipment & Support (DE&S) and is also available to the wider UK MOD.<br><br>UK Government budget constraints, could lead to a material change in use of these large contracts.<br><br>COVID-19:<br>Budget constraints may be exacerbated by the impact of the pandemic. | The LTPA and EDP directly contribute a material proportion of the Group's revenue and earnings and if utilisation of these contracts were to change, our financial performance could be adversely impacted. | We are investing significantly into the LTPA capabilities to ensure they remain relevant and modern. The investment portfolio is agile to changing customer needs and technological advances to ensure we remain at the cutting edge.<br><br>At the end of March we transitioned to a fully output based contract, an approach that delivers clear outputs to customers, measured through the delivery of event types. This enables us to capitalise on opportunities delivering outputs in new and agile ways, optimising the efficient delivery of the contract.<br><br>EDP is a collaborative programme with DE&S and our Aurora partners, that provides customers with key capacity and capability, focused on long-term outcomes that maximise efficiencies and operational performance. By undertaking larger programmes of work, we are able to leverage our scale and drive out duplication. Our customer solutions have consistently demonstrated our ability to achieve challenging value for money and performance targets. | **Metrics**<br>All financial KPIs except orders<br>Customer satisfaction<br><br>**Responsibility**<br>Managing Director M&L<br>Managing Director A&S<br>LTPA Portfolio Director<br><br>**Risk appetite**<br>Balanced<br><br>**Likelihood/Impact**<br>Medium/ High<br><br>**Proximity/Velocity**<br>0-1yrs/Low<br><br>**Strategy**<br>Global Leverage<br>Distinctive Offerings<br>Disruptive Innovation |

## Mergers and acquisitions

| Risk | Impact | Mitigation | |
|---|---|---|---|
| M&A activity continues to form a key element of our strategic growth plans in order to expand our customer offerings within our home markets of the UK, the US and Australia, as well as in our priority growth markets. There is a risk that our new acquisition selection and integration do not realise the maximum potential benefits.<br><br>COVID-19:<br>The ongoing effects of the pandemic may exacerbate this risk, including the impact of potential customer budget constraints. | Adverse impact on the Group's financial performance. | Robust governance is underpinned by the M&A Committee, which reports to the Board, and the relevant Integration Steering Committees for newly acquired companies.<br><br>All acquisitions are thoroughly assessed for strong strategic alignment for value creation potential and for integration risk. Extensive due diligence involves internal experts and a variety of external advisory companies, and every integration is managed separately to ensure focus. Best practice, learned from successful integrations, is rigorously applied to each new transaction.<br><br>Portfolio rationalisation is ongoing where appropriate, including the disposal of OptaSense, Boldon James and Commerce Decisions. | **Metrics**<br>Inorganic Growth<br>Revenue & Profit<br><br>**Responsibility**<br>Group Function Director Strategy & Planning<br>Group Managing Directors<br>Chief Financial Officer<br><br>**Risk appetite**<br>Balanced<br><br>**Likelihood/Impact**<br>High/High<br><br>**Proximity/Velocity**<br>1-2yrs/Low<br><br>**Strategy**<br>Global Leverage<br>Distinctive Offerings |

## The transformation and digitisation programme

| Risk | Impact | Mitigation | |
|---|---|---|---|
| The Transformation and Digitisation Programme aims to position QinetiQ for further growth by globalising consistently around the customer to deliver excellence. In order to achieve this we must invest in our processes and systems to embed a robust Global Operating Model, supported by digital transformation, including improved technology, data and analytics. This requires significant alignment and effort across the Group as well as cultural and behavioural changes.<br><br>There is a risk that the investment required to achieve the intended outcomes is greater than budgeted, that the programme benefits are not fully realised and our Group ambitions are constrained.<br><br>COVID-19:<br>The global restrictions imposed as a consequence of the pandemic presented the opportunity to accelerate parts of our digital programme resulting in enhanced global connectivity and the rapid adoption of hybrid-working. | Failure to realise benefits will challenge our ability to meet our strategic growth targets and limit our capacity to scale affordably. | Global Leadership Team workstream sponsorship and Group-wide stakeholder engagement.<br><br>Budget and scope managed through a robust project governance model reporting to the Global Leadership Team and Board that gives sufficient flexibility to respond to changing customer needs but with the guiderails in place to identify and control potential cost overruns.<br><br>Benefits realisation is managed through a strong focus on change management to drive adoption and the required changes to behaviours. For example key functions creating their own roadmaps to deliver a globalised service sponsored at Global Leadership level.<br><br>Identify and deploy the right people to deliver the programme and maximise the benefits. | **Metrics**<br>Customer satisfaction<br>Employee Engagement<br>All financial KPIs<br><br>**Responsibility**<br>Group Function Director Business Transformation & Services<br><br>**Risk appetite**<br>Balanced<br><br>**Likelihood/Impact**<br>High/High<br><br>**Proximity/Velocity**<br>0-1yrs/Medium<br><br>**Strategy**<br>Global Leverage<br>Distinctive Offerings<br>Disruptive Innovation |

# Risk management continued

## Operational risks

### Significant breach of relevant laws and regulations

| Risk | Impact | Mitigation | |
|---|---|---|---|
| We operate in highly regulated environments across many jurisdictions. Non-compliance to existing and new requirements, such as the Task Force on Climate-related Financial Disclosures (TCFD), presents risks to people, property and the environment as well as having the potential to compromise our ability to conduct business in certain markets, potentially having an impact on a variety of stakeholders.<br><br>COVID-19:<br>The consequences of the pandemic, including increased hybrid working and reduced numbers on-site, has the potential to exacerbate the risk of a safety or regulatory non-compliance. | Failure to comply with particular regulations could result in serious detriment to people, property and the environment, and/or a combination of fines, penalties, civil or criminal action, suspension or debarment from government contracts, as well as significant reputational damage to QinetiQ. | Maintaining and strengthening a proactive safety and regulatory compliance culture across the Group is a key part in minimising the risk of a failure.<br><br>The Group Operating Model clearly defines lines of responsibility through the organisation. In addition we have robust policy, procedures and mandatory training in place. The QinetiQ Code of Conduct sets out clear expectations for the Group and its employees; in some areas, such as bribery and corruption, the company adopts a zero tolerance approach.<br><br>We drive continuous improvement using a range of approaches such as audit and evaluation, focused training, strategic improvement programmes, and business objectives.<br><br>One example is our Group-wide Health, Safety and Environment strategy where each manager in the Group shares a supporting collective objective delivering personal ownership towards continuous safety improvement.<br><br>The effectiveness of our Internal Controls Framework is tested via the use of a Group-wide Board Assurance Map.<br><br>ESG risks are robustly managed under the CR&S Programme. | **Metrics**<br>Health, Safety & Environment<br>Mandatory training compliance<br>Commercial intermediary monitoring<br><br>**Responsibility**<br>Company Secretary/Group General Counsel<br>Group Function Director Technical<br>Group Managing Directors<br><br>**Risk appetite**<br>Cautious<br><br>**Likelihood/Impact**<br>Medium/High<br><br>**Proximity/Velocity**<br>0-1yr/High<br><br>**Strategy**<br>Global Leverage<br>Distinctive Offerings |

### Security and IT systems

| Risk | Impact | Mitigation | |
|---|---|---|---|
| A breach of physical or data security, cyber-attacks or IT systems failure leading to loss of customer or company information could have an adverse impact on our reputation, customer confidence and operational delivery.<br><br>COVID-19:<br>The consequences of the pandemic, including increased hybrid working, has the potential to exacerbate the data and cyber security risks. | Significant reputational damage, as well as service interruptions and the possibility of withdrawal of our accredited status (our "licence to operate") resulting in exclusion from some types of government contracts and subsequent impact on orders, revenue and profit. | As a key supplier in the Sovereign National Security supply chain, we must ensure that the organisation's security meets Governments' and other relevant requirements worldwide. We employ a holistic security threat approach through four interlocking pillars: Physical, Information, Cyber and Personnel Security. Our changing and increasingly sophisticated threat environment is continuously reviewed, using appropriate tools and techniques, as part of our over-arching Security Strategy such that new and emerging threats are removed or mitigated, ensuring our strategy appropriately balances the security, cost and flexibility required for any given solution.<br><br>Our programme of continuous security improvement includes:<br>• A Group Cyber Security Standard;<br>• Targeted Cyber Security Training for key IT employees;<br>• Deployment and continual upgrade of cyber security detection and protective technologies;<br>• Annual strategic security reviews;<br>• Mandatory security awareness training for all employees and contractors;<br>• Continuous Group-wide communications to employees;<br>• Annual group-wide Security Culture survey;<br>• Regular updates to the Risk & Security Committee.<br><br>Security culture, behaviour and ensuring our people have appropriate awareness of the threats to our organisation is critical to our risk mitigation. To further embed this we have introduced collective security objectives for our Leadership Teams.<br><br>Our on-going digital transformation and IT improvement programme continues to deliver improved IT robustness through a range of approaches including renewing IT systems and moving to cloud based solutions. | **Metrics**<br>Cyber dashboard<br>Security dashboard<br><br>**Responsibility**<br>Group Director Transformation and Business Services<br><br>**Risk appetite**<br>Cautious<br><br>**Likelihood/Impact**<br>High/High<br><br>**Proximity/Velocity**<br>0-1yr/High<br><br>**Strategy**<br>Global Leverage<br>Distinctive Offerings |

# Longer-term viability assessment

## Assessing the prospects of the Group

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

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

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 32 to 36, 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 83, is taken into account.

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

COVID-19 can manifest itself on Group performance through two key factors: lack of availability of key resource to provide our services due to illness or H&S restrictions; reduced availability of funds to our customers to procure our services. Both are considered within the Group's sensitivity analysis, with the former becoming a lower probability risk as the successful vaccination programme rolls out.

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 2026. This is the period covered by our strategic planning process and is subject to stress-testing and scenario planning around potential risks. It has been selected because it presents the Board and readers of the Annual Report with a reasonable degree of confidence while still providing an appropriate longer-term outlook.

## Confirmation of longer-term viability

As noted on page 116, 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 2026.

# 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 18 to 36. The Chief Financial Officer's review on pages 22 to 25 sets out details of the financial position of the Group, the cash flows, committed borrowing facilities, liquidity, and the Group's policies and processes for managing its capital and financial risks. Note 27 on page 150 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 COVID-19 crisis has introduced considerably more uncertainty across markets globally. As such the market conditions in which the Group operates are expected to be challenging as spending from the Group's key customers comes under pressure. Despite these challenges, and considering the decisive action already taken by management to maintain the strength of our business, 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 30 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 be sufficiently material to prevent the Group from continuing as a going concern for at least the next 12 months.

# Stakeholder engagement


## Understanding what matters to our stakeholders

### Customers

QinetiQ customers value the relationships we build with them and the time we invest in understanding their needs. They appreciate the depth and breadth of knowledge we apply to providing them with mission critical solutions and the flexibility we show in helping them reach their goals. They expect delivery to be on time, every time and to the highest standards.

| How we engage | Impact of engagement |
|---|---|
| Every QinetiQ customer has a delivery team continually engaging with them and adapting our approach to ensure their objectives are achieved. In addition, we regularly take the time to step back and listen and act upon our customers' views on our performance and relationships through our formal customer research systems. | Our delivery teams continually adapt our approach to ensure customers' needs are met. The formal feedback we receive is reviewed at all levels of our organisation to ensure we continuously improve and evolve our business processes and delivery solutions. |

### Shareholders

Our shareholders value sustainable and long-term growth delivered through the successful execution of our strategy. As part of this, they expect us to do business in a sustainable and ethical manner taking into account other key stakeholders.

| How we engage | Impact of engagement |
|---|---|
| We engaged with our shareholders during the year through virtual roadshows, results presentations and the AGM. In addition, our Chairman proactively engaged with shareholders to seek their views on the business, strategy and management team. Our Chair of the Remuneration Committee also met with several shareholders to seek their views on remuneration matters ahead of the AGM. | We greatly value our shareholders' feedback which is shared with the executive team and the Board. The feedback received during the year has influenced our strategic thinking. Following feedback from investors we have increased our emphasis on ESG related matters and are improving our disclosure accordingly. |

### Employees

Our employees want to work in a safe, diverse and inclusive environment that offers successful and rewarding careers. Our employees greatly value our engagement and efforts to action their feedback.

| How we engage | Impact of engagement |
|---|---|
| Our methods of engagement include: Quarterly Peakon surveys, Q-talks, Global roadshows led by our CEO and Global Leadership Team, our Global Employee Voice Group (GEV) and other engagement forums (e.g. works councils), as well as indirectly through feedback on platforms such as Glassdoor. | Our engagement has helped us to identify priority focus areas to improve the employee experience. By listening to our people we have been able to drive improvements in these areas which have been recognised in more recent Peakon surveys (equipment, growth and reward). Engagement with our employees has informed our response to the COVID-19 pandemic and our employees have been supportive of our approach. |

### Suppliers

Suppliers value a collaborative environment where they are treated fairly and are valued regardless of their respective size.

| How we engage | Impact of engagement |
|---|---|
| In addition to day-to-day engagement through normal business activity, we actively engaged with key partners through a series of "Board to Board" meetings. We engage with our suppliers through our QinetiQ Collaborate Programme, we seek new suppliers, through our presence at external events and engagement with Small to Medium sized Enterprises through our participation at "Meet the Buyer" events. | This engagement continues to ensure we are partnering effectively to support our customers. It gives us insight into industry developments and ensures effective collaboration between QinetiQ and its partners and suppliers. |

### Communities

Our communities want us to be considerate neighbours but also a source of future employment and opportunities.

| How we engage | Impact of engagement |
|---|---|
| We engage via a variety of community investment activity such as outreach, volunteering, supporting local charities and community liaison. | Our community investment activity is viewed positively. Through our community liaison, our regular updates have ensured local people are aware of our activity. Our outreach activity has provided benefit to young people. |

### Regulators

Our regulators expect us to meet high standards of safety and environmental stewardship and legal requirements.

| How we engage | Impact of engagement |
|---|---|
| We engage with regulators via meetings, audits and reports. | Through engagement we are able to ensure we continue to meet the high standards expected by regulators. |

See our **Section 172 (1) statement** on pages 48 to 49.

# Responsible and sustainable business

## Our focus on Environmental, Social and Governance issues

Our QinetiQ purpose and strategy is enabled by our high performance inclusive culture, underpinned by our values and behaviours and our commitment to deliver responsibly and sustainably for the benefit of all of our stakeholders.

## Strategy, materiality and stakeholder engagement

Our Corporate Responsibility and Sustainability (CR&S) strategy underpins our business strategy and is designed to meet stakeholder expectations across environmental, social and governance (ESG) themes. During FY21 we have been focusing on improving how CR&S is embedded in the strategic planning process and a review was undertaken, looking at our core non-financial KPIs. We have introduced some changes, including a new KPI for our greenhouse gas emissions, reflecting our focus on climate change (see page 27). By ensuring we are building ESG into the heart of our strategy and decision making we are better able to manage risks and create value.

To drive continuous improvement we regularly undertake materiality reviews; this structured process allows us to assess global trends, best practice (e.g. connecting with the Sustainable Development Goals), understand stakeholder expectations and align with our business strategy. The landscape is rapidly changing and it is important that we evolve our strategy to ensure we are focused on what is most important. CR&S progress and plans are tracked via monthly performance review by the GLT and we also ensure it is embedded across our risk management process. This ensures delivery of responsible business practice has top level support and is underpinned by strong governance.

Our Risk and CSR Committee has received reports and briefings on all material CR&S issues including business ethics, anti-bribery and corruption, health and safety, diversity and inclusion (D&I), environment, reputational risk and human rights (see page 92). This is supported by committees including the Business Ethics Committee and new Climate Change Steering Group. Following recognition of the growing importance of ESG issues to stakeholders, during FY21 we have transitioned reporting on CR&S to the Board directly, starting at the January Board meeting see page 56.

### Collaboration and engagement

Understanding the current priorities of our stakeholders (primarily customers, shareholders and employees) is achieved through regular engagement. Examples in FY21 include a focus on ESG in one of our Investor Seminars and a range of webinars for our employees. We are proactive in our sector, in FY21 accepting the Chair role for the Sustainability Working Group with our trade body and Industry co-Chair the Climate Change and Sustainability Steering Group in the UK Defence Suppliers Forum. We are also actively collaborating with customers and peers across topics such as ethics, D&I and skills. We have been leading a programme around the Sustainable Development Goals creating information sharing workshops for those in our sector to learn and share best practice.

## Our purpose

Protecting lives, defending sovereign capability and securing the vital interests of our customers

### Environmental

**Material issues**

Climate Change
Environmental Management
Waste and Resources
Conservation and Biodiversity
Sustainable solutions for customers
Financing linked to GHG targets

### Social

**Material issues**

Employee Engagement
Diversity and Inclusion
Employee Health Safety & Wellbeing
Employee Learning and Development
Employee Reward and Recognition
Community investment & STEM outreach

### Governance

**Material issues**

Business Ethics
Code of Conduct
Anti-bribery and Corruption
Tackling Modern Slavery
Ethical Trading Policy
Responsible & Sustainable Procurement
Leadership Remuneration

## Our values

**Integrity**
Fully supported by Board & GLT

**Collaboration**
Industry engagement and leadership
Cross-functional approach

**Performance**
MSCI: AA rating
Sustainalytics: A&D Sector Leader

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

# Responsible and sustainable business continued

## Environmental stewardship

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

### Greenhouse gas emissions and energy management

| | FY21 | FY20 | FY19 |
|---|---|---|---|
| Total Scope 1 emissions ($tCO_2e$) | 15,872△ | 19,289 | 20,096 |
| Total Scope 2 emissions ($tCO_2e$) | 13,572△ | 16,298 | 20,977 |
| Total Scope 1 & 2 emissions ($tCO_2e$) | 29,444 | 35,587 | 41,073 |
| Intensity ratio ($tCO_2e$ per £m of revenue) | 23△ | 33 | 45 |
| Energy consumption (kWh) resulting in above reported emissions | 122,808,625 | 139,780,656 | N/A |
| Proportion of energy consumption arising from UK operations (%) | 99% | 98% | N/A |
| Proportion of emissions arising from UK operations (%) | 99% | 98% | N/A |

△ Figures subject to FY21 assurance process undertaken by PwC.

In FY19 we set a target to reduce our scope 1 and 2 greenhouse gas (GHG) emissions by 25% by FY25 from an FY19 baseline (aligned with Science Based Targets) and continue to make good progress. We have seen a 28% reduction in our emissions (against the baseline); this has been primarily due to working differently during the COVID-19 pandemic, for example reduced use of QinetiQ vehicles and significantly less employees working on our sites. While it is positive that our emissions were less overall, we do expect some increase in FY22 as we see a change in working patterns.

We have been focusing on developing our net zero strategy and we plan to retain a FY25 target as an interim step. We continue to implement improvement programmes across our business, underpinned by our ISO 50001 certification; some examples of energy efficiency action taken in the year include:

- Upgrades to air conditioning units on our Malvern site, which will increase efficiency and significantly increase the proportion of free cooling. We have seen significant energy savings since installation.
- We have started a programme to remove and replace the use of Sulphur hexafluoride ($SF_6$) within some range equipment. While we only use very small amounts, this refrigerant has a very high global warming potential and so removal equates into a significant reduction of emissions.
- We own and manage a significant number of buildings and so have been emptying buildings no longer used, and moving to "background" heating, to minimise energy use but protect building fabric.
- We have engaged with employees through campaigns such as "the Battle of the Base-load" targeting unnecessary overnight and weekend energy consumption and holiday shutdowns and we have a monthly call with our Energy Champions to discuss projects and ideas.

In FY22 we will focus on:

- Developing our net zero strategy
- Further roll out of sub-metering
- Renewable generation using photovoltaic arrays and assessment of other potential capability
- Electric vehicles and charging infrastructure

PricewaterhouseCoopers LLP (PwC) carried out a limited assurance engagement on selected GHG emissions data for the year ending 31 March 2021 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/en/our-company/corporate-responsibility/climate-change). A summary of our Scope 1 and Scope 2 emissions is shown above; we have adopted a financial control approach and have used defra emission factors. The figures that have been covered by this assurance process are indicated in the table by the following symbol: △ We also publish here our energy performance and examples of energy action taken in the year, meeting the SECR (Streamlined Energy and Carbon Reporting) requirements.

#### Responding to climate change: TCFD reporting

During FY21 we have been preparing for the formal Task Force on Climate-related Financial Disclosures (TCFD) reporting requirements, which come into force for large companies in FY22. TCFD requires us to demonstrate our understanding of the impact and opportunities that climate change poses to QinetiQ Group over the short, medium and long term. This is not just physical risks (eg changes to temperature and precipitation) but "transition" risk, such as policy or disruptive technology as the world de-carbonises. To meet this requirement we will be using the framework recommended by TCFD, outlining our approach to governance, strategy, risk management and metrics and targets.

**Governance:** In FY21 we put in place a new Climate Change Steering Committee which is chaired by our CFO. We have clear oversight by both our GLT and our Board and will report regularly. We will also be working closely with senior leaders responsible for strategy and for risk.

**Strategy**: A key area will be for us to outline the actual and potential impacts of climate related risks and opportunities across the Group, and embed consideration of climate change into our strategy and financial planning. We will also be able to consider our resilience under different climate change scenarios.

**Risk management**: There is no one-size-fits-all methodology and we are selecting appropriate scenarios in order to undertake the physical risk assessments. We have previously undertaken climate change risks assessments for core sites and are looking to build on this to create a robust methodology to roll out to all sites and assets that enables us to identify, assess and then manage climate related risks. We are also working on our approach to transition risk, to reflect the territories where we have sites, customers and suppliers. We know that this is not a one-off exercise, but we will need to develop an approach that allows us to update appropriately.

**Metrics and targets**: In FY21 we updated our Group non-financial KPIs and will now be tracking our GHG emissions as one of our core KPIs (previously reported but not a KPI). We are transitioning from our current FY25 emissions reduction target (which focuses on scope 1 and scope 2 emission) to a net zero strategy. We will also need to look at specific metrics and targets to assess risk and build into our strategy and risk processes.

→ See our **Non-financial KPIs** on pages 26 to 27.

### Environmental stewardship

As part of our refreshed Global EHS Strategy (page 42), we strengthened our commitment to environmental stewardship. We work to protect our environment, minimising our footprint, seeking to enhance biodiversity and delivering responsibly and sustainably for our customers. This has been the case throughout the pandemic as we've maintained our focus on environmental protection while our sites have remained operational, as underpinned by our ISO 14001 certification in the UK and Canada. Environmental issues are reviewed regularly by the MDs and at the Risk & Security Committee.

Our waste target is to increase the annual proportion (%) of UK waste re-used and recycled from our underlying waste production. We have implemented Waste Management Action Plans at our significant waste producing sites which account for 95% of waste produced. Performance declined slightly with 81.5% (FY20: 84.7%) of underlying waste reused or recycled. This was mainly because our Disposals Management Group, as a key enabler of our reuse and recycling activities, was limited by COVID-19 restrictions. However total waste was significantly lower in FY21, down by approximately 34% on the previous year.

During the year we have engaged and communicated with our people on a range of environmental issues, explaining our approach to environmental stewardship and encouraging their participation. Although during the pandemic we've had to pause our environmental volunteering programme, we used World Environment Day as an opportunity to engage with our teams through various virtual events. We've helped to strengthen the links between good environmental stewardship and good business, for example how the business critical work on St. Kilda has been achieved through meticulous planning for environmental protection in this extremely sensitive habitat. Many of the sites we run on behalf of the UK MOD have significant conservation protection and so our Sustainability Appraisal approach ensures we can balance complex trials with careful protection of rare flora and fauna.

As we see our climate changing we are anticipating changes to habitats and so recognise the need to continue to balance operational resilience alongside potentially new populations of rare species. We also work with organisations such as Marwell Wildlife to facilitate research studies. Using our technical specialists, we took an innovative approach to understanding the potential acoustic impact on marine mammals of a new sea-skimming aerial target, to ensure delivery of a customer trial met our shared high standards of environmental stewardship.

### Sustainable solutions

QinetiQ's global team is driving military land platform electrification through the development of the third generation Modular E-X-Drive transmission. Working with BAE Systems as prime contractor, QinetiQ's world leading electric drive technology will be integrated into a Bradley Fighting Vehicle for demonstration in summer 2022. As part of a hybrid electric powertrain which is inherently more fuel efficient than a conventional mechanical system, E-X-Drive will deliver improved automotive performance, increased on board electrical power to feed integrated sub systems, as well as carbon emissions reduction supporting the sustainability goals of our customers.

# Responsible and sustainable business continued

## Social: Our people and our communities

We recognise that to support our strategy we must embed a high performance inclusive culture, where health, safety and wellbeing is a priority and our people are engaged, empowered and clear about how they contribute to our success and feel recognised. We strive to be a good neighbour and have a positive impact in the communities that we operate in.

### Improving the safety, health and wellbeing of our people

The health, safety and wellbeing of our people is our priority and with COVID-19, support for our people and their families has never been more important. Since 2017 when we launched our three year Environment, Health and Safety (EHS) strategy we have significantly reduced the number of safety incidents and contributed towards driving a new level of safety culture in our company. This year we have updated our EHS strategy with four key themes:

1. Enabling and empowering safe and competent people who are engaged to make informed EHS decisions
2. Building a community of strong, active and visible leaders who have a clear commitment to safety, employee wellbeing and environmental matters
3. Globalising our approach to EHS, so that we strengthen governance, support global working, and share best practice
4. Continuous monitoring and improving to strengthen performance and enhance employee wellbeing while creating a safe, successful and resilient business

The health and wellbeing of our people and the environment in which we operate are intrinsically linked to our success; with our people, investors and regulators expecting to see a commitment to continuous improvement. A focus area for the strategy has seen the development of a new EHS competency framework, which now clearly frames the knowledge, skills and behaviours needed for people to successfully carry out their role. Leaders and managers play a significant role in cultivating a culture of safety and wellbeing; leading the way and role modelling the right behaviours.

We will continue to provide a framework and tools to improve the conversations and engagement with our people, to communicate a clear message to support our EHS vision and strategy. We have a thriving global network of EHS practitioners, who engage regularly to support global working and share best practice.

#### COVID-19

Engaging regularly with our people, we put in place a range of guidance and controls to protect their safety, health and wellbeing, whether working at home or on site. This has included enabling 80% of our employees to work remotely with practical guidance, and office and IT equipment, developing a “working on site” policy, online training to support safe working on site, COVID-19 testing for those coming onto site and ensuring all our sites adhere to COVID-19 guidance in line with government regulations in each location.

Working through the pandemic has been challenging and so we have provided additional support through flexible working and special paid leave.

We have delivered a series of manager briefings to over 800 managers globally and in January we ran a company-wide, manager led intervention, to engage with our teams on COVID-19 related safety and wellbeing aspects. This has been positively received enabling our people to share their experiences and any challenges they face. We continue to monitor the advice and guidance provided by our home country governments ensuring the right precautions are in place which meet these requirements as well as our company standards.

In March 2021 there was an incident which resulted in one of our employees sustaining serious injuries. We are supporting external investigations and undertaking our own, to better understand what happened and any lessons we can learn and apply (see page 94).

Lost Time Incident (LTI) Rate[1]


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.

The LTI rate for the whole of the Group is a key non-financial KPI (see page 26) and has decreased from 2.7 in FY20 to 2.6 in FY21. Safety issues are part of a regular governance drumbeat, monthly through MD meetings, quarterly through GLT meetings and the Risk & Security Committee, with six monthly summary overviews to Board. There were no prosecutions, prohibition notices or improvement notices issued by regulators in the UK during the last financial year for safety or environmental matters.

**Wellbeing**

The wellbeing of our people has been one of our top priorities as we have navigated the pandemic. We have supported our people through a range of mechanisms, signposting to existing resources, such as our network of Mental Health First Aiders and our Employee Assistance Programme, while creating new guidance and resources, resilience workshops and a focus on managers regularly "checking-in"with their teams - to reflect not only that employees have had to adapt to working differently but also that COVID-19 impacted our wellbeing.

This year we have developed a new global wellbeing strategy, as part of the EHS strategy, which focuses on five pillars: physical health, mental health, personal growth, work environment and financial wellbeing. The strategy sets a five year timeline, to create and sustain a culture that will differentiate us in our sector, where all our people are proud to work and we are focused on both our personal and collective wellbeing.

## Engaging with our people

Our people have adapted quickly to new ways of working due to COVID-19. This has provided an opportunity to create a more flexible and inclusive working environment, with greater choice for our people to ensure they are at their most productive in hybrid ways of working, whether working remotely, on our sites or through a blended approach.

Employee engagement is a strategic priority and has been more important than ever through the pandemic. We measure engagement quarterly across the Group and it has continued to improve, with a score of 7.3 in January 2021 compared with 6.9 in January 2020. We continue to see good levels of participation (an average of 74%) similar to FY20. Listening and responding to feedback from our people has helped us improve the employee experience, ensuring we can identify the top priorities for us to address via our Engagement in Action plan. We introduced specific COVID-19 pandemic questions into Peakon to gain insights into how our people felt about our response to the pandemic. The feedback tells us that our people feel that we responded appropriately and implemented the right precautions to keep them safe.

We communicate regularly with our people through a range of channels and this was even more important this year as we adapted to the pandemic. Our Global Employee Roadshow became virtual to ensure we continued to provide clarity on our strategic priorities, and so employees know how they can contribute and are supported to deliver our goals; we had a higher than ever attendance. We also introduced a COVID-19 information hub, issued regular COVID-19 news bulletins to keep employees informed as government requirements and our own measures evolved across our home and priority countries.

We have revised the purpose and vision of the Employee Engagement Group and re-launched as the Global Employee Voice (GEV) which has representatives from each of our home and priority countries, including our subsidiary companies. The GEV meet regularly with the CEO and Group Director of Human Resources and the Chair actively participates at leadership engagements events. The GEV have met with the Chairman and Board members during the year (see page 68). We also have a range of employee networks as part of diversity and inclusion programme (see page 45).

To underpin our commitment to engagement, our leaders have a collective objective for engagement as part of their incentivisation. We have also maintained a focus on supporting managers, recognising the additional challenges they have faced with changes to our ways of working. We have provided additional toolkits and resources, to support wellbeing and virtual working.

Our voluntary turnover was 8.7% in FY21 compared with 9.7% in FY20 with key hotspots in markets such as US and Australia.

See our **Non-financial KPIs** on pages 26 to 27.

Our focus for FY22:

- Further improve employee engagement by focusing on our priority improvement areas
- Embed our Global Employee Voice approach
- Launch our global wellbeing strategy
- Continue to develop our approach to new ways of working, including leadership and employee support

## Social: Our people and communities continued

### Developing our people

As a result of the pandemic, we have adapted the way in which we deliver our learning and talent management programmes. Our priorities have focused on maintaining critical SQEP (Suitably Qualified and Experienced Person) capability, nurturing and growing our early careers talent pipeline and enabling our leaders to manage team and individual performance effectively as they adjusted to remote working or hybrid working practices in their teams. To achieve this we have;

- Developed a virtual corporate induction and manager team essentials programme for the UK
- Made significant progress in implementing globalised people systems and processes by deploying Success Factors, a global Human Resources Information System
- Increased our investment in and focus on early careers talent within Australia and UK
- Strengthened our in house coaching capability
- Continued collaboration with industry, e.g. the UK Defence Growth Partnership and STEM futures, focusing on future skills.
- Matured our Talent Management approach in areas of identification and assessment to enable global growth.

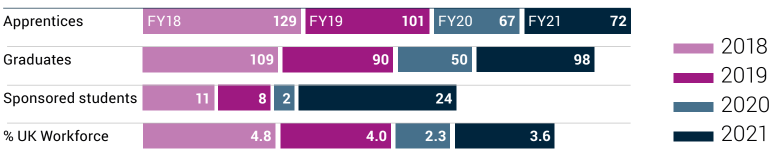
As a member of The 5% Club, we commit to publishing a breakdown of our UK early careers community (see chart below). We also show the percentage of our UK workforce that comprises early careers; this increased to 3.6% in FY21, compared with 2.3% in the previous year.

As well as providing apprenticeships for employees early in their career, we are also actively supporting 33 colleagues at later stages of their careers to undertake apprenticeships.

### Early careers

We have increased our investment in and focus on early careers talent, with a total of 229 apprentices, graduates and year-in-industry students at end of FY21. The FY21 UK intake has significantly increased compared with FY20. In Australia we continue to develop our early careers pipeline with a new cohort on-boarded virtually, building on the new approach developed in the UK. The virtual on-boarding included a range of channels and interventions and received great feedback from the community, winning an Innovation Award in the 2020 recognition programme. For the cohort that completed their programmes in 2020 we hosted a virtual celebration event. The engagement in this community has significantly improved (by 1.6) in Peakon since July 2020. The Early careers % continues to be a key KPI, and this year we have expanded it to be a Global, not just UK focused (see page 27). In addition, we provided 19 high quality, paid summer placements across our business.

See our **Non-financial KPIs** on pages 26 to 27.




Our focus for developing our people in FY22:

- Update and globalise mandatory training
- Continue to globalise our people systems and processes
- Use Success Factors to support career development and talent management
- Continue investment and development of our early careers talent
- Improve strategic workforce planning to underpin our skills and resourcing strategy

## Creating a diverse and inclusive environment

Our people are critical to our success, so it is vital that we create a workplace that is inclusive; where our differences are not only embraced but make us stronger. To achieve this our Inclusion 2025 strategy is focusing on building a workplace and culture where everyone can feel valued, be authentic and realise their full potential. Our focus in FY21 has been across three key themes, awareness of the importance of diversity and inclusion (D&I) to QinetiQ, leadership and employees.

- We have delivered awareness campaigns on the importance of D&I as well as targeted campaigns on autism, dyslexia, mental health, women in STEM, psychological safety, gender balance, Black History Month, LGBT History Month, the menopause and disability.
- We rolled out "inclusion" training for all employees and have developed a new resource hub on a wide range of D&I topics. We have also created a series of short tool-kits and have rolled out language and banter team discussion sessions, across the business.
- For the second year we had D&I as part of our leadership incentive scheme. Leaders were required to actively participate in D&I activity and over the course of the year have run team sessions, written blogs and supported reverse mentoring and employee networks.
- We have launched new employee networks to broaden the range of diversity focus. In addition we introduced D&I champions in each of our business units and functions (Terms of reference on page 80). Our champions and network leaders meet regularly to share ideas and best practice.
- Our reverse mentoring programme has been very successful with our second and third cohorts launched in FY21.
- Our continued focus on gender balance has ensured that for the third year QinetiQ has been awarded an "Employer of Choice for Gender Equality" citation in Australia.

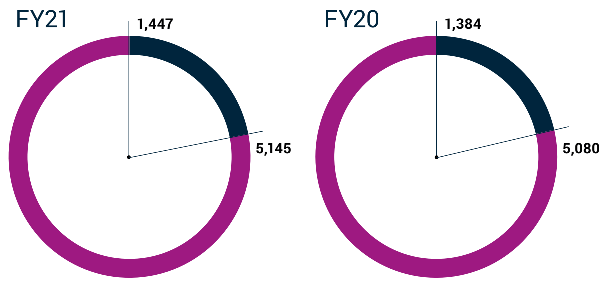
### Gender diversity

| | FY21 | | FY20 | |
|---|---|---|---|---|
| | Female | Male | Female | Male |
| Board directors[1] | 3 (37%) | 5 (63%) | 2 (22%) | 7 (78%) |
| Senior managers[2] | 57 (19%) | 239 (81%) | 54 (17%) | 267 (83%) |
| All employees[3] | 1,447 (22%) | 5,145 (78%) | 1,384 (20%) | 5,080 (80%) |

1 For more information on Board diversity see page 76.

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

3 Excluding senior managers.




**Total employee gender mix**

Male

Female

Our D&I priorities in FY22 will be to:

- Continue to raise awareness of the benefits of a high performing inclusive culture
- Mobilise our leaders to continue to undertake D&I activities
- Embed our D&I employee networks across the business
- Increase our focus on gender balance, working towards improving female representation at senior leadership level

# Responsible and sustainable business continued

## Social: Our people and communities continued

### Reward and recognition

Reward and recognition are key elements of our people strategy and an important part of our overall value proposition for employees. We have been listening to feedback and our focus in FY21 has been on rewarding for performance, our All Employee Incentive scheme, our Thank-Q programme and our approach to the gender pay gap.

Our Rewarding for Performance framework has continued to embed across the Group, including extending our Pay & Progression board and policy to be global. As part of initial response to COVID-19 our Board, GLT and senior leaders voluntarily took short-term measures to support our cost and cash conservation activities (see page 94 for details). Our All Employee Incentive Scheme (AEIS) for FY21 performance was increased to £1,250 for stretch performance (previously £1,000), and our FY21 award payout of £1,217 reflects the outstanding contribution by our people. Our Thank-Q programme continues to be the key mechanism for spontaneous through year employee recognition, and for FY21 we held a virtual gala event to recognise and celebrate those employees who have gone above an beyond. Our mean UK Gender Pay Gap for FY20 (reported in March 2021) has decreased to 13.9 % (14.8% in the previous year).

### Supporting the armed forces

As a signatory to the UK Armed Forces Covenant and Gold Award winners in the MOD Defence Employer Recognition Scheme, we are proud to support the armed forces, our own employees who serve as reservists, cadet force adult volunteers, forces spouses and cadets. This year we launched a new network for employees who are ex-military (veterans and reservists) as part of our D&I programme.

### Investing in our community

Our aim is to be a good neighbour to benefit the wider socio-economic wellbeing of the communities where we operate. Our approach is to understand local needs of the communities in which our businesses are based, and to align these with our business strategy and our employees' professional skills. We offer time for volunteering and one of the main ways we support our local communities is through STEM (science, technology, engineering and maths) outreach with young people, raising aspirations and signposting to rewarding careers. Due to COVID-19, we have had to quickly adapt our outreach activities, which have traditionally been in person and so could not continue safely in that format. With schools closed for part of the year and the need for our employees to focus on their core role to support national defence and security, we have not been able to reach as many young people directly through outreach activities as we have done in previous years. However, we adapted our volunteering criteria to recognise a new need in our communities and ways for our employees to contribute, for example supporting the emergency services. At a time when COVID-19 has caused significant uncertainty for many young people in education, it is important that we continue to play our part.


#### FY21 Case study

**International Women in Engineering Day (INWED): 23rd June 2020**

To celebrate INWED we ran a communications campaign and a series of virtual events; a webinar on engineers "Shaping the world" in Australia, "Meet the Engineer" panels in the UK, and in the US, a live practical activity. In each session, attendees were able to talk to our female engineer panellists about their career pathways.

We have valued the expertise of partners such as the Jon Egging Trust, STEM Learning and Primary Engineer in the UK to continue to understand young peoples' current needs, and to design and deliver virtual and remote outreach activities, which we can deliver globally. Our STEM Ambassadors have adapted resources and engaged with partner schools to adapt to their new needs.

Highlights in FY21 include:

- Adapting STEM Outreach activities to a virtual audience in the UK, US and Australia, such as a "Meet our Engineers" event for International Women in Engineering Day in June
- Our STEM Ambassadors engaged with an estimated 1,000 young people in the UK through bespoke online outreach activities, and through larger events or external organisers such as Ask Me I'm an Engineer
- Our Australia CR&S Committee continued to work together remotely and fundraise over $25k for a number of their chosen charities (eg supporting veterans, mental health and emergency services)
- Launch of a three-year charity partnership with SSAFA, The Armed Forces Charity, in the UK

In FY22 our focus will be:

- To further develop virtual STEM outreach resources and activities, reaching a wider and more diverse audience
- Continue to learn from and collaborate with our charity and outreach partners and contribute to employee engagement
- Focus on our Armed Forces Covenant commitments

# Governance: How we do business

This section focuses on how key aspects of governance support how we do business responsibly and sustainably. It is linked to our corporate governance section which provides detail on Board oversight.

## Business ethics – doing business the right way

Our Code of Conduct defines our ethical standards, providing clear direction and guidance on how we do business. It also contains information on ethical decision-making and how to seek help. We review it annually to reflect the evolving needs of our business, the regulatory environment and best practice. Annual business ethics training is mandatory and supports our people in understanding and using the Code of Conduct. The training is undertaken by our Board and is available to our suppliers and customers. We provide a number of challenging scenarios to help our people know what to do if they were to come across issues such as bribery, fraud, harassment, conflict of interest and modern slavery.

We strive to create an environment where our people feel confident to “speak up” and provide a number of different ways for them to seek help or raise concerns, which we promote in awareness campaigns, in the code of conduct and in our ethics training. They can talk to a manager, use our ethics email advice services, our global network of Ethics Champions and our independently run, 24/7, confidential reporting line. We have responded to all queries received via our ethics email advice services and confidential reporting line. These routes are also available to third parties. We provide guidance for managers on how to create 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. Our approach to confidential reporting is overseen by our Audit Committee (see page 88). Our ethics programme is overseen by our Business Ethics Committee, chaired by our Chief Ethics Officer (the Company Secretary). We are members of our trade association, ADS, Business Ethics Network where members can share best practice on ethics, human rights and anti-bribery.

## Anti-bribery and corruption (ABC)

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

## Human rights

As part of our ongoing programme to address modern slavery, we introduced a new action plan across the Group. We provide in-depth training to people in key roles and continue to develop new supporting resources for all employees. We regularly review our policies and 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 annual modern slavery and human trafficking statements are published on our website. We seek to anticipate, prevent and mitigate potential negative human rights impacts through our policy and processes, which underpin our commitment to responsible business practices. For example, we address salient human rights issues through our Code of Conduct, 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 and regular self-assessment with oversight by our Business Ethics Committee. We believe that this integrated approach is effective in ensuring our business acts responsibly and respects all human rights.

## Working with our supply chain

Our supply chain is an extension of our own organisation. We ensure that it is 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 important to us. We are signatories to the UK Prompt Payment Code, and report our payment details as required by legislation. We focused on paying small supplier early through COVID-19. In FY21 we ran supplier events to raise awareness of issues such as social value and modern slavery. Working in collaboration with wider industry we foster and develop ecosystems which draw together communities to answer complex science, engineering and technology challenges, supporting our customer offering. Through this approach we enable access to opportunities of Small to Medium Sized Enterprises and non-traditional defence suppliers, removing barriers of entry and promoting inclusive procurement.

# Section 172 (1) statement

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

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

| s. 172(1) matter | Relevant disclosures |
|---|---|
| (a) The likely consequences of any decision in the long term | Company purpose – pages 39 and 65<br>Business model – pages 10–11<br>Strategy – page 16<br>Dividend policy – page 25<br>Longer-term viability statement – page 37 |
| (b) The interests of the Company's employees | Improving the safety, health and wellbeing of our people – pages 42–43<br>Engaging with our people – page 43<br>Developing our people – page 44<br>Rewarding and recognising our people – page 46<br>Non-financial information statement – pages 50–51<br>Board employee engagement – pages 67–68<br>Diversity and inclusion – page 45 and 79 to 80 |
| (c) The need to foster the Company's business relationships with suppliers, customers and others | Business ethics – doing business the right way – page 47<br>Anti-bribery and corruption – pages 47 and 51<br>Human rights – pages 47 and 51<br>Modern slavery – pages 47 and 51<br>Supply chains – page 47<br>Supplier stakeholder management – page 47 |
| (d) The impact of the Company's operations on the community and the environment | Responding to climate change – pages 40–41<br>Greenhouse gas emissions and energy management – page 40<br>Investing in our community – page 46<br>TCFD disclosures – page 40 |
| (e) The desirability of the Company maintaining a reputation for high standards of business conduct | Stakeholder propositions – page 4<br>Our sustainable business model – pages 10–11<br>Our values – page 6<br>Our Culture – page 66<br>Our approach to responsible and sustainable business – page 39<br>Internal controls – page 86 |
| (f) The need to act fairly between members of the Company | Investor engagement – pages 69–70<br>The Annual General meeting – page 71 |

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

- An annual strategy meeting which assesses the long-term sustainable success of the Group and our impact on key Stakeholders
- The Board's risk management procedures identify the potential consequences of decisions in the short, medium and long term so that mitigation plans can be put in place to prevent, reduce or eliminate risks to our business and wider stakeholders (see pages 30 to 36)
- The Board sets the Group's purpose, values and strategy and ensures it is aligned with our culture (see page 65)
- Direct and indirect stakeholder engagement (see pages 38 and 67 to 71)
- External assurance is received through audits, stakeholder surveys and reports from brokers and advisers
- Specific training for our Directors and senior managers (see page 82)
- Regularly scheduled Board presentations and reports, by way of example: customer engagement, risk register reports, health & safety reports, whistle blowing reports (if relevant), defence process review, dividend policy and people and culture strategy and developments
- The discharge of Directors' duties and oversight of these duties, of which further details are included in the Governance section
- Corporate responsibility, including business ethics, anti-bribery and corruption, human rights, environmental stewardship and use of resources, sustainable solutions, greenhouse gas emissions and energy management, investing in our local communities and our commitment to the armed forces
- Formal consideration of any these factors which are relevant to any major decisions taken by the Board throughout the year
- Review of many of these topics through the risk management process and other standard Audit Committee, Risk & CSR Committee and Remuneration Committee agenda items

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

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

## Board activity and principal decisions in FY21

The principal decisions taken by the Board in FY21 are detailed on pages 60 to 64. These decisions cover a variety of topics, including the Group's response to COVID-19, our Environment, Health and Safety strategy and portfolio optimisation decisions. Due to the nature of these decisions, a variety of stakeholders had to be factored into the Board's discussions.

# Non-financial information statement

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

We have a range of policy and guidance, some of which is published on our website: www.QinetiQ.com.

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



| Non-financial information | Section | Pages |
|---|---|---|
| Business model | Business model | 10–11 |
| Policies | Non-financial information statement | 50–51 |
| Principal risks | Risk review | 31–32 |
| | Principal risk management | 32–36 |
| | Risk performance | 32–36 |
| Key performance indicators | Key performance indicators | 26–29 |



## Our people

| Policy statement | Description |
|---|---|
| Code of Conduct | Our Code of conduct lays out our ethical standards, providing our people with clear direction and guidance on how we do business across the Company. There are details on ethical decision making and also how to seek help and raise concerns. The code is structured to include a range of advice for our people, our customers and partners, our company and shareholders and our communities and the public. We review our Code of Conduct annually to reflect the needs of our business, regulations and best practice. |
| Health and safety | Our Health and Safety policy outlines our commitment to continuously improving standards of safety management and compliance. The effectiveness of the policy is governed through our assurance process and our six-monthly self certification. Safety issues are part of a regular governance timetable, monthly through MD meetings, quarterly through Global Leadership Team (GLT) meetings and Board with a six-monthly summary overview to the Board. |
| Diversity and inclusion | Our Equality, Diversity and Inclusion (ED&I) policy details our approach to promoting ED&I in our workplace. The effectiveness is governed via our assurance processes and KPI with monthly oversight by our GLT as well as regular oversight by the Board. |

## The environment

| Policy statement | Description |
|---|---|
| Environmental management | We are committed to embedding an environmentally sustainable approach to business because we understand its importance to our business and our stakeholders. The effectiveness of our policy is governed through our assurance process and our six-monthly self certification. Environmental issues are part of a regular governance timetable, with oversight by the GLT and the Board. We are certified to ISO 14001 in the UK and Canada and so are subject to external audit. |
| Energy and carbon management | Underpinning our ISO 50001 certified energy management system is our energy and carbon management policy, which creates the framework for our Energy Management Action plans. Our policy is part of regular governance review and self certification as well as external audit to ensure we are meeting certification requirements. |
| Waste management | We recognise that reducing waste meets our sustainability goals, and improves efficiency. The effectiveness is governed via our assurance processes and KPI with monthly oversight by our GLT as well as regular oversight by the Board. |
| Sustainability appraisal | Sustainability appraisals are required under the LTPA. They involve an assessment of an activity across 16 sustainability themes. The effectiveness is governed via our assurance processes as well as regular review and oversight by the UK MOD customer. |

## Community and Society

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

## Human rights

| Policy statement | Description |
|---|---|
| Human rights | We seek to anticipate and prevent potential negative human rights impacts through our policy and processes and address salient human rights issues through our Code of Conduct, trading policy, international business risk management process and export controls process. We monitor the application of these policies through our business assurance processes and regular self assessment and with leadership oversight (GLT and Board). We believe that this integrated approach is effective in ensuring our business acts responsibly and respects human rights. |
| Modern slavery | Our policy focuses on management of the supply chain and the requirements for due diligence. In addition we include modern slavery in our resourcing policy. The effectiveness is monitoring via our assurance programme and leadership oversight (GLT and Board). |
| Supply chain code of conduct | Our supplier code of conduct helps ensure our suppliers have clarity on our expectations on human rights issues. |
| International trade compliance | As an international business, it is vital that we operate fully within the requirements of international export requirements and this is address by our policy. The effectiveness is monitoring via our assurance programme and leadership oversight (GLT and Board). |

## Anti-bribery and anti-corruption

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