

QINETIQ

QinetiQ Group plc

Annual Report & Accounts 2020



Create it
Test it
Use it



Our purpose

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

Who we are

QinetiQ is a leading science and engineering company operating primarily in the defence, security and critical infrastructure markets.

We are an information, knowledge and technology based company with the breadth and depth of more than 6,000 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 can we develop cutting-edge technology and turn it into a capability, we can 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 FY20/2020 refers to QinetiQ's financial year ended 31 March 2020.

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

Front cover image:

An unmanned aircraft system deploying an underwater vehicle as part of a recent Royal Navy trial.

Inside front cover:

A trial taking place in our anechoic test facility at MOD Boscombe Down.

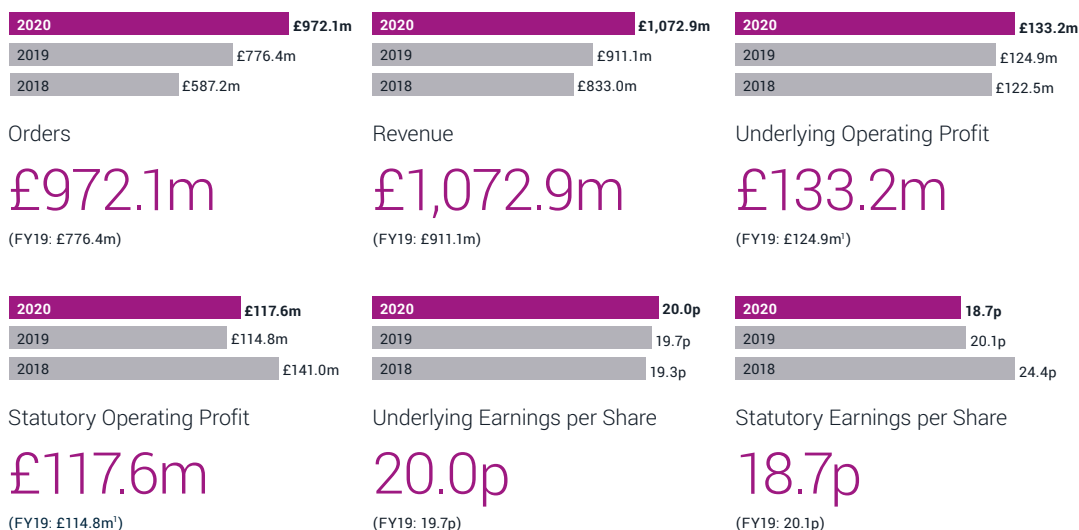


See more online at www.QinetiQ.com

How we have performed

Financial highlights

We delivered our fourth consecutive year of growth



¹ Prior year comparatives for 2019 have been restated due to a change in accounting policy in respect of leases. See note 37 on page 172 for details.

Strategic highlights

We continued to make good strategic progress

Completed two strategic acquisitions

Acquired Manufacturing Techniques Inc. (MTEQ) in the US for \$105m and NSC in the UK for £14m.

Won four long-term contracts

Secured four long-term contracts driving improved revenue visibility.

Improved employee engagement

Supported by engagement initiatives our employee engagement score increased by 10%.

Grew international revenue to 31%

We have grown our international revenue from 21% to 31% of Group over the past four years.

Secured £168m of orders through EDP

Our innovative delivery model for engineering services continued to drive performance.

Continued to transform the LTPA

Successfully delivered first year of the transition to new ways of working.

Strategic report

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Financial statements

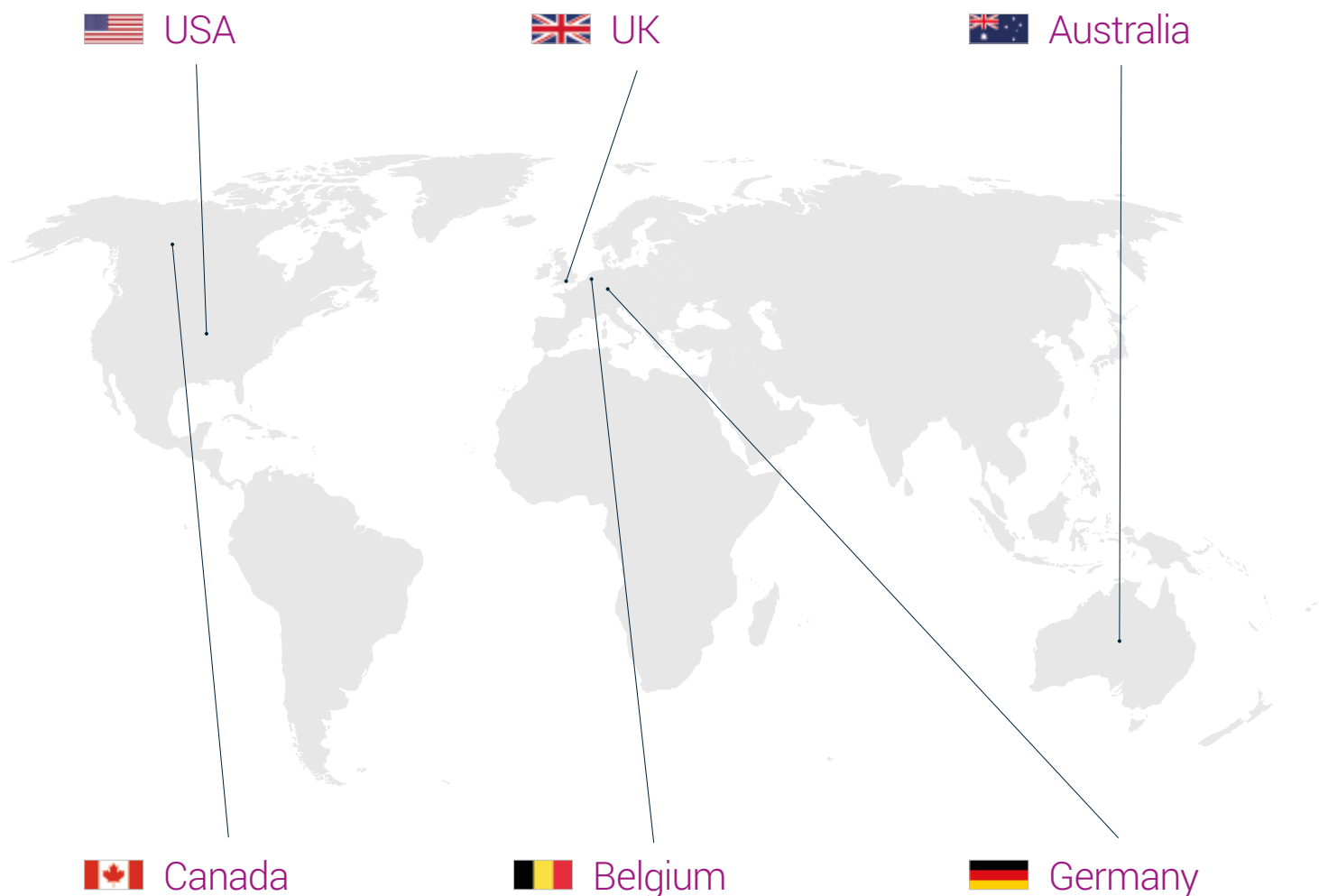
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Where we operate

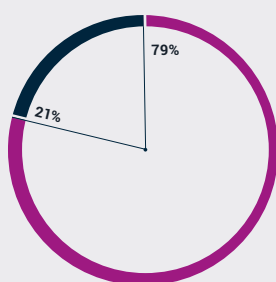
We are a global company with operations around the world. Our home countries, where we have more than 250 people in-country are the UK, the US and Australia. Our priority countries for future growth are Canada, Germany and Belgium.



Revenue by geography

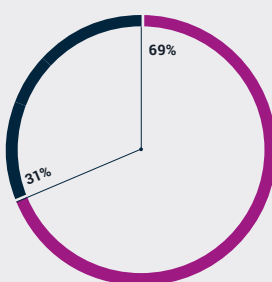
A core pillar of our strategy is to grow our international revenue to 50% of Group. Since we launched our strategy in 2016 we have grown our international revenue from 21% to 31% of Group revenue, supported by both organic and inorganic growth.

2016



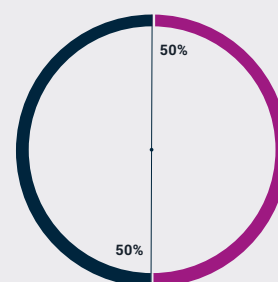
UK £597m
International £158m

2020



UK £740m
International £333m

2024+



UK
International

For more information see our strategy on page 18.

How we are structured

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

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.

Air & Space

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

Approximate revenue

£200m

Maritime & Land

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

Approximate revenue

£315m

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

£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

£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. This business unit comprises our existing US operations as well as MTEQ.

Approximate revenue

£120m

OptaSense

Provides innovative fibre sensing solutions that deliver decision-ready data to key energy and infrastructure markets.

Approximate revenue

£25m

Space Products

Develops small satellites, payload instruments, sub-systems and ground station services.

Approximate revenue

£25m

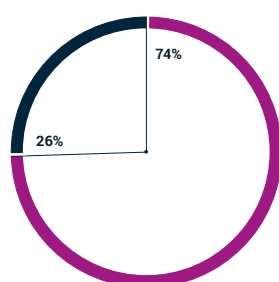
EMEA Products

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

£105m

Revenue by division



EMEA Services **£797m**
Group Products **£276m**



Customer proposition

We deliver mission-led innovation by applying our core science and engineering expertise to enable agile development of solutions to meet our customers' needs; creating, testing and using critical defence and security capabilities.

Create it

Rapidly creating new capabilities

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.



Test it

Assuring capabilities work when 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 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.



Create it

"Our innovative approach will meet the Government's objectives and produce an integrated prototype system that delivers game-changing situational awareness."

Mary Williams – President, QinetiQ US.

Next generation bomb suit

Dramatically increasing survivability, mobility and situational awareness

MTEQ, which we acquired in December 2019, was awarded a contract to create the next generation of bomb suits for the US Army. This modernises legacy bomb suit systems integrating a modular sensor suite and heads up display capabilities to provide technicians with revolutionary protection, mobility and situational awareness.

Test it

"We are making a massive investment to create a modernised LTPA and the OASIS contract will be able to turn this investment into real value for our customers."

Steve Fitz-Gerald – Group MD, Maritime & Land.

Helping to protect UK ships and submarines

Measuring and understanding the unique acoustic and electromagnetic signature of all Royal Navy vessels

The ability to maintain an in-depth knowledge of a ship or submarines acoustic and electromagnetic signature is a critical part of maintaining a battle winning edge, helping to ensure you can see your adversaries before they can see you. Through the £19m Operational Assessment of Signatures Informing Susceptibility (OASIS) contract awarded in August 2019, we will support the Royal Navy in understanding this signature over the lifetime of a vessel. The service provided through the Long Term Partnering Agreement (LTPA) builds on our investment to lead and modernise UK Test & Evaluation and not only helps to protect the fleet of today, but also helps inform the fleet of tomorrow.

Use it

"The course is completely new, it's modular, it's much more flexible and that allows us to provide a bespoke training package to our many customers."

Isabelle de Montet-Guerin, Fixed Wing Test Pilot Tutor.

Empire Test Pilots' School

Shaping talented pilots, engineers and aircrew into flight test professionals

Modern flight test programmes are complex and expensive endeavours, requiring a high level of knowledge, skill and hard work in order to get the maximum capability for defence from their air systems. Realising this potential while ensuring our aircraft remain safe to operate requires trained specialists with expertise in a broad range of theoretical, practical and analytical disciplines. Building upon our LTPA investment, we have successfully delivered the first year of our new modernised course, which imparts these skills to our trainees.

Employee proposition

As a business built on the skills and experience of our people, recruiting, engaging and developing high-quality employees is critical to our long-term success. We recognise that motivated and talented people are critical to the success of our company. Our goal is to offer employees:



Meaningful work

People around the world depend on us for their safety and security, and to enable the safety and security of others. We understand the nature of this responsibility and take pride in its delivery.

- We create, test and enable the effective use of new ways to save lives
- Reducing risks to society
- And helping to maintain the global infrastructure on which we all depend



Intellectual stimulation

Working at the cutting-edge of technology and innovation, our people have the chance to explore what is possible today and to shape tomorrow, collaborating with diverse teams to solve complex problems.

- We are creating a unique high-performance culture
- Where teams from different backgrounds, disciplines and experiences collaborate widely and openly
- Constantly discovering new ways of solving complex problems



The right environment

A unique environment, where we provide the leadership and infrastructure that supports our teams to deliver mission-led innovation for our customers' advantage.

- A clearly stated strategy aligns our direction of travel
- From flexible working, and tangible rewards for collective success, we create opportunities for meaningful work
- Providing professional development and supporting personal wellbeing

 For more information on how we engage with our employees see page 41.

Partner proposition

We partner with complementary organisations including academia, SMEs and other defence companies, ensuring we deliver the best solutions for our customers. We offer these organisations:

A common purpose


Working with partners whose values and culture align with our own, we are committed to delivering mission-led innovation for our customers' advantage.

Genuine collaboration

Collaboration is one of our core values and we recognise we can achieve more by working together, adopting an open and honest approach.

Fair and sustainable approach

We aim to treat our partners fairly, ensuring we act with integrity and have equitable contractual terms. This extends to ensuring we are financially responsible.

 For more information on how we engage with our partners see 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

We operate unique capabilities around the world critical to maintaining national defence and security

- A key partner to UK defence
- Leading technical expertise and state of the art facilities
- High barriers to entry

6,000+

highly dedicated employees

>50

specialised sites around the world



Attractive markets

Growing exposure to attractive international markets

- Significant presence in high-growth home countries; the US and Australia
- Ambition to increase international revenue to 50% of Group
- Supported by our customer focused approach to delivering mission-led innovation

£8bn+

addressable market

31%

of FY20 revenue generated in international markets



A clear strategy

We have a clear strategy to deliver long-term sustainable growth in our business focused on:

- Leading and modernising UK Test & Evaluation
- Building an international company
- Innovating for our customers' advantage

£370m

investment to modernise UK Test & Evaluation

111%

growth in international revenue over four years



Attractive financials

Attractive financial characteristics supported by a strong balance sheet

- Long-term contracts provide good visibility
- A cash generative business model and a clear capital allocation policy
- Investing for growth with the ability to self-fund organic and inorganic investment

£850m

of FY21 revenue under contract

£85m

of net cash



Sustainable growth

Delivering sustainable growth and returns to our shareholders


- Fourth year of organic revenue growth and second year of organic profit growth
- Complemented with well performing acquisitions
- Progressive dividend policy

18%

revenue growth (FY19: 9%)

2%

underlying EPS growth (FY19: 2%)

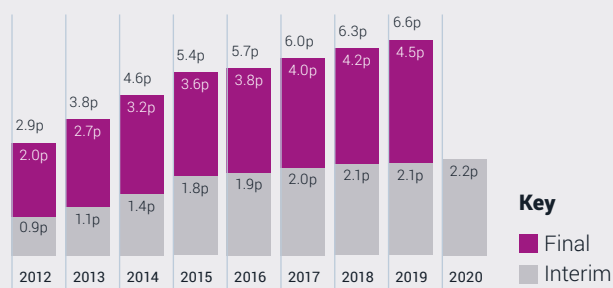
 For more information on how we engage with our investors see page 66.

Chairman's statement

Taking steps to secure our long-term success



"With talented people, attractive and growing end markets and a strong management team, QinetiQ is well positioned to deliver long-term sustainable growth."



In light of the uncertainty created by COVID-19 a decision on the dividend has been deferred until a later date.

See our Board of Directors on page 60.

See our Governance framework on page 62.

It has been just over a year since I was appointed to the Board of QinetiQ. I was fortunate to have joined a company in a very strong position, with a clear strategy that is being well executed. A fourth year of growth is further evidence of this with many key strategic milestones delivered, including the acquisition of MTEQ.

My predecessor Mark Elliott envisaged the renaissance of QinetiQ and appointed a strong and effective executive team. I should like to thank Mark for his successful stewardship during a critical period of change for the company.

Since joining, I have spent time getting to know QinetiQ, visiting our sites and meeting both UK and international teams. I have enjoyed spending time with our apprentices and graduates, and with our senior managers, engineers, scientists and range staff and have been consistently impressed with the breadth and depth of their knowledge, experience and enthusiasm – our people are incredibly talented scientists, engineers and technicians. They have a strong sense of purpose and customer focus. They understand how important their work is to protecting and saving lives, defending sovereign interests and delivering unique capability. At all levels I meet teams embracing culture change and recognising that it is their responsibility to not only satisfy but exceed customer expectations.

I have also had positive discussions with our Employee Engagement Group (EEG). Formed of elected representatives from across our company their role is to act as the formal employee voice within QinetiQ. The EEG provides the Board and our executive team with valuable insights into how our employees are feeling and we actively engage with them during key decision making processes to help inform our thinking. I would like to thank them for their valuable contribution during the course of the year.

Like all businesses, we have felt the effects of the COVID-19 pandemic which has fundamentally changed the way we operate. Our top priority remains the health, safety and wellbeing of our people and we have had to overcome the challenge of continuing to deliver for our customers while ensuring it is safe to do so. We have adapted quickly to the new-norm and harnessed technology to assist with smarter-working. We are, in this process, learning important lessons which will become embedded in our future structures and processes.

We are fortunate to have entered this crisis from a position of great strength, however with national safeguarding measures in all of our key markets, we do anticipate seeing less-critical customer work being deferred or delayed in the short-term. Given the uncertainty COVID-19 creates, as a Board we believe it is prudent to maintain a cautious approach until there is greater

clarity around the medium-term commercial impact of the global pandemic and any longer-term systemic changes. Consequently, we are deferring our decision on the final FY20 dividend until there is greater clarity on the situation.

Taking a longer-term view, with talented people, attractive and growing end markets and a strong management team, QinetiQ is well positioned to deliver sustainable growth. We are putting in place the structures to ensure this growth continues to be effectively managed and governed, and using the current environment to accelerate some of these changes. We are implementing a new global operating model, appropriate for an integrated defence and security business with international operations. We have strengthened our management team welcoming Mary Williams from MTEQ as our new president of QinetiQ in the US.

Delivery of long-term growth is also dependent upon our ability to operate safely, sustainably and responsibly. Since joining, I have been impressed with the Board's rigorous focus on ensuring the risks within our business are well understood and appropriately managed. While we did not anticipate the COVID-19 situation itself, our response has been built upon preparations made as part of our ongoing approach to risk management. I have emphasised the importance of our people and we continue to implement changes to make QinetiQ a better place to work. While there is still more to do, our employee engagement scores have increased by 10% with three quarters of our people taking part. Environmental concerns have rightly become much more prevalent, there is no doubt that our climate is changing at unprecedented rates. We are actively looking at ways to reduce our environmental impact and to ensure our business is resilient to the effects of climate change.

There will be some changes to the membership of the Board this year. Paul Murray, who has chaired the Audit Committee with great skill and diligence retires after nine years and will hand over to Shonaid Jemmett-Page. Admiral Sir James Burnell-Nugent will retire at the end of 2020, again having served for more than nine years as the highly effective chair of the Risk Committee, and will hand over to his successor. I should like formally to thank Paul and James for their outstanding contributions to QinetiQ over many years and look forward to welcoming Shonaid to the Board.

I, and the entire QinetiQ Board, want to thank all our teams globally for their continued support and energy in sustaining our company and delivering outstanding service to our customers and nations. In time I believe we will look back on this period as the crucible in which a stronger and more vibrant QinetiQ was forged.

Neil Johnson
Non-executive Chairman

21 May 2020

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.

Chief Executive Officer's review

Entering FY21 from a position of strength



"The steps we are taking will preserve our balance sheet strength and retain the critical talent we need within our company."

Current impact from COVID-19

Our EMEA Services division benefits from long-term contracts, performing work that is critical to sovereign defence capabilities. To date, the effects of COVID-19 have been limited within this division. We have experienced some limited delays in trial activity, and in Germany a reduction in flying hours, while other work more directly associated with the response to COVID-19 has been accelerated. While many of our employees are able to work effectively and productively from home, similar requirements for our customers and partners to do the same are likely to have a knock-on effect to our business, although it is difficult to quantify the effects at this stage.

The scale and impact of COVID-19 became increasingly apparent as we approached our year end. As we enter FY21, we are seeing isolated effects to our business associated with the restrictions on travel and requirements to implement social distancing. These effects are more likely in our shorter-cycle products business outside of our home and priority countries, particularly within QinetiQ Target Systems where some customers have delayed trial activity and reduced orders for targets.

Strategic response to COVID-19

We entered FY21 in a very strong position, with a large order book and net cash on our balance sheet. Despite our resilient business model and strong financial position, we think it is appropriate to be prudent and have taken decisive action now to maintain the strength of our business in the long-term interests of our employees, customers and investors.

The COVID-19 crisis creates uncertainty and as yet, with no clear guidance on the scale back of national safeguarding measures as well as the potential knock-on impact to customer priorities and budgets, we are taking an appropriately cautious approach. We hope the impact is less pronounced than we are planning for, in which case we will be able to remove the actions quickly.

We are ensuring that our strategic response to the COVID-19 crisis is fair, balanced and proportionate across all our stakeholders, enabling us to be agile and proactive so that we can emerge from the crisis as a stronger more agile company and pursue medium to long-term growth.

Through the consistent and successful implementation of our strategy we have delivered our fourth year of growth. Our FY20 performance was strong, with the largest order intake in nearly a decade, revenue growth of 18% and operating profit growth of 7%. We also completed our largest acquisition to date under our strategy with the purchase of MTEQ. This significantly enhances our capabilities in sensing technology, complements our existing US business and expands our presence in the world's largest defence market. With our strategy firmly embedded and delivering consistent results, we are taking steps to mature our organisation ensuring we have the right teams, systems and processes in place to continue building a truly integrated global defence and security company.

Having launched our vision-based strategy in 2016, we are delivering significant progress and continue to drive its implementation. Our strategy has three mutually reinforcing pillars: 1) leading and modernising UK Defence Test & Evaluation (T&E), 2) building an international company, and 3) innovating to deliver advantage to our customers.

During the course of FY20 we secured many strategic achievements, winning significant orders, delivering for our customers, investing in our capabilities and successfully acquiring two businesses. What has been particularly notable is the consistency of performance across our business. The growth we are delivering is across all areas of QinetiQ, both within EMEA Services and Global Products in the UK and internationally.

1) Our employees

Short-term

Our primary concern is for our people, whose knowledge and expertise are key to our success. Globally, we are taking steps to ensure that employees can work effectively and safely from home while continuing to feel supported. For those employees who need to work on our sites to enable delivery of critical defence and national security programmes, we have implemented a range of safeguarding measures including social distancing, additional cleaning services and provision of personal protection equipment as necessary to ensure our working environments are safe and clean.

Longer-term

With nearly 80% of our employees working from home, our people have successfully risen to the challenge of extensive remote working delivering high levels of productivity and effectiveness. To support longer-term remote working we are accelerating aspects of our digital transformation and evolving our functional delivery model. We are continuing our employee engagement activity using virtual rather than physical meetings building on the positive 10% increase in engagement scores we delivered during FY20. We have continued our All Employee Incentive Scheme, which we introduced last year, which will pay each employee £740 in QinetiQ shares and is a key enabler for growth by aligning our employee and shareholder interests.

2) Our customers

Short-term

The work QinetiQ does is vital to maintaining the capabilities of defence, security and critical national infrastructure, including the emergency services. Our customers are facing significant challenges due to the threat of COVID-19, and we are working closely with them to provide support delivering their priorities at this critical time. We are proud of the role we play in this regard, and we are aware of the responsibilities that we are fulfilling.

Longer-term

We are partnering with customers to understand how their longer-term needs will evolve. We anticipate that future defence and security budgets are likely to come under pressure as the full financial impact to governments of COVID-19 is understood. While overall budgets may come under pressure, we anticipate there being areas within overall defence spending, aligned with our strategy, that will continue to grow. We occupy a privileged position in defence with very close customer relationships and as such are able to advise on defence and security priorities as well as upgrading existing capabilities to respond to the latest threats.

We believe the challenges COVID-19 creates will accelerate the shift to a new defence paradigm that puts rapid, mission-led innovation at the centre of procurement, a trend that is well aligned with our own innovation strategy, expertise and recently acquired businesses. Our strategy, which we have been successfully implementing over the last four years, was developed in a constrained budgetary environment, and as such we are confident we can continue to deliver medium to long-term and profitable growth despite potential macro headwinds.

3) Our company

Short-term

To protect our business we are implementing a series of short-term actions to sustain our skills and critical capabilities for the long-term. These temporary actions include the CEO and CFO volunteering a salary reduction of c.33% and the wider

Board volunteering a 25% reduction in fees. We are also taking a prudent approach to controlling cash outflows, including reducing operating expenditure and deferring discretionary capital expenditure. All bonuses will be paid in shares.

Given the unprecedented nature of COVID-19 and the Board's wish to adopt a prudent course of action to protect the long-term, it will postpone the decision on the proposal of a dividend until a later date. This decision was not taken lightly and will be reviewed as soon as sensible to do so.

We have a strong balance sheet with £85m of net cash available and an undrawn committed revolving credit facility of £275m. The initial five-year facility has been extended by one year to September 2024 and has a further option to extend by one more year to September 2025.

Longer-term

With 92% of our revenue delivered within our six home or priority countries, we have a resilient business model and growth strategy. We believe that the steps we are taking will preserve our balance sheet strength and retain the critical talent we need within our company. Our aim is to emerge from the current crisis able to continue accelerating our strategy to meet the needs of a new world, delivering both organic and inorganic growth.

We are continuing to make good progress on the integration of our acquisitions of MTEQ and NSC. In the US, we are successfully moving our governance structure to a Special Security Agreement (SSA), which will allow greater coordination and collaboration with QinetiQ globally supporting our longer term growth.

In April, we implemented our new global operating model, simplifying our management structure, digitalising our business, leveraging our capabilities globally and driving a performance culture across the organisation.

By taking prudent actions to preserve our balance sheet, we will be well placed to take advantage of the opportunities created by the current crisis, particularly in M&A. Our strategy has enabled us to successfully grow in an uncertain world over the last four years by adding value to our customers. Whilst the world has changed around us, our strategy is unchanged and is more relevant than ever to meet the needs of our customers in this new world.

Outlook – FY21

While we enter FY21 in a position of strength, it is too early to draw conclusions on the overall impact of COVID-19 to our business. At this stage we are planning for a range of outcomes depending upon the duration and extent of national safeguarding measures and any potential budget pressures. We have implemented short-term temporary actions to mitigate the immediate challenges and will provide further updates to the market as we gain more clarity both in terms of near-term trading and longer-term trends.

Outlook – Longer term

With the continued implementation of our strategy and investment, we are well placed to respond to changing customer requirements delivering medium to long-term, profitable growth.

Steve Wadey
Chief Executive Officer

21 May 2020

Our sustainable business model

Our fundamental strengths

Our people

The majority of our 6,000+ employees are highly skilled scientists, engineers and technicians with deep domain knowledge and experience. Our success is dependent on our people and we are investing to support their career development, wellbeing and engagement.

Customer focus

Adopting innovative and responsive approaches to meet our customers' needs, our people are inherently customer focused. We strive to provide outstanding customer experience in the delivery of mission critical solutions our customers depend on.

Complementary partnerships

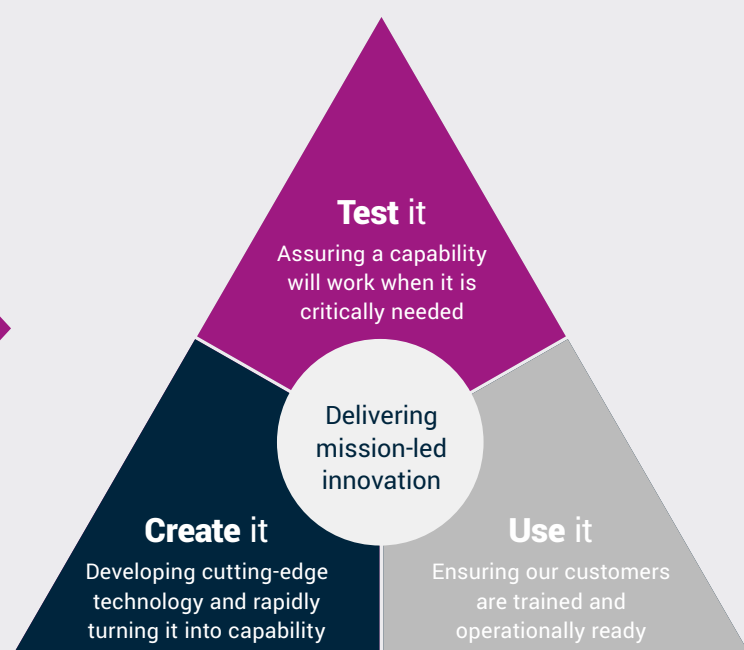
Forming complementary partnerships with both industry and academia, with the ability to manage large provider networks of small and medium size enterprises, our open and honest approach ensures our customers receive the best offering in the market.

Specialist facilities

We own or operate truly specialist Research, Development, Test & Evaluation facilities around the world. Combining these unique facilities with the expertise of our people supports our customers in countering current, future and emerging threats. We are committed to ensuring these facilities remain world-class and are investing in them accordingly.

Our customer value proposition

We accelerate our customers' ability to transition from concept to capability. We provide ongoing testing and assurance throughout the lifecycle of complex platforms, weapons and capabilities and ensure our customers are effectively trained to use them. In short, we apply our fundamental strengths to help our customers to create, test and use critical capabilities.



➔ See our customer proposition on page 4.

Purpose, culture and values

Our business model and how we create value is underpinned by our purpose, culture and values.

Purpose

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

How the money works

Revenue visibility and cash generation

Much of our work is delivered under long-term contracts providing a high level of revenue visibility. In addition our business is cash generative by nature. These attributes inherent in our business enable us to organically invest in our capabilities and sustain our business model.

£850m

of FY21 revenue under contract

133%

underlying cash conversion (pre-capex) in FY20

Capital allocation

We have a clear and disciplined approach to capital allocation with a policy that provides the financial flexibility required to successfully execute our long-term growth strategy, while ensuring that capital is deployed in the most effective manner. Our capital allocation priorities are:

1. Invest in our organic capabilities, complemented by bolt-on acquisitions where there is a strong strategic fit.
2. Maintain the necessary balance sheet strength.
3. Provide a progressive dividend to shareholders.
4. Return excess cash to shareholders.

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.

18%

improvement in Net Promoter Score

Employees

Our employees work in an exciting high paced 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.

10%

increase in employee engagement

Partners

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

>100

SMEs support delivery through Engineering Delivery Partner

Investors

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

2%

growth in underlying EPS

Culture

We are creating a high-performing culture where employees are engaged and everyone contributes to our overall success.

Values

Our values are integrity, collaboration and performance. These values underpin who we are and what we do.

Market context

Three long-term themes drive growth in our markets

Key themes

Increasing complexity

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

Partnering for innovation

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

Value for money

- Customers have finite resources, but increasing requirements
- Defence budgets, while growing, must be seen to deliver value
- Customers are looking to the private sector to drive efficiencies

Increasing complexity

The threats our customers must be confident in defeating are constantly evolving and the pace at which they do so continues to accelerate. From low-cost consumer drones adapted to cause harm, to hypersonic missiles, the threat environment is growing increasingly complex. In parallel to traditional physical threats, digital-based threats continue to grow in sophistication, and are often deployed in conjunction with more conventional threat forms. In order to defeat these threats, the capabilities our customers use are growing in complexity, often combining a multitude of systems and platforms that need to be integrated.

Against this backdrop, the geopolitical environment is also becoming more uncertain. The proliferation of technology has given both state and non-state actors access to capabilities that undermine the technological superiority of western nations. In addition, increasing activity in the 'grey-zone' where the distinction between acts of war and peace are blurred calls for closer integration of defence and security capabilities.

How we are responding

Our ability to emulate advanced threats and test and evaluate the resilience and interoperability of systems and platforms against these threats provides our customers with assurances that they can effectively respond.

Our strategy and commitment to lead and modernise UK Defence Test & Evaluation (T&E), and our investment in to the Long Term Partnering Agreement (LTPA), ensures we have the right capabilities to generate and assure the future platforms and systems needed to respond to this complexity. QinetiQ can combine this with in-depth understanding of the digital threat to evaluate and deploy innovative technologies helping our customers to contend with imminent threats and prepare for the future.

Partnering for innovation

The platforms and systems needed to respond to this complex threat environment are themselves so complex that no one company can deliver them. In addition, our customers are focused on harnessing future technologies to maintain superior technological advantages. Robotics, autonomy, sensing solutions and advances in data processing and machine learning are of particular interest to our customers. The cutting edge of technology is often found in academia and commercial industries, and a key market theme is the need for effective partnership to rapidly convert emerging technologies into assured deployable capability. Partnerships with universities, small and medium size enterprises, and other defence companies are critical in providing our customers with the agility they need to respond.

How we are responding

QinetiQ was founded on innovation with Research, Development, Test & Evaluation at the core of what we do. The breadth and depth of our peoples technical expertise and our investment in their continued development enables QinetiQ to deliver mission-led innovation for our customers' advantage. As a predominantly service-based business, QinetiQ is ideally placed to act as an innovation integrator, acting as a convening facilitator between government, academia and wider industry to rapidly develop and deploy innovative solutions. We are uniquely placed to operate across the breadth of platforms, systems and lifecycles unlike a more traditional vertical platform manufacturer. Our strategy is to further develop our own Research and Development (R&D) capabilities as well as creating valuable partnerships to deliver mission-led innovation to our customers.

Value for money

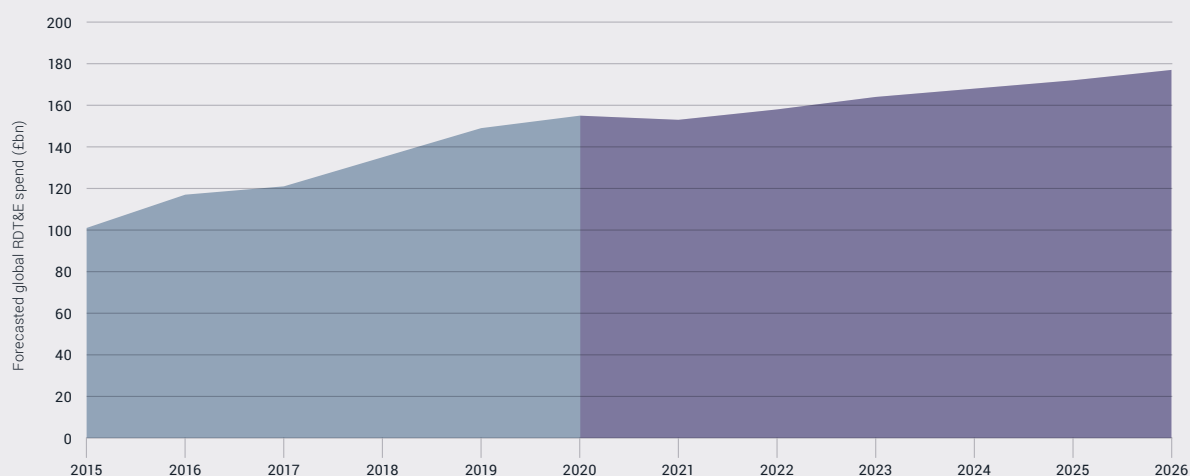
Governments around the world are faced with multiple calls on their resources, with ageing populations and rising social care costs, combined with moderate economic growth often putting significant pressure on fiscal budgets. With limited resources and a growing number of threats to defend against, many nations are wrestling with maintaining traditional platform based defence capabilities while also developing future digitally enabled technologies. As a result, achieving value for money and the need to do more for less is a key theme across our markets.

How we are responding

We are positioning ourselves as a strategic partner to our customers, understanding their challenges and applying our technical expertise to provide innovative solutions. We believe that by focusing on our customers' needs and helping them realise cost efficiencies, we can create further opportunities to deliver long-term sustainable growth in our business as we win work in new areas. Our ability to work across platforms and technologies and form powerful partnerships helps deliver the right capabilities to customers in the most cost effective manner.

Global RDT&E spend

Over the last five years global Research, Development, Test & Evaluation (RDT&E) spend has grown by 54%. The need to develop and integrate next generation technologies and the need to ensure greater interoperability between platforms and systems to counter increasingly complex threats are both key drivers of this.



Source: Jane's Defence Budget Market Forecast (March 2020)

Trading environment

The UK, US and Australia are our home countries, where we have more than 250 people in-country. They collectively represent 87% of our revenues.

Our addressable market

By focusing on our core offerings and target markets, we have an addressable market of over £8bn per annum. Growth in QinetiQ comes from increasing our share in existing markets and leveraging our strengths into attractive adjacent ones.

£8bn+

per annum
addressable market

- 1 CAGR = Compound Annual Growth Rate.
- 2 RDT&E = Research, Development, Test & Evaluation.
- 3 ~£320m pa via Long Term Partnering Agreement (LTPA) with UK MOD.
- 4 Australia, Canada, New Zealand, France, Germany, Sweden, Saudi Arabia, UAE, Qatar, Turkey included. USA (\$106.5bn pa) excluded.

Sources: Jane's Market Forecast FY20 market size & CAGR (USD/GBP exchange rate of 0.81), UK MOD. QinetiQ market share based on FY20 revenue.

Services and products

(defence, security and critical infrastructure)

Size £££bn pa
Growth +2–5% CAGR¹
Share <1% (£408m)

UK training

Size £1bn pa
Growth +1% CAGR
Share ~7% (£71m)

International training

Size ££bn pa
Growth +1–3% CAGR
Share <1% (£51m)

UK RDT&E²

Size £1.5bn pa
Growth +1% CAGR
Share ~30% (£459m³)

International RDT&E

Size £6bn pa⁴
Growth +4% CAGR
Share <1% (£84m)

Key

■ current market share ■ future market potential

UK

With defence spending of £41.3bn in 2020, the UK has the largest defence budget in Europe. As the threat environment continues to evolve the UK Ministry of Defence (MOD) is committed to driving innovation and developing next generation capabilities. This was recognised in the 2018 Modernising Defence Programme, which placed a particular emphasis on technologies in areas such as artificial intelligence, cyberspace and space; all areas in which we have considerable expertise.

The UK spends approximately £1.5bn on Research, Development, Test & Evaluation (RDT&E) and remains a key market for QinetiQ where we continue to drive mission-led innovation. While the outcome and timing of the forthcoming Integrated Security, Defence & Foreign Policy Review is not yet known, QinetiQ is partnered closely with the MOD to support it in achieving its objectives and realising efficiencies, an approach we believe will create new opportunities for growth. Whilst the COVID-19 pandemic will result in significant fiscal pressure for the UK Government, with the possibility this could be exacerbated by an unfavourable conclusion to trade negotiations with the European Union, the UK's spending commitments to NATO and the evolving threat environment and need to ensure the resilience and security of critical national infrastructure is likely to offer support to UK defence budgets.

US

The US is by far the largest defence market globally with total spending of \$738bn in 2020, more than the next ten largest military budgets combined. With continuing tensions between the US and China, a more assertive Russia and widespread unrest in the Middle East with a resurgent Iran, the 2018 National Defense Strategy cited the need to modernise key capabilities across all domains to maintain superiority and recognised the value of collaboration with the private sector.

If passed, the FY21 Presidential budget request of \$740bn maintains support for key modernisation programmes and features the largest RDT&E budget in 70 years, as the US looks to harness emerging technologies. QinetiQ remains committed to supporting the DOD and our existing expertise in robotics and autonomy are well aligned with their ambitions to make greater use of this technology, evidenced by our recent robotics contract wins. The acquisition of MTEQ, specialising in next generation sensing solutions, a complementary area of focus for the US, also creates further opportunities for us to accelerate and sustain our growth in the world's largest defence market.

Australia

In Australia, current defence spending of \$33bn is forecast to grow at 3% per annum over the next decade, underpinned by cross party support for defence. The modernisation of defence platforms remains a key priority as Australia seeks to reform its force structure to counter rapid developments in 'peer-to-peer' threats and China's increasing assertiveness in the South China Sea. In light of this environment Australia is increasingly working in partnership with allied nations, particularly in the Pacific, driving the need for greater interoperability between allied forces. With the need for innovation to counter rapid developments in the threat environment, Australia is placing an increased focus on the RDT&E of cyber capability, hypersonic weapons and autonomous vehicles. With a \$1.2bn RDT&E budget, Australia remains a key market for QinetiQ where we can provide the Australian forces with assurance of existing military capability, facilitate rapid experimentation of new capability and support operational readiness.

Impact of COVID-19

The impacts of COVID-19 on our key markets have been both severe and widespread, with most affected in some way. In recent months, national safeguarding measures, including travel restrictions, put in place to halt the spread of the virus have impacted our ability to deliver for customers, with challenges relating to on-site delivery and the shipment of products. Whilst this is short-term in nature and we have been able to adapt to new ways of working to minimise its impact, it would pose more of a challenge were these measures a consistent feature over a longer period. The unprecedented stimulus that many governments have deployed in response to reduce the economic impact of the pandemic will significantly reduce their fiscal flexibility and place pressure on their spending. However, with the geopolitical environment growing increasingly complex and the need to retain superior technological advantage more pressing than ever, we believe demand in our key markets will remain robust over the long-term.

Broader international markets

In order to achieve our ambition of growing international revenue to 50% of Group revenue, we aim to drive growth in our three home countries, three priority countries of Canada, Germany and Belgium as well as wider international markets. Our international strategy is underpinned by harnessing the skills and expertise developed in our home countries across the Group to support allies in other high growth markets.

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 \$16.9bn in 2020 expected to grow by 5% 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, representing nearly 20% of global defence spending. Within this, Germany is a key market with our in-country operation built on the acquisition of E.I.S. Aircraft Operations. Current defence spending in Germany is \$48bn and in a similar fashion to other NATO nations the trajectory is positive supported by the drive to hit NATO spending commitments. Belgium is another key market within Europe, where we are seeing increasing demand for our space products driven by the European Space Agency.

With growing unrest in the Gulf region, defence spending has trended upwards. However, nations driving this spend have predominantly focused on the procurement of new equipment and are increasingly aware of the benefits of integration, assurance and training to create true capabilities. We therefore see opportunities in the Gulf region to support allied nations in creating assured military capabilities.

Our strategy

A strategy that is relevant to a dynamic environment

Our vision

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

Our strategy

Our strategy is interlinked and mutually reinforcing and aims to deliver sustainable, long-term growth:



UK

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



International

Build an international company that delivers additional value to our customers by developing our home countries, creating new home countries and exporting.



Innovation

Invest in and apply our inherent strengths to drive innovation for customers' advantage in defence, security and critical infrastructure markets.

Underpinned by

Transformation programme

Our strategy is supported by our ongoing transformation programme. The programme will create an efficient and effective organisation capable of supporting sustainable and profitable growth and is focused on driving performance, globalising and digitising our business.

Performing

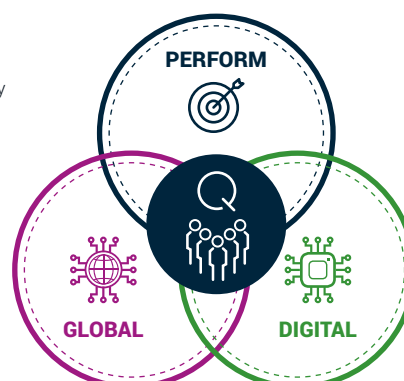
- Everyone feels included and engaged
- Empowerment and personal accountability
- Delivering operational excellence

Globalising

- Operating as one company
- Leveraging our capabilities
- Optimised, scalable and resilient

Digitising

- Enhancing customer solutions
- Enabling collaboration
- Modern, integrated tools and systems



Our strategic progress

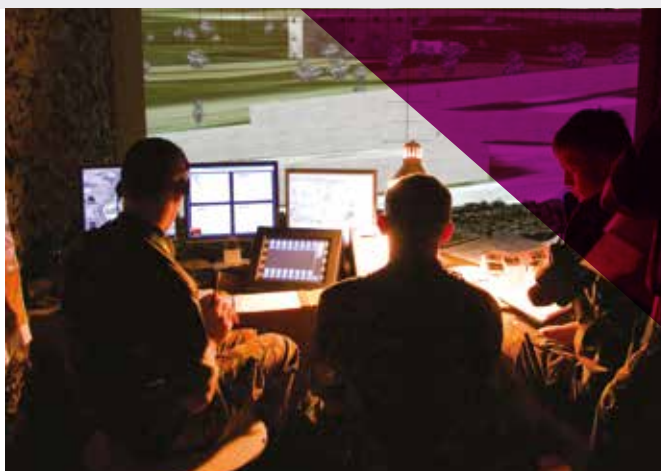
In FY20 we delivered significant strategic milestones

Strategic achievements

UK

- We continued to successfully invest and deliver against the amended LTPA contract, reflecting our drive to lead and modernise UK Defence Test & Evaluation.
- Completed the acquisition of Newman & Spurr Consultancy (NSC) enhancing our training and simulation capabilities.

 Read more in our operating review on page 21.



International

- Delivered a record year of growth in Australia.
- Grew international revenues to 31% of our business.
- Completed the acquisition of MTEQ creating a powerful customer proposition and delivering significant opportunities for growth in the US.
- Secured orders for key US robotic Program of Record.

 Read more in our operating review on pages 21 to 22.



Innovation

- £168m of orders under the Engineering Delivery Partner contract.
- €75m contract from the European Space Agency for ALTIUS satellite.
- £67m contract to develop secure satellite navigation receivers.

 Read more in our operating review on pages 21 to 23.



Operating review

EMEA Services

Overview

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

Financial performance

	2020 £m	2019 £m
Orders ¹	670.0	534.6
Revenue	797.4	687.7
Underlying operating profit ²	100.6	96.8
Underlying operating margin ²	12.6%	14.1%
Book to bill ratio ³	1.1x	1.2x
Total funded order backlog	2,797.7	2,916.8

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

2 Prior year comparatives restated due to a change in accounting policy in respect of leases.

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

Orders for the year were £670m (2019: £534.6m), growing £115.4m (22%) on an organic basis excluding acquisitions and foreign exchange. The increase was driven by £168m of orders under the Engineering Delivery Partner (EDP) framework contract and a £67m order for the UK Robust Global Navigation System (R-GNS) programme.

Revenue increased by 16% to £797.4m (2019: £687.7m), including £29.2m from acquisitions, and increased by 12% on an organic basis, principally driven by new work under the EDP and

Battlefield Tactical Communication and Information Systems (BATCIS) contracts.

At the beginning of the new financial year £656m of the division's FY21 revenue was under contract, compared to £565m (of the FY20 revenue) at the same point last year. This reflects the contribution from the acquired business in the year together with the 22% organic increase in orders won in the year.

Underlying operating profit grew by 4% to £100.6m (2019 restated: £96.8m) assisted by a full-year of trading from our 2019 acquisitions. Organic growth was 1% due to ~£2m lower non-recurring trading items at ~£7m (2019: ~£9m) comprising a £4m benefit in respect of finalising business rates agreements and a £3m benefit related to cost recovery on a major contract. The increasing proportion of EDP work drives profit growth at a lower rate than revenue growth, diluting the operating profit margin, but has limited capital requirements supporting overall returns.

Including the Long Term Partnering Agreement (LTPA), the proportion of EMEA Services revenue derived from single source contracts has remained stable at approximately 70% (2019: approximately 70%). While we have increased revenue derived from competitive contracts this has also been complemented by growth in single source EDP work.

Leading the next phase of unmanned systems exploitation in the maritime domain

In FY20 we were awarded a new contract to lead phase five of the Maritime Autonomous Platform Exploitation (MAPLE) project for the UK Defence Science and Technology Laboratory. The MAPLE project is the overarching programme that seeks to demonstrate and de-risk the integration of multiple Unmanned Systems into the combat system of a Royal Navy warship and the wider integration of unmanned systems into the fleet.



See more online at www.qinetiq.com



FY20 review

Air & Space (25% of EMEA Services revenue)

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

- Engineering Delivery Partner (EDP), our innovative delivery model for the provision of engineering services continued to be a key driver of performance. In FY20 £168m of orders were contracted through EDP taking the total since inception to £238m. While EDP remains the default route for the procurement of engineering services to DE&S, it is available to other MOD departments and agencies creating further opportunities for growth.
- Key contract awards through EDP include an £11m contract to provide independent technical evaluation services on the F35 Lightning II aircraft and shortly after year end, a £30m contract that will unify the technical services provided to the Typhoon Delivery Team.
- Building on our investment in Test Aircrew Training, the transformed Empire Test Pilots' School successfully delivered its first year of the new syllabus, with all students passing. The new modernised ETPS is equipped to continue delivering world-class test aircrew training and we continue to experience strong demand for all courses from both domestic and international customers.

Maritime, Land & Weapons (39% of EMEA Services revenue)

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

- Following the £1.3bn amendment to the LTPA in April 2019, we are progressing through a two-year transition period to new ways of working. We successfully reached the third operating milestone in this transition on schedule with positive customer feedback. We are continuing to drive modernisation to support our customer in an increasingly complex threat environment.
- As part of this transition many of our sites are undergoing investment and enhancement of facilities and capabilities, enabling us to support larger and more complex trials adding greater value for our customers.
- In April 2020 we were awarded a £13m contract as the industry lead on the Weapons Sector Research Framework providing research and technology into current and future weapons capabilities including laser and directed energy weapons systems.
- Our long-term contracts support solving complex customer problems and have opened new opportunities for us including being awarded a £5m contract to support the Royal Navy in developing their approach to the new Carrier Strike group operations.

Cyber, Information & Training (23% of EMEA Services revenue)

The Cyber, Information & Training 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.

- The business delivered an excellent performance across all key metrics as we continue to reposition the business to become a critical mission assurance partner, driving improved visibility and growth.
- Key contract wins include the £67m Robust Global Navigation System (R-GNS) contract to develop secure satellite navigation receivers on behalf of the MOD. The programme will deliver critical capability to provide UK Defence with accurate and resilient positioning, navigation and timing which will underpin the UK's ability to undertake 24/7 military operations around the world in the most demanding and increasingly contested operational environments.
- In February 2020 we completed the acquisition of Newman & Spurr Consultancy (NSC) for £14m (net of cash acquired). NSC provides a range of training and simulation solutions and the strategy-led acquisition enhances our capability in areas such as modelling, simulation and synthetic environments.
- Following our strategic investment in November 2018, Inzpire, the highly regarded provider of operational training services, continues to perform in line with the Board's expectations, delivering good growth in revenue and profit.

International (13% of EMEA Services revenue)

Our International business leverages our expertise and skills developed in the UK, and applies them to opportunities in attractive markets globally. Revenue derived from outside of the UK is reported in many of our businesses and is not exclusive to our International business unit.

- The International business unit delivered a strong performance with good growth in orders, revenue and profit.
- This was underpinned by our performance in Australia where we delivered record orders, as our status as a Major Service Provider in partnership with Nova Systems continues to gather momentum and drive performance. We are working with the Australian Government on a proposal to design and build an Unmanned Air System (UAS) Test Range.
- Our German operations, built on the acquisition of EIS Aircraft Operations in October 2018 performed in line with expectations for orders with some significant contract wins during the period. Delivery performance and profitability was, however, impacted by other operational and cost issues and towards the end of the financial year by the effects of COVID-19. We have written down £4.3m 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 a significant European defence market.
- We operate three joint ventures in the Middle East. Our progress in the region has been slower than anticipated, however we have made good progress with a number of strategic contract wins including two significant framework contracts to provide customer side consultancy services. Looking forward we see encouraging opportunities as our joint ventures continue to grow in maturity, capability and local reputation.

Operating review continued

Global Products

Overview

Global Products delivers innovative solutions to meet customer requirements and undertakes contract-funded research and development, developing intellectual property in partnership with key customers and through internal funding with potential for new revenue streams. The division is technology-based and has shorter order cycles than EMEA Services so can have a more lumpy revenue profile. Our strategy is to expand the product portfolio and win larger, longer-term programmes to improve the consistency of the financial performance of this division. In FY20 the company expanded its products portfolio with the successful acquisition of MTEQ.

Financial performance

	2020 £m	2019 £m
Orders	302.1	241.8
Revenue	275.5	223.4
Underlying operating profit ¹	32.6	28.1
Underlying operating margin ¹	11.8%	12.6%
Book to bill ratio ²	1.1x	1.1x
Funded backlog	307.2	216.8

1 Prior year comparatives restated due to a change in accounting policy in respect of leases.

2 B2B ratio is orders won divided by revenue recognised.

Orders increased to £302.1m (2019: £241.8m) with growth assisted by a €75m order for the European Space Agency Altius contract and £25m of orders from the acquired MTEQ business, partially offset by a C\$51m order in the prior year figure in respect of delivering unmanned air system services to the Canadian Armed Forces. Organic orders growth was 14%.

At the beginning of the new financial year £193m of the division's FY21 revenue was under contract, compared to £141m (of the FY20 revenue) at the same point last year. This reflects the contribution from the acquired business in the year together with the organic increase in orders won in the year.

Revenue was up 23% on a reported basis at £275.5m (2019: £223.4m), primarily due to contribution from the MTEQ business acquired during the year. On an organic basis, revenue increased by 5% driven by small robotics and Talon upgrade kits in QNA, ongoing growth in QTS and delivery of the Canadian armed forces contract won in FY19.

Global Products underlying operating profit grew by 16% to £32.6m (2019: £28.1m) reflecting the acquisition of MTEQ in December 2019. On an organic basis operating profit increased by 4%, but excluding non-recurring trading items declined by 1%. This was driven by a loss in Optasense, due to a challenging trading environment, partially offset by growth in QTS and a more profitable product mix in QNA.

FY20 review

United States (44% of Global Products revenue)

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

- Our US business delivered a strong performance in FY20, primarily driven by robotics orders, with the first deliveries under the Common Robotic System-Individual (CRS-I) contract accepted by the customer.
- We were also awarded the Robotic Combat Vehicle-Light (RCV-L) contract to provide the US military with combat vehicles to support the customer in determining the feasibility of integrating unmanned vehicles into ground combat operations.
- In December 2019, we completed the acquisition of Manufacturing Techniques Inc. (MTEQ) for \$105m with a potential further earn-out of up to \$20m. MTEQ is a leading provider of advanced sensing solutions in the US, and the combination of MTEQ with our existing expertise in robotics and autonomy capabilities creates a powerful customer proposition.
- The integration of our US businesses into a single entity operating under a Special Security Agreement (SSA) is progressing well and we are seeing an increasing number of opportunities for the combined entities to work collaboratively, including on the RCV-L programme. The change in the governance of our US business through the SSA is a significant enabling factor. It will enhance our ability to operate coherently and collaboratively across QinetiQ's global operations meaning we are better able to innovate and deliver for our customers.

OptaSense (9% of Global Products revenue)

OptaSense provides innovative fibre sensing solutions to deliver decision-ready data in multiple vertical markets.

- Despite a positive first half, performance at OptaSense deteriorated in the second half, impacted by severe weakness in oil and gas markets, which was further exacerbated by the impacts of COVID-19. In light of this trading environment OptaSense reported a net loss for the period of £1.9m.

Space Products (9% of Global Products revenue)

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

- Our Belgium based space business was awarded a €75m contract with the European Space Agency (ESA) to develop and assemble the new Altius satellite. The satellite extends Europe's capabilities in operational Earth Observation and will study the distribution of ozone in the earth's stratosphere helping to chart climate change.
- The satellite will be built utilising our new, higher grade cleanroom facility in Kruibeke, Belgium that was officially opened during the year. The upgraded facility gives us the capacity to produce up to four major products at any one time supporting growth in satellite and docking systems production capacity.
- We were also awarded a €9m three-year contract to build equipment that will support experiments in the International Space Station.

EMEA Products (38% 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.

- Building on an excellent first half, QinetiQ Target Systems delivered a strong performance with mid-teens growth in revenues and profit. This was despite the impacts of COVID-19 towards the end of the year which resulted in delayed trial activity and reduced targets orders. Whilst we are currently experiencing COVID-19 related disruption within QTS, we believe longer-term the business remains well positioned, offering advanced target systems at an attractive price point.
- To support our medium-term growth and ensure our customers can continue to emulate the most advanced aerial threats we launched two new products in the period.
- The first, our Next Generation Banshee target replicates fast flying jets, and enables customers to conduct Test & Evaluation and live-fire training exercises against faster, higher flying, more manoeuvrable and less detectable targets. We also released the Air-Launched 'Rattler' target, a low-cost supersonic target used to accurately replicate anti-radiation missiles and supersonic/high-diving threats.

Significant Banshee orders to support the Indonesian Forces

QinetiQ Target Systems (QTS) sold 59 unmanned Banshee Whirlwind targets to Indonesia. The order is the first from the country since the acquisition of QinetiQ Target Systems in 2016.

The Banshee Whirlwind is powered by QinetiQ's rear-mounted rotary engine and provides accurate and reliable flight profiles of over 100km, reaching flight altitudes of over 7,000 metres, while a radar altimeter allows the target to achieve reliable sea skimming flight as low as five metres. QinetiQ's portfolio of unmanned targets for sea, air and land, enable countries to be more prepared for threats.



See more online at www.qinetiq.com



Chief Financial Officer's review

A strong financial performance across all key metrics



"We enter FY21 in a strong position to face the challenges arising from COVID-19, with a large order backlog and a robust balance sheet."

 See our financial KPIs on page 30.

Financial performance

(£m)	Statutory results		Underlying* results	
	2020	2019	2020	2019
Revenue	1,072.9	911.1	1,072.9	911.1
Operating profit ¹	117.6	114.8	133.2	124.9
Profit after tax ¹	106.5	113.9	113.7	111.5
(p)				
Earnings per share	18.7	20.1	20.0	19.7
Dividend per share	2.2	6.6	2.2	6.6

¹ Prior year comparatives restated due to a change in accounting policy in respect of leases.

(£m)	Underlying* results	
	2020	2019
Total funded order backlog ¹	3,104.9	3,133.6
Total orders ²	972.1	776.4
Net cash inflow from operations ³	177.8	135.3
Cash conversion ratio ³	133%	108%
Free cash flow ³	59.5	43.5
Net cash ³	84.7	160.5

¹ Includes the impact of the LTPA amendment signed post year end in 2019.

² Includes share of orders from Joint Ventures and excludes LTPA contract amendment signed post year end in 2019.

³ Prior year comparatives restated due to a change in accounting policy in respect of leases.

Overview of full year results

We reported a strong performance in FY20, delivering growth across orders, revenue and profitability as we continue to successfully implement our strategy. We enter FY21 in a strong position to face the challenges arising from COVID-19, with a large order backlog and a robust balance sheet. Strong cash generation from the company has continued in FY20 with 133% cash conversion and a net cash position of £84.7m continues to provide support for investment opportunities.

Orders in the year totalled £972.1m (2019: £776.4m), a 19% increase on an organic basis. This was driven by £168m of orders under the EDP framework contract in EMEA services, a £67m UK Robust Global Navigation System (R-GNS) order and €75m contract with the European Space Agency for the Altius satellite in Global Products.

At the beginning of the new financial year, approximately £850m of the Group's FY21 revenue was under contract, compared to £706m (of the FY20 revenue) at the same point last year. This reflects the contribution from the two acquired businesses in the year together with the 19% organic increase in orders won in the year.

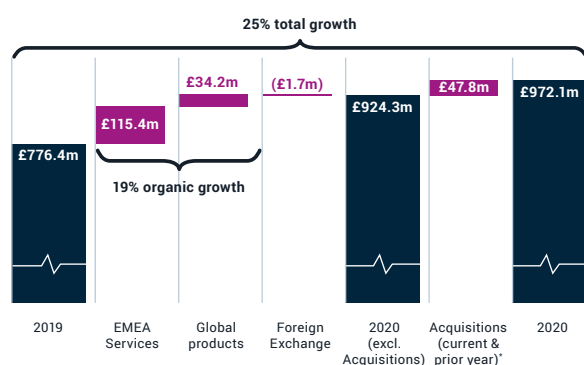
Revenue increased 18% at £1,072.9m (2019: £911.1m), assisted by a full-year of trading from our 2019 acquisitions and a £39.7m contribution from MTEQ and NSC which both completed during the second half of FY20. Revenue grew by 10% on an organic basis, with a 12% increase in EMEA Services primarily due to Engineering Delivery Partner (EDP) and a 5% increase in Global Products driven by small robotics and upgrade kits in QNA as well as ongoing growth in QTS.

Underlying operating profit was up 7% at £133.2m (2019 restated: £124.9m), assisted by ~£6m (2019: ~£7m) non-recurring trading items. Current year non-recurring trading items include a £4m benefit in respect of finalising business rates agreements and a £3m benefit related to cost recovery on a major contract in the EMEA Services division, partially offset by a number of other project and commercial risk reassessments. During the year we completed the acquisitions of MTEQ and Newman & Spurr Consultancy which together contributed £3.4m of operating profit in the period of our ownership. Excluding the FY20 acquisitions, the impact of a full year of trading versus a part year of trading for the 2019 acquisitions and the effect of foreign exchange, underlying operating profit for the Group increased organically by ~£2m (2%).

EMEA Services operating profit grew 4% assisted by a full-year of trading from our 2019 acquisitions. On an organic basis EMEA Services profit grew by 1%. The level of profit from non-recurring trading items in FY20 was ~£2m lower compared to the prior year. Excluding such non-recurring trading items, organic growth was 4%. Global Products underlying operating profit grew by 16% reflecting the acquisition of MTEQ in December 2019. On an organic basis Global Products profit grew by 4%. The level of non-recurring charges was ~£1m lower in FY20 and excluding these items organic profit declined by 1% driven by a loss in Optasense due to a challenging trading environment.

Total operating profit was £117.6m (2019 restated: £114.8m), net of £15.6m expense in respect of specific adjusting items (2019: £10.1m), as set out below.

Order bridge



* Comprises £22.5m for Germany & Inzpire for period with no prior year comparator and £25.3m for MTEQ and NSC.

Underlying profit before tax increased 7% to £132.2m (2019 restated: £124.0m) in line with the increase in underlying operating profit, with underlying net finance expense at £1.0m (2019 restated: £0.9m).

Total profit before tax was £123.1m (2019: £123.2m).

Specific adjusting items

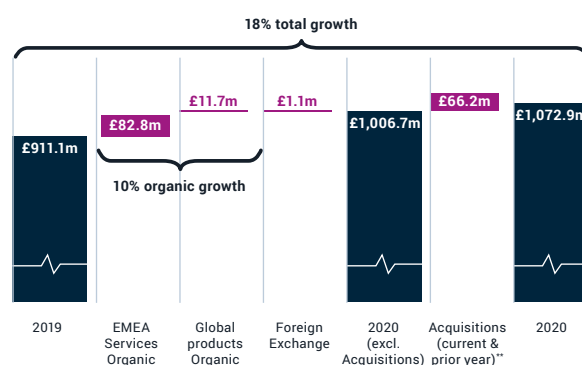
Specific adjusting items, shown in the 'middle column', at the profit after tax level amounted to a total net loss of £7.2m (2019: net profit of £2.4m). This included a gain on sale of surplus property of £14.0m (2019: £0.2m) and net finance income related to the defined benefit pension scheme of £6.5m (2019: £8.2m) offset by a £14.1m goodwill impairment (2019: nil), in relation to E.I.S. Aircraft Operations in Germany (£4.3m) and our Group's Advisory Services business unit (£9.8m), and costs of £7.5m in respect of the acquisitions completed in the year (2019: £2.0m). The tax effect of items impacting profit before tax was an expense of £1.4m (2019: income of £0.4m). The tax line also includes a £3.3m gain from recognising tax losses and surplus interest costs on the balance sheet. See below.

Further analysis is set out in note 4 with goodwill (and impairments of) discussed in note 12.

Net finance costs

Net finance income was £5.5m (2019 restated: £7.3m). The underlying net finance expense was £1.0m (2019 restated: £0.9m) with additional income of £6.5m (2019: £8.2m) in respect of the defined benefit pension net surplus reported within specific adjusting items.

Revenue bridge



* Excludes contribution from JVs of £3.3m

** Comprises £26.5m for Germany & Inzpire for period with no prior year comparator and £39.7m for MTEQ and NSC.

Chief Financial Officer's statement continued

Tax

The total tax charge was £16.6m (2019: £9.3m). The underlying tax charge was £18.5m (2019: £12.5m) with an underlying effective tax rate of 14.0% for the year ended 31 March 2020 (2019: 10.1%). The effective tax rate continues to be below the UK statutory rate, primarily as a result of the benefit of research and development expenditure credits ('RDEC') in the UK which are accounted under IAS12 within the tax line. An adjusted effective tax rate before the impact of RDEC would be 20.0%. The effective tax rate is expected to remain below the UK statutory rate in the medium term, subject to any tax legislation changes, the geographic mix of profits, the recognition of deferred tax assets and while the benefit of net RDEC retained by the Group remains in the tax line.

A £3.3m credit in respect of recognition of tax losses in the US has been classified as a specific adjusting item. This follows from the acquisition of MTEQ in the year that contributes future taxable profits against which historic unrecognised tax losses can be utilised. The prior year included a £2.8m credit from initial recognition of corporate tax deductions for certain equity-settled share based payment schemes. Together with a £1.4m net expense (2019: income of £0.4m) in respect of the pre-tax specific adjusting items, the total specific adjusting items tax credit was £1.9m (2019: £3.2m).

At 31 March 2020 the Group had unused tax losses and surplus interest costs of £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 £177.8m (2019 restated: £135.3m) with an underlying operating cash conversion of 133% (2019 restated: 108%).

Capital expenditure increased to £107.8m (2019: £80.7m) as 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 £10.5m the Group generated free cash flow of £59.5m (2019 restated: £43.5m), before property disposal proceeds of £12.5m (2019: £5.3m).

Overall capex between FY21–FY23 is expected to be in the range of £70–100m per annum, of which the majority reflects our investment into the LTPA. Given the nature of our business model, we expect to be able to fund our capex requirements from operational cash flow.

As at 31 March 2020 the Group had £84.7m net cash (2019 restated: £160.5m). The reduction in net cash was primarily due to the £90.2m of consideration for the acquisition of MTEQ and NSC, and payment of £38m of dividends; these were partially offset by £59.5m free cash flow and £12.5m of property disposals.

The Company's £275m multi-currency revolving credit facility (with an 'accordion' feature to expand up to a maximum of £400m) was extended during the year to 27 September 2024, with an option to extend to a final maturity of 27 September 2025. The facility, undrawn as at 31 March 2020, provides a modest margin adjustment of +/- 0.02% based on QinetiQ's greenhouse gas emissions, compared to targets, over the life of the facility.

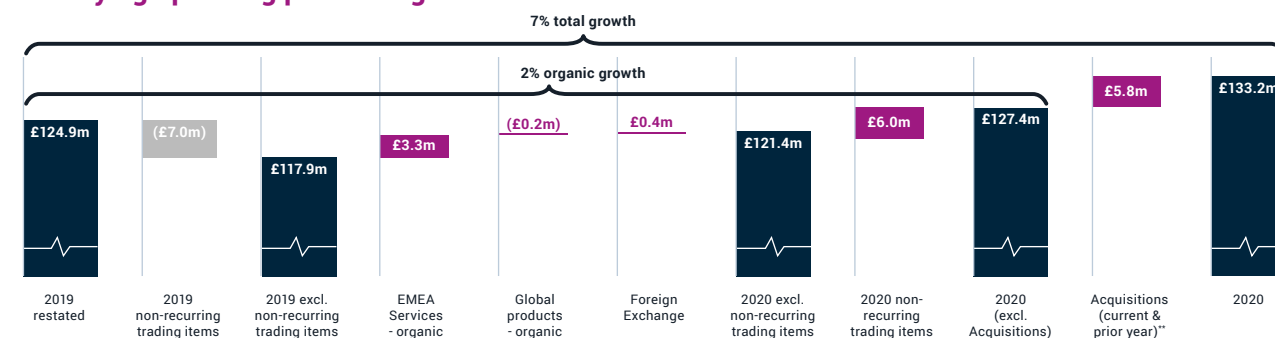
Capital allocation

Priorities for capital allocation remain in the long-term:

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.

Underlying operating profit bridge



* Underlying performance, before specific adjusting items, as defined in appendix

** Comprises £2.4m for Germany & Inzpire for period with no prior year comparator and £3.4m for MTEQ and NSC

Return on Capital Employed (ROCE)

In order to help understand the overall return profile of the Group, QinetiQ have formulated a Return on Capital employed metric. This is calculated as Underlying EBITA/(Average Capital Employed less net pension asset), where average capital employed is defined as shareholders' equity plus net debt (or minus net cash).

For FY20 Group ROCE is 28% compared to 39% in the previous year reflecting investment into our business to support sustainable long term growth.

Earnings per share

Underlying basic earnings per share increased by 2% to 20.0p (2019 restated: 19.7p) benefiting from the higher underlying profit after tax. Basic earnings per share for the total Group (including specific adjusting items) decreased 7% to 18.7p (2019 restated: 20.1p).

The average number of shares in issue during the year, as used in the basic earnings per share calculations, was 567.0m (2019: 566.0m) and there were 567.2m shares in issue at 31 March 2020 (all net of Treasury shares).

Dividend

Given the unprecedented nature of COVID-19 and the Board's wish to adopt a prudent course of action to protect the long-term, as announced on 1 April 2020, it will postpone the decision on the proposal of a dividend until a later date.

Pensions

The net pension asset under IAS 19, before adjusting for deferred tax, was £309.7m (31 March 2019: £259.1m). The key driver for the increase in the net pension asset since the March 2019 year end was gains due to changes in financial assumptions (primarily in respect of inflation), which decrease the present value of scheme liabilities, partially offset by reduction in value of scheme assets.

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

Implementation of IFRS 16 'Leases'

The new leases standard became effective for periods beginning on or after 1 January 2019, i.e. FY20 for QinetiQ, using either the full retrospective approach or the modified retrospective approach. QinetiQ has adopted the new standard for FY20 using the full retrospective approach.

Under the new standard, companies will recognise new assets and liabilities, bringing added transparency to the balance sheet. IFRS 16 eliminates the previous dual accounting model for lessees, which distinguished between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to previous finance lease accounting. Lessor accounting remains similar to existing practice i.e. lessors continue to classify leases as finance leases and operating leases.

The impact on the income statement for QinetiQ is negligible at a 'profit before tax' level with no impact on EPS, but EBITDA is increased, offset by an increase in depreciation and an increase in finance expense. See note 37 for details.

The impact on the balance sheet is the recognition of a new 'right of use' asset within Property Plant & Equipment and the recognition of a new lease liability. The latter is incorporated within the Group's definition (see glossary) of net cash, hence the most significant impact on the Group's financial KPIs is this change to net cash (reducing previously reported net cash at 31 March 2019 by £28.0m).

Prior year comparatives have been restated (to the extent impacted by IFRS 16) and more details are set out in Note 37 to the financial statements.

For the avoidance of doubt, the strategic report covering pages 2 to 55 has been approved by the Board and signed on their behalf by:

David Smith
Chief Financial Officer

21 May 2020

Key performance indicators

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 through a range of financial and non-financial performance indicators.

Understanding measurements that give us insight in to things such as customer satisfaction, health and safety and employee engagement are vital in ensuring our business model 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 businesses and where relevant, are accompanied by indicators specific to those businesses.

📄 See our people on page 38.

📄 See responsible & sustainable business on page 44.

Customer satisfaction (Net Promoter Score)

59

(FY19: 50)



Description

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

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

Rationale

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

Performance this year

Our customer feedback continues to be positive and our NPS score remains in the category of 'excellent'. This is supported by our continual improvement approach to actioning customer feedback.

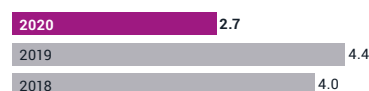
Link to strategy

Achieving our ambition of becoming our customers' chosen partner requires 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)

2.7

(FY19: 4.4)



Description

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

Rationale

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

Performance this year

Our LTI rate decreased to 2.7 in FY20, supported by our ongoing commitment to safety through our Safe for Life programme and emphasising safety leadership in FY20. (For more information see page 39).

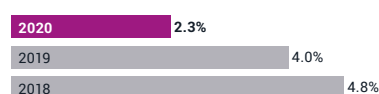
Link to strategy

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

Apprentices and graduates (%)

2.3

(FY19: 4.0%)



Description

The total number of UK apprentices, graduates and sponsored students (our early careers community) as a percentage of our UK workforce.

Rationale

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

Performance this year

We experienced an anticipated reduction in our early careers population as we undertook a review of our early careers programmes to assess our future skills requirements in line with our long-term strategy. (For more information see page 42).

Employee engagement (Score out of 10)

6.9

(FY19: 6.3)



Description

In FY19 we implemented Peakon, an employee engagement measurement tool, which provides regular insights into what our employees are feeling, enabling us to identify what we are doing well but also where we can improve and take action.

Rationale

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'.

Performance this year

Our engagement scores increased by 10% in FY20, supported by employee engagement initiatives. There is still more to do and we will continue to build on our progress implementing initiatives aimed at improving the employee experience. (For more information see page 41).

Voluntary employee turnover (%)

9.7

(FY19: 11.5%)



Description

This is a measure of the number of employees leaving the company not at QinetiQ's instigation.

Rationale

Voluntary employee turnover provides a measure of the Group's ability to retain employees. As a knowledge based business employee retention is critical to sustaining our business model.

Performance this year

Employee turnover marginally decreased during the year, following a small increase in FY19, driven by higher turnover in the US. Our employee turnover continues to be below industry average.

Link to strategy

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

Employee engagement is a metric used for the Bonus Banking Plan.

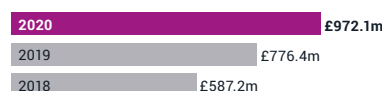
Key performance indicators continued

Financial KPIs

Orders
(£m)

£972.1m

(FY19: £776.4m)



Description

The level of new orders and amendments to existing orders booked in the year.

Rationale

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 (excluding LTPA amendments) were £972.1m, up 19% on an organic basis. This increase was driven by a strong performance in both divisions, with strong order growth through the EDP framework and large multi-year contracts including R-GNS and Altius.

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)

£333.4m

(FY19: £273.7m)



Description

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

Rationale

International revenue demonstrates the Group's ability to win and deliver work outside of the UK. Building a global defence and security business is a core pillar of our strategy.

Performance this year

Non-UK revenue grew by 22% (£59.7m). Excluding the £37.0m contribution from businesses acquired during the year, £15.2m inorganic contribution from businesses acquired in the prior year and including a £3.3m contribution from joint ventures organic growth was 4% (£10.8m).

Link to strategy

Growing international revenues and accessing higher growth, international markets is a key part of our strategy. International revenue was used as a performance measure for the FY20 Deferred Share Plan, but for executive remuneration was adjusted to exclude businesses acquired during the year.

Organic revenue growth
(%)

10%

(FY19: 8%)



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.

Rationale

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.

Performance this year

Revenue grew by 10% on an organic basis, with 5% organic growth in Global Products and 12% organic growth in EMEA Services, driven by a strong performance in all our business units, in particular our Cyber, Information and Training division.

Link to strategy

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)

£133.2m

(FY19: £124.9m¹)



Description

The earnings before interest and tax, excluding all specific adjusting items. See note 35 for definition.

Rationale

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.

Performance this year

Underlying operating profit increased by 7% (£8.3m). This includes a £3.4m contribution from the acquisitions of MTEQ and NSC, as well as the inorganic contribution from acquisitions made in the prior year. On an organic basis underlying operating profit increased by 2% (£2.0m).

Underlying earnings per share (EPS)* (p)

20.0p

(FY19: 19.7p)



Description

The underlying earnings, net of interest and tax, expressed in pence per share excluding all specific adjusting items. See note 35 for definition.

Rationale

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

Performance this year

Underlying earnings per share grew by 2% (0.3p) with the higher growth in underlying operating profit partially offset by a higher effective tax rate (see note 8).

Underlying net cash flow from operations* (£m)

£177.8m

(FY19: £135.3m¹)



Description

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

Rationale

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

Performance this year

Underlying net cash flow from operations was particularly strong, growing by 31%. This reflects strong receivables collections in the run up to year-end.

Link to strategy

Collectively these measures indicate the efficiency of the Group's activities. Underlying operating profit and underlying earnings per share provide an indication of the profitability of the Group's operations while underlying net cash flow from operations provides an indication as to the Group's cash generative performance. Underlying operating profit and underlying net cash flow from operations are used in the Bonus Banking Plan, but for executive remuneration purposes are adjusted to exclude businesses acquired during the year.

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

¹ Prior year comparatives for 2019 have been restated due to a change in accounting policy in respect of leases. See note 37 page 172 for more details.

Principal risks

How we protect our business

Successful management of current and emerging risks is critical to achieving our company goals. Our Group Head of Enterprise Risk Management is responsible for designing and facilitating the risk management processes across the organisation, provides risk expertise and support to the businesses and reports risk information across the Group including to the Global Leadership Team, Audit and Risk & CSR Committees and the Board.

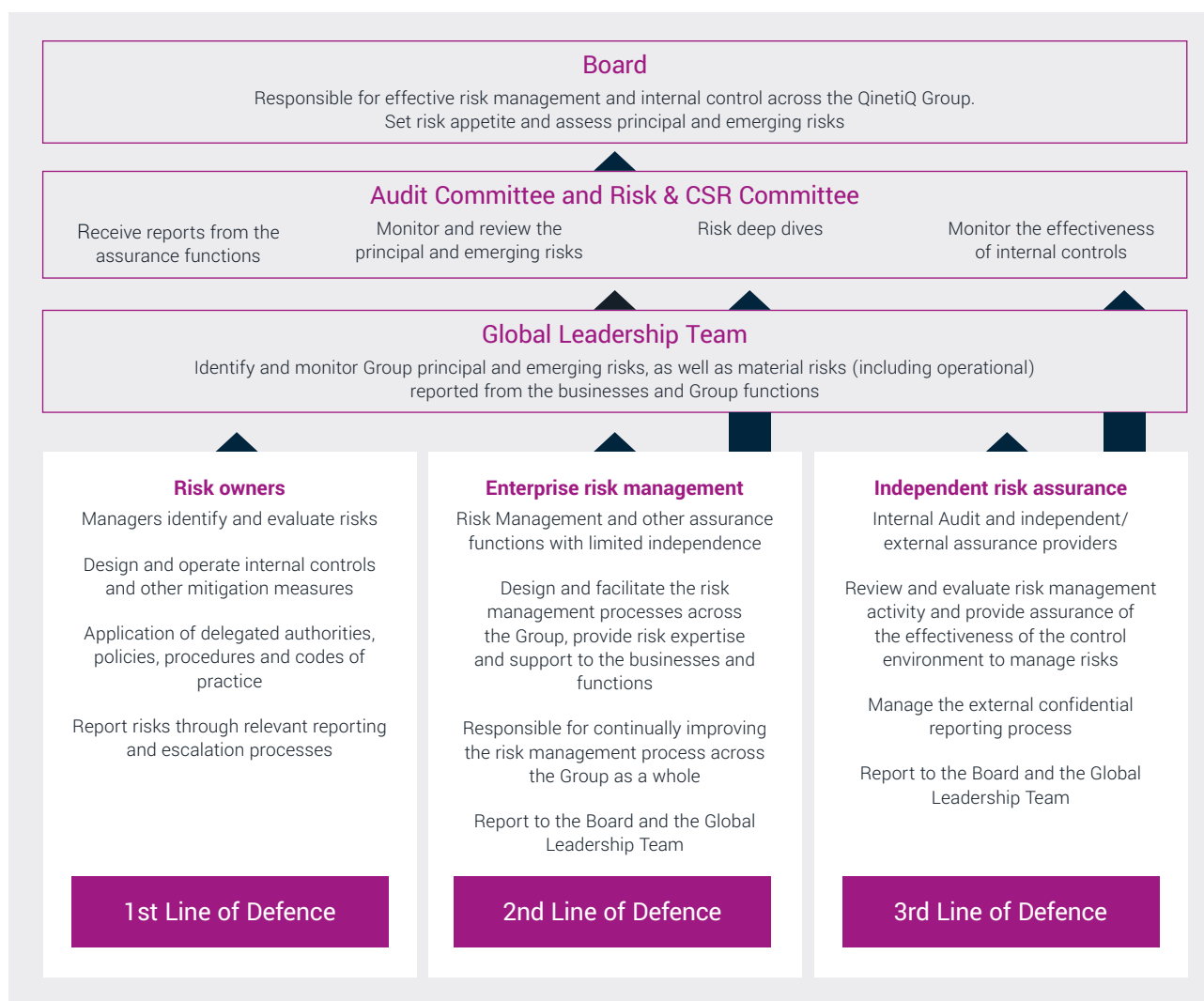
We utilise the Group-wide risk management framework to inform our decision-making at both the strategic and operational levels, adopting a top-down/bottom-up process. This enables us to fully leverage its benefits and subsequently support the long-term

success of our business. Our application of risk management continues to evolve with our customers' approach to risk, the rapidly changing external environment in which we operate and internal changes, thus ensuring we are best placed to pursue opportunities and deliver results, whilst simultaneously innovating for our customers' advantage. Over the past 12 months, risk and opportunity management has been extensively supported by the roll-out of a new risk management tool.

Risk management and assurance activity

Three lines of defence model

Our risk management and assurance activity is formed of three lines of defence, each reporting to the Global Leadership Team, and to the relevant Board Committees. The first line of defence is performed by our businesses and functions, through managing activities in accordance with established operating principles; the second line is performed by the assurance functions, including the enterprise risk management and safety and governance teams; and the third line is performed by the internal audit team and external providers.



Emerging risk

The Group Risk Register consists of material risks relating to effective delivery of our strategy. The Board and Global Leadership Team look to assess these principal risks from a number of different perspectives, including both individually and collectively. We also actively consider emerging risks as part of the risk assessment process. The Board recognises that some risks may be affected by factors outside the control of the company and also recognises 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 to such risks and utilise lessons learned across the organisation as part of our ongoing drive for continuous improvement.

Over the past 12 months our Group risk profile has changed owing to changes in our external environment, the ongoing development of our strategy and robust, focused mitigation. In light of this both the Single Source Regulations impacts on our revenue and the risk around recruitment and retention have been mitigated to a level such that they are no longer considered to pose principal risks to the organisation. However owing to the increased volume of M&A activity across our portfolio a new risk has been included. In addition, as the impact of COVID-19 has escalated we have included a risk that our operations are further disrupted by the pandemic.

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.

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

Principal risks continued

Strategic risks

<p>UK Defence Test & Evaluation strategy</p> <p>UK Government budget constraints lead to reduced spending in core markets in which we operate. This and the ever increasing pace of modernising ways of evaluating capability results in a risk that our approaches/offerings may not remain relevant. There remains the potential for this risk to be exacerbated by the impact of COVID-19 on Government spending and the EU exit should the UK experience a loss of market confidence and further reduction in collaborative EU funding.</p>	<p>International strategy</p> <p>Plans to grow our international business may be impacted by external influences outside of our control, such as geo-political risks, or specific risks arising from working in new markets and globalised operations.</p>	<p>Innovation strategy</p> <p>Failure to create a culture of innovation, develop relevant technology and business models or to attract and retain the right talent, to enable the realisation of new ideas for our customers and our organisation.</p>
<p>Impact</p> <p>A reduction in revenue and associated profitability from the Group's Government and Defence contracts.</p>	<p>Impact</p> <p>Unable to realise expected growth in the planned timeframes.</p>	<p>Impact</p> <p>Negative impact on the Group's market position, competitiveness and future growth.</p>
<p>Mitigation</p> <p>Our strategy is focused on leading and modernising UK Test & Evaluation in support of our customers' objectives. This includes ongoing proactive engagement with our major customers to enable us to support their objectives.</p> <p>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 types of evaluation and are increasingly moving towards modelling and synthetics, as well as embracing the next generation digital transformation.</p> <p>We are expanding our global Test & Evaluation business 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.</p>	<p>Mitigation</p> <p>Our international strategy is focused on the markets we feel we have the best routes to access with the most appropriate products or services.</p> <p>Adopting a focused approach ensures we can closely monitor our progress, adapting and responding as necessary.</p> <p>We undertake extensive due diligence, taking the appropriate professional advice to ensure structural, regulatory, legal and political risks are understood and minimised.</p> <p>We partner with or acquire, where appropriate, quality local businesses to leverage their infrastructure and de-risk local market access.</p>	<p>Mitigation</p> <p>Our overall strategy helps us to ensure that we focus our innovation on areas with clear commercial opportunities.</p> <p>We continue to mature our innovation approach, including clear articulation across the organisation, to ensure the importance of innovation to both our organisation and our customers is clearly understood and initiatives are supported.</p> <p>Specific innovation activities in FY21 will strengthen and improve our innovation approach across the organisation.</p>
<p>Metrics Customer satisfaction All financial KPIs</p> <hr/> <p>Responsibility Group Function Director Business Development</p> <hr/> <p>Risk appetite Eager</p> <hr/> <p>Likelihood/Impact Medium/Medium</p> <hr/> <p>Proximity/Velocity 1–2 yrs/Medium</p>	<p>Metrics All financial KPIs International revenue as % of total revenue</p> <hr/> <p>Responsibility Group MD International</p> <hr/> <p>Risk appetite Balanced to Eager</p> <hr/> <p>Likelihood/Impact High/High</p> <hr/> <p>Proximity/Velocity 0–1 yrs/Medium</p>	<p>Metrics Customer satisfaction Employee engagement</p> <hr/> <p>Responsibility Group Function Director Strategy & Planning Group Function Director Business Development Group Function Director Technical</p> <hr/> <p>Risk appetite Balanced</p> <hr/> <p>Likelihood/Impact High/High</p> <hr/> <p>Proximity/Velocity 1–2yrs/Low</p>

 See our strategy on page 18.

A material element of the Group's revenue is derived from large contracts

The Long Term Partnering Agreement (LTPA) is a 25-year partnering contract with the MOD to provide test, evaluation, and training services. UK Government budget constraints could lead to a material change to the contract.

Impact

The LTPA directly contributes a material proportion of the Group's revenue and earnings.

Mitigation

Our aim is to provide our customer with the capabilities they need to test and train against current and future threats in a cost effective manner – leading and modernising UK Test & Evaluation. Our increased customer focus is evidenced in both the LTPA and EDP programmes.

Ensuring frameworks such as the LTPA enable agility and pace to the Front Line in a rapidly changing threat environment strengthens the rationale for their use.

Our investment into contracts continues to ensure they meet our customers' expectations and remain relevant in an evolving threat environment.

Mergers and Acquisitions (M&A)

M&A activity forms a key element of our strategic growth plans in order to expand our customer offerings. New acquisition selection and integration is key to realising the maximum potential benefits.

Impact

Adverse impact on the Group's financial performance.

Mitigation

We have robust governance in place regarding this risk including the M&A Committee and relevant Integration Steering Committees.

All planned acquisitions are carefully considered to ensure good strategic alignment, extensive due diligence is undertaken and integrations are run as individual projects, ensuring they receive the focus and support necessary to facilitate a smooth transition.

Transformation

The transformation programme does not realise the expected benefits.

Impact

The introduction of new ways of working disrupts business delivery.

Mitigation

The programme is designed around three transformational themes (Performance culture, Global & Digital) to support the delivery of our global strategy, improve customer focus, competitiveness, and global collaboration across the company.

Significant engagement with leaders across the organisation to catalyse the change in behaviours necessary to allow the transformation work to deliver benefit.

Assessment of "capacity to change" and phased approach to transformation in each part of the business to maximise effectiveness.

Metrics

All financial KPIs except orders
Customer satisfaction

Responsibility

Group MD Maritime & Land
Group MD Air & Space

Risk appetite Balanced

Likelihood/Impact Medium/High

Proximity/Velocity 0–1 yrs/Low

Metrics

Inorganic growth
Revenue & profit

Responsibility

Group Function Director Strategy & Planning
Group Managing Directors

Risk appetite Balanced

Likelihood/Impact High/High

Proximity/Velocity 1–2yrs/Low

Metrics

Customer satisfaction
Employee engagement
All financial KPIs

Responsibility

Group Function Director Business
Transformation & Services

Risk appetite Eager

Likelihood/Impact Medium/Medium

Proximity/Velocity 0–1 yrs/Medium

Principal risks continued

Operational risks

<p>Significant breach of relevant laws and regulations</p> <p>We operate in highly regulated environments and non-compliance has the potential to compromise our ability to conduct business in certain jurisdictions, potentially having an impact on a variety of stakeholders.</p>	<p>Security and IT systems</p> <p>A breach of physical or data security, cyber-attacks or IT systems failure could have an adverse impact on our customers' operations.</p>	<p>COVID-19 pandemic</p> <p>The COVID-19 pandemic disrupts QinetiQ operations.</p>
<p>Impact</p> <p>Failure to comply with particular regulations could result in a combination of fines, penalties, civil or criminal action, suspension or debarment from government contracts, as well as reputational damage to our brand.</p>	<p>Impact</p> <p>Significant reputational damage, as well as the possibility of exclusion from some types of government contracts resulting in reduced orders, revenue and profit.</p>	<p>Impact</p> <p>The disease and public health management strategies require QinetiQ, our customers and suppliers to stop or delay some activities.</p>
<p>Mitigation</p> <p>Instilling the right behaviours and culture across the Group is a key part in minimising the risks.</p> <p>In addition to our robust policy, procedures and mandatory training in place, The QinetiQ Code of Conduct defines clear expectations for the Group and its employees.</p> <p>Key areas of focus include the following:</p> <ul style="list-style-type: none"> Safety of product and services Health, Safety & Environment, international trade controls, bribery and ethics; where the company adopts a zero tolerance approach to bribery and corruption 	<p>Mitigation</p> <p>Data security is assured through a multi-layered approach that provides a hardened environment, including robust physical security arrangements and data resilience strategies.</p> <p>Information systems are designed with consideration to single points of failure and comply with relevant accreditation standards.</p> <p>Mandatory security awareness training for all employees.</p> <p>Continuously reviewing the threats and adapting our Security Strategy and mitigations accordingly.</p>	<p>Mitigation</p> <p>QinetiQ's crisis management process is well embedded, flexible and exercised. It operates at strategic, tactical and operational levels across the Group allowing the company to respond rapidly to the pandemic and governmental requirements in all the countries in which it operates. The process has been held under regular review and modification enacted where required to ensure an effective response to the pandemic. The company has engaged with all relevant stakeholders including government, customers, suppliers and employees as the pandemic has progressed. Ways of working have been adapted to facilitate remote working from home where possible and to meet public health requirements where not.</p>
<p>Metrics</p> <p>Health, Safety & Environment Mandatory training compliance Commercial intermediary monitoring</p>	<p>Metrics</p> <p>Cyber dashboard Security dashboard</p>	<p>Metrics</p> <p>Customer satisfaction Employee Engagement All financial KPIs</p>
<p>Responsibility</p> <p>Company Secretary/Group General Counsel</p>	<p>Responsibility</p> <p>Group Function Director Business Transformation & Services</p>	<p>Responsibility</p> <p>CEO</p>
<p>Risk appetite Cautious</p>	<p>Risk appetite Cautious</p>	<p>Risk appetite Cautious</p>
<p>Likelihood/Impact Medium/High</p>	<p>Likelihood/Impact Medium/High</p>	<p>Likelihood/Impact High/Medium</p>
<p>Proximity/Velocity 0–1 yrs/High</p>	<p>Proximity/Velocity 0–1 yrs/High</p>	<p>Proximity/Velocity 0–1 yrs/High</p>

See Chief Executive's Statement on page 10.

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 34 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 73, 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.

Subsequent to the standard planning activities noted above and in response to the COVID-19 crisis that started to escalate just prior to the Group's current year end, specific scenarios have been run to model a variety of potential impacts of COVID-19 on the Group. This has been informed by a further month of trading post year end whilst employees are working during social distancing restrictions and by revised financial forecasts for the 2021 fiscal year prepared by each business unit within the Group.

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 2025. This is the period covered by our strategic planning process and is subject to stress-testing and scenario planning around potential risks. It has been selected because it presents the Board and readers of the Annual Report with a reasonable degree of confidence whilst still providing an appropriate longer-term outlook.

Confirmation of longer-term viability

As noted on page 113, the Directors confirm that their assessment of the principal and emerging 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 2025.

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 20 to 37. The Chief Financial Officer's review on pages 24 to 27 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 24 on page 146 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 32 to 36. Crystallisation of such risks, to the extent not fully mitigated, would lead to a negative impact on the Group's financial results but none are deemed to be sufficiently material to prevent the Group from continuing as a going concern for at least the next 12 months.



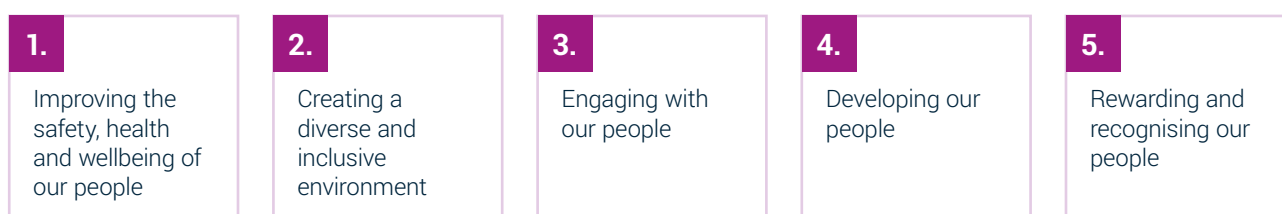
*Jessica Ciccozzi,
General Manager
People and Capability,
with one of our graduates
in Australia.*

Our people

Creating a high performing and inclusive culture

We recognise that to support our strategy we must embed the right culture, where employees are engaged, empowered and clear about how they contribute to our success. It is an integral part of our ongoing global transformation programme.

Our approach to developing a high performing and inclusive culture is focused on five key areas:



For more information please see:

- Non-financial key performance indicators: pages 28 and 29.
- Risk: pages 32 to 36.
- Related policy in the non-financial information statement: pages 54 and 55.

1.

Improving the safety, health and wellbeing of our people

Performance in FY20:

- Our leaders have a collective objective for safety as part of their incentivisation; to improve our safety culture through increased engagement.
- Driven by greater engagement, safety performance has improved with an overall reduction in both Group wide LTI and UK reportable incidents.

Lost Time Incident (LTI) Rate¹



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

- We were recommended by BSI for transition to the 2018 ISO 45001 (safety) standard for the UK.
- We updated our global Environmental, Health and Safety (EHS) strategy and commitment to driving continuous improvement in EHS performance through the next four years and beyond.

- There were no prosecutions, prohibition notices or improvement notices issued by regulators in the UK during the last financial year.
- Building on an initial cohort of 11 Mental Health First Aiders (MHFA) in Australia, a further 65 MHFA have been trained with a further 150 employees becoming Mental Health Champions across the Group.
- Wellbeing has now been incorporated into core training programmes and leadership events.
- Safety and wellbeing issues are part of a regular governance timetable, monthly through Managing Director meetings, quarterly through Global Leadership Team meetings and Risk & CSR committee meetings, with six monthly summary reports to the Board.

Supporting our people through COVID-19

We have adapted quickly to support our people in response to COVID-19. Our priority is the physical, mental and financial wellbeing of our employees and their families. We have a number of key workers and have developed strategies to support those who must be at work to ensure it is safe for them to do so. For the majority of employees who are now working from home, we have focused on providing guidance on how to do so safely and securely as well as support for their health and wellbeing.

Our People continued

2.

Creating a diverse and inclusive environment

We are creating an inclusive environment where we benefit from a diverse range of thinking from varied backgrounds and people at different stages in their careers; this is essential for our business performance.

Performance during the year includes:

- **Training:** A range of new training has been implemented, including mandatory unconscious bias training for all employees; Inclusive Leadership training for over 300 managers; a high impact interactive session for senior leaders; development of a 'language and banter' toolkit working as part of an industry group led by the Royal Academy of Engineering.
- **Employee networks:** Building on the success of our LGBTQ+, 'Just-LikeQ', and Neurodiversity employee led networks we launched a Gender Balance network and a menopause network.
- **Awareness campaigns** on autism, dyslexia, mental health, women in STEM, gender balance and the menopause and increased focus on disability.
- **Focus on gender balance:** We were delighted we retained our Employer of Choice for gender equality in Australia. We are sponsors of International Women in Engineering Day (INWED) and of the 'Innovation' category of the Women in Defence Awards.
- **Collaboration:** Our Just-LikeQ network hosted a celebration event, bringing together LGBTQ+ networks from across the defence industry and MOD during LGBT history month.
- **Reverse mentoring:** Successful launch of our first reverse mentoring programme.
- **Gender diversity:** We submitted our gender diversity data to the Hampton Alexander programme, with two women in an executive team of 15 (13%) and 29 women of our 99 direct executive reports (29%). We ranked highest in Aerospace and Defence in 2019.

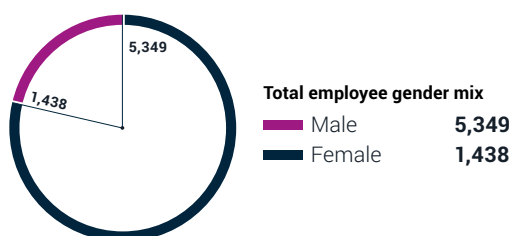
Gender diversity

	Female	Male
Board Directors ¹	2 (22%)	7 (78%)
Senior managers ²	54 (17%)	267 (83%)
All employees ³	1,384 (20%)	5,080 (80%)

¹ For more information on Board diversity see page 78.

² Excluding senior managers who are also Board Directors (CEO and CFO).

³ Excluding senior managers.



Reverse mentoring

In FY20 we worked with our early careers community to develop a new programme of reverse mentoring. The aim is to encourage partnerships between junior and senior communities, where the junior person is the mentor. The programme will provide opportunities for both mentee and mentor to learn new skills, listen and share perspectives and value our differences. The first cohort included 10 senior leaders as mentees including two members of our Global Leadership Team.



See more online at www.qinetiq.com

"I can honestly say I've started doing things differently since I've been working with my Early Careers mentor"

GRAHAM OLLIS

Director, Business Winning

In FY21 we plan to:

- Include a focus on inclusion within our leadership collective objectives.
- Increase and embed our employee led networks.
- Review our approach to recruitment following an independent review.
- Continue to develop our training, resources and communications for employees.

3.

Engaging with our people

Employee engagement forms an integral part of our strategy and is a key non-financial KPI.


 For more on our KPIs see page 29.

- We measure engagement quarterly across the Group and receive regular feedback from our people so that we can identify the top priorities for us to address via our Engagement in Action plan.
- We established our employee engagement baseline in February 2019 (a score of 6.3) and have been pleased to see this increase by 10% to 6.9 in January 2020, with an average participation rate of 75%.

Employee engagement baseline

+10%

2020	6.9
2019	6.3

- The score improved for all aspects of engagement measured, with a key success being the greatest improvement in areas where our employees indicated that we needed to focus.
 For example, see reward on page 43.
- We share progress with our people and demonstrate through action, that their feedback is listened to. We are also supporting and developing managers, to ensure that they can create a high performing and inclusive culture with engaged employees.
- We regularly communicate with our people through a range of channels (e.g. blogs and roadshows) so we can ensure that across the Group employees understand our strategic priorities, know how they can contribute and are supported to deliver our goals.



Employee voice

- The Employee Engagement Group (EEG) is a well established and diverse group representing the voice of employees within QinetiQ Ltd. The EEG have built trusted relationships across all levels, and have been proactive in providing employee insight on projects associated with the strategic aims of the company. Their focus remains on challenging the business to provide the best employee experience of working at QinetiQ and in supporting a high performing and inclusive culture. For example they have provided employee insight during the development of key projects such as the next phase of the LTPA. They have also been key as we have developed our COVID-19 response. Our German colleagues are supported by a works council.
- The EEG Chair and Deputy Chair actively participate at the monthly Leadership community events. The Chair and Deputy Chair along with other EEG representatives have met with the Chairman and Remuneration Committee Chair twice during the year along with another two other Board members (see page 65).

"Our employee survey provides a dynamic way of understanding how it feels to work at QinetiQ so we can take rapid action when our people tell us what needs to improve"

CLAIRE WATSON
Director, Organisation
Development

In FY21 we plan to:

- Share and learn from evidence-based best practice from across our business and all industry sectors.
- Maintain focus on supporting managers to deliver greatest impact on team engagement.
- Continue to evolve a more global approach to listening and responding to our employee voice.



Our People continued

4.

Developing our people

Our learning and talent management programmes drive a high performing environment, unlocking the potential of our workforce. Programmes are underpinned by QinetiQ's values, behaviours and an emphasis on employee wellbeing.

Focus this year has included:

- A new Global Competency Framework and a suite of resources to support professional competencies across all disciplines.
- Our new 'Enabling Managers' programme included an interactive conference, experiential workshops, coaching and a two-day 'Team essentials' leadership programme.
- The launch of a new digital coaching and mentoring platform.
- Collaboration with industry, e.g. the UK Defence Growth Partnership and STEM futures, focusing on future skills.
- Maturing our Talent Management approach in areas of assessment and our long-term capability planning using a Strategic Workforce Planning framework to mature our skills and resourcing strategy for the medium and long-term as we globalise and grow.



Early careers

Our early careers programme supports the development of apprentices, graduates, placement students and interns. We need to strengthen our talent pipeline to mitigate risk in a competitive resourcing market and address the Science, Technology, Engineering and Maths (STEM) skills gap.

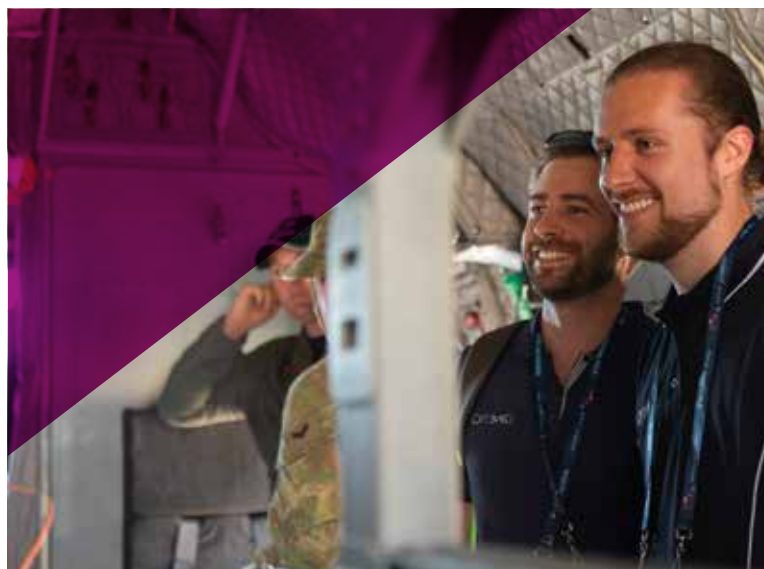
- We have undertaken an extensive review of our programme to ensure we have the skills and capabilities needed to successfully deliver customer requirements and enable delivery of our global business strategy.
- In Australia the new 2019 Graduate Development Programme was the first of its kind in the Australian business and launched with seven engineering graduates for the 18 month program. The 2020 programme will build on this, increasing not only the number of graduates, but also the number of disciplines.
- Two of our apprentices won Gold and Silver medals at the World Skills UK finals event this year.

- Our early careers community are positive role models and are highly active in our outreach programmes and reverse mentoring.
 - 📄 For our outreach programmes see page 47.
 - 📄 For reverse mentoring see page 40.

As a member of The 5% Club, we commit to publishing a breakdown of our early careers (graduate and apprentice) numbers.

As well as providing apprenticeships for employees early in their career, we are also actively supporting 23 colleagues at later stages of their careers to undertake apprenticeships.

	2018	2019	2020
Apprentices	129	101	67
Graduates	109	90	50
Sponsored students	11	8	2
% UK Workforce	4.8	4.0	2.3



In FY21 we plan to:

- Focus on local vs. global training to meet cultural and legislative differences.
- Increase focus on coaching to enable leaders and their teams to embed a high performance culture.
- Develop early careers talent across our home territories, by sharing learning materials and facilitating secondment opportunities.
- Update our Early Careers placement approach to ensure skills are developed that support business capabilities and a new development framework, providing personal and business skills development.

5.

Rewarding and recognising our people

Reward and recognition is key to ensuring that all our people are able to share our success and are recognised for their achievements and behaviours.

- Our new All Employee Incentive Scheme rewards employee contribution and enables everyone to share success based on financial performance. All employees are eligible to receive a bonus of between £500 and £1,000 depending on Group operating profit. In the first year of operation (FY19), the scheme paid £1,000 to every eligible employee in QinetiQ, and for FY20 the payment is £740 reflecting another strong year of profit performance.
- Following feedback via our employee engagement survey, our reward team undertook Reward Roadshows covering reward and financial wellbeing support. This was well received and we have seen a 15% improvement in our employee survey results on reward and recognition (see page 41 on engagement).
- We hosted our third annual global gala dinner to recognise and reward outstanding employee performance in our business. This year's winners showcased the breadth and depth of what we do across the whole of the company.

In addition our 'Thank Q' peer to peer recognition programme allows employees to nominate individuals or teams who make a difference, focusing on the capabilities and behaviours that are vital to our future success.

- As part of our employee engagement the Chair of the Remuneration Committee met with the EEG to ensure a link with employees and to bring the employee voice to the table (see page 65).
- Our mean gender pay gap for FY19 (reported in March 2020) was 14.8% (16.6% in the previous year) and is primarily due to the proportion of men who have senior roles. We recognise it will take time to reduce the gap but we are committed to doing so.
- Also responding to employee feedback we introduced Pay and Progression panels in FY20 in order to make our process more agile and transparent.

 We reported the CEO pay ratio on page 104.

"At QinetiQ our success depends on all of us being able to realise our potential throughout our career; something that is important to us all."

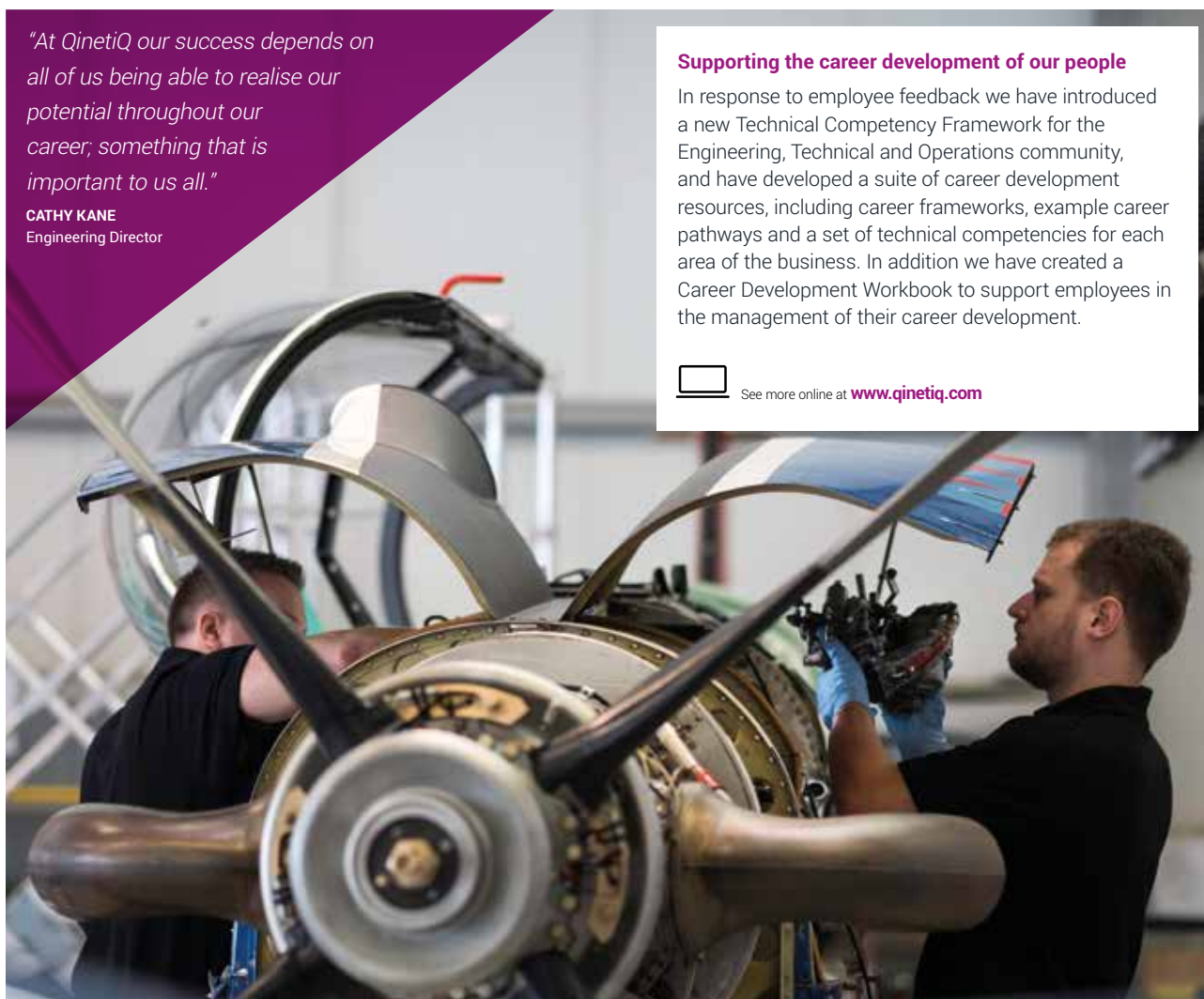
CATHY KANE
Engineering Director

Supporting the career development of our people

In response to employee feedback we have introduced a new Technical Competency Framework for the Engineering, Technical and Operations community, and have developed a suite of career development resources, including career frameworks, example career pathways and a set of technical competencies for each area of the business. In addition we have created a Career Development Workbook to support employees in the management of their career development.



See more online at www.qinetiq.com



Responsible & sustainable business

Our values are at the heart of how we deliver a responsible and sustainable business.

Strategy, materiality and governance

In FY20 we undertook a materiality assessment to ensure that our corporate responsibility and sustainability (CR&S) strategy reflects those issues that are material to our business. There are some elements which will always be business priorities, such as the safety of our people and our approach to governance. Through listening to our stakeholders we can focus on meeting their expectations on issues such as climate change and the Sustainable Development Goals and we can also ensure that we are able to anticipate and understand emerging issues such as social value in UK public procurement.

Our CR&S framework is focused around five themes:

- Stakeholder engagement;
- How we do business;
- Our people (see pages 39 to 43);
- Environmental stewardship; and
- Community investment.

We have Board and executive level commitment to CR&S through the Group Risk & CSR Committee and this ensures delivery of responsible business practice, driven by leadership and governance. The Committee receives reports and briefings on all material CR&S issues including business ethics, anti-bribery and corruption, health and safety, environment, reputational risk and human rights (see page 80). Further Executive chaired committees include the Business Ethics Committee.

For more information please see:

- Non-financial key performance indicators: pages 28 and 29.
- Risk: pages 33 to 36.
- Related policy in the non-financial information statement: pages 54 and 55.

Stakeholder engagement

Understanding the current priorities of our stakeholders (primarily customers, investors and our people) is achieved through regular dialogue such as investor meetings, involvement in the MOD-Industry Sustainable Procurement Working Group and our employee engagement (page 41). We are actively engaged with industry and trade body working groups on topics such as skills, environment and ethics.

How we do business

Business ethics – doing business the right way

Our Code of Conduct lays out 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. 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 ways for them to seek help or raise concerns. They are encouraged to 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 provided responses to all queries received via our ethics email advice services and confidential reporting line. We provide guidance for managers in creating an open and inclusive environment where our people feel confident to raise concerns, and how to listen to and support anyone who may come to them with an issue. Our ethics programme is overseen by our Business Ethics Committee, chaired by our Chief Ethics Officer (the Company Secretary). We are participants in the ethics forum hosted by our trade association, ADS, where members can share best practice on ethics, human rights and anti-bribery.

Anti-bribery and corruption

We have a zero-tolerance approach to bribery and corruption, with robust policy and procedures in place, overseen by our Chief Ethics Officer. These are regularly reviewed against changing regulations and industry guidance. Bribery risks are addressed in our international business risk management process and in our business relationships, with specific focus on commercial intermediaries, who are subject to comprehensive risk-based due diligence, using both in-house expertise and recognised specialist third party due diligence providers. Anti-bribery training forms part of our mandatory business ethics training for all of our people, and, additionally, we provide face-to-face training for our people in roles with a higher potential exposure to bribery and corruption risks with bi-annual refresher training. We have undertaken a review both of our higher risk roles and our training material and have commenced a new targeted programme of training delivery.

Human rights

As part of our ongoing programme to address modern slavery, we have provided more in-depth training to people in key roles and developed new supporting resources for all employees. We have updated our policy and continue to review our approach to risk in the supply chain. Our Supplier Code of Conduct helps to ensure our suppliers have clarity of their responsibilities on human rights. Our annual modern slavery and human trafficking statements are published on our website.



See more online at www.QinetiQ.com

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.

Modern Slavery event

In FY20, working with 'Unseen', the anti-slavery charity we ran a supplier event on Modern Slavery to discuss the issues and explore ways we can collaborate to combat such forms of slavery. Modern Slavery and human trafficking have been growing in public and business awareness. The introduction of the Modern Slavery Act in the UK and similar in US and Australia has created an impetus for business. One of our ongoing commitments is to find effective ways to engage with our supply chain. During the event we discussed not only the impact of slavery on individuals but the likely impact on business when it occurs. The output of the event was the development of shared resources and a new online group to exchange ideas and challenges.

Supply chains

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 Prompt Payment Code, and report our payment details as required by legislation. In FY20 we ran supplier events to raise awareness of issues such as safety and modern slavery (see case study). 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.

Environmental stewardship

As part of our EHS (Environment, Health and Safety) Strategy we are working to protect and sustain our environment while delivering for our customers. Underpinning our approach is our ISO 14001 certification in the UK and Canada. Environmental issues are reviewed by the EHS Committee and the Risk & CSR Committee. A new EHS strategy is planned for launch in FY21.

Our waste target is to increase the annual proportion (%) of 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 increased with 84.7% (FY19: 81.6%) of underlying waste reused or recycled.

During the year we have communicated with our people on a range of environmental issues, explaining our approach to environmental stewardship and encouraging participation. We used World Environment Day as an opportunity to launch our new environmental volunteering programme.

Many of the sites we run on behalf of the UK MOD have significant conservation protection and so our Sustainability Appraisal approach ensures we are able to effectively balance complex trials with careful protection of rare flora and fauna.

Responding to Climate Change

The Task Force on Climate-related Financial Disclosures (TCFD) provides a framework for companies to demonstrate their resilience not just to the physical risks associated with climate change but also 'transition risk' as the world decarbonises. We have run workshops bringing together subject matter experts in risk, strategy, governance, energy management, environment and supply chain, and continue to develop our approach against the recommended framework of governance, strategy, risk management and metrics/targets. Since 2011, we have undertaken climate change risk assessments on priority sites which we manage on behalf of the MOD, to understand what the key issues might be. In FY20 we undertook a further series of new assessments based on recent climate projection data, working in partnership with the MOD.

Sustainable solutions

QinetiQ will play a key role in maximising European Capabilities in Operational Earth Operation, through the development and assembly of the 'ALTIUS' (Atmospheric Limb Tracker for Investigation of the Upcoming Stratosphere) satellite. ALTIUS will be launched in 2023 and will monitor and map the distribution and evolution of stratospheric ozone at a very high vertical resolution as well as measuring greenhouse gasses. ALTIUS is comprised under the European Space Agency Earth Watch Programme, with the objective of developing new scientific Earth Observation satellite missions and data exploitation schemes to advance science and knowledge of the planet.

Responsible & sustainable business continued

Greenhouse gas emissions and energy management

This has been our first year operating under our new 2025 Energy Strategy and in FY20 we achieved a 13.4% reduction in our total Group Scope 1 and Scope 2 emissions footprint target against our FY19 figures.

We are delighted with the progress against our target to reduce our Group carbon emissions by 25% by 2025 against the FY19 baseline. Over half of the emissions saving was achieved from a reduction in electricity use across the business, coming from both a substantial reduction in usage of the wind tunnel facility in Farnborough plus efficiencies achieved across the wider business. The reduction in the UK electricity carbon intensity factor accounted for 32% of our total emissions saving.

During FY20 we submitted a commitment letter to the Science Based Targets initiative (SBTi) to start the process of verifying our Group target against the goal of limiting global warming to 1.5°C. We are publicly listed as committed on the SBTi website.

PricewaterhouseCoopers LLP (PwC) carried out a limited assurance engagement on selected GHG emissions data for year ending 31 March 2020 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: A summary of our Scope 1 and Scope 2 emissions is shown below.

The figures that have been covered by this assurance process are indicated in the table below by the following symbol: Δ. We also publish here our energy performance and examples of energy action taken in the year, meeting the new SECR (Streamlined Energy and Carbon Reporting) requirements.

We have delivered a number of energy efficiency programmes during FY20 to drive greater energy efficiency and improved energy management across the business.

- We have recently incorporated our Ashford site into the scope of our ISO 50001 certification and undertaken Energy audits in our sites in Germany identifying significant opportunities to create efficiencies.

- We have delivered significant improvements to the facilities at Rosyth Dockyard, including upgrading insulation, external cladding and new LED lighting. Since completion at the end of 2019 this refurbishment has resulted in a 25% reduction in electricity consumption compared to the same period in FY19.
- We have upgraded the cooling systems in our data centre facilities in Malvern. The upgrade has seen an improvement of free cooling from 25% to 75% and improved the power usage efficiency (PUE) from between 1.8 to 2.2 to between 1.3 to 1.5. We anticipate further improvements as the systems are optimised ahead of the summer.
- We launched a new 'Battle of the Baseload' campaign to target overnight and weekend energy consumption during the winter months in the UK. The campaign is a combination of behavioural and operational interventions to focus on shut down protocols. From September to March, the campaign resulted in electricity reductions of almost 233MWh (2%) compared to the same period in FY19.
- We made major investment at our Farnborough site, in replacing the boilers which provide heating and hot water. The new boilers are far more efficient and when we have completed commissions and protocol integration we anticipate gas efficiencies of about 15%.
- More information on our energy programme can be found on our website.

In FY21 we plan to:

- Continue delivering the strategy, working to drive continuous improvement in energy efficiency through the ISO50001 energy management system.



See more online at www.QinetiQ.com

	FY20	FY19
Total Scope 1 Emissions (tCO2e)	19,289 ^Δ	20,096
Total Scope 2 Emissions (tCO2e)	16,298 ^Δ	20,977
Total Scope 1 & 2 Emissions (tCO2e)	35,587 ^Δ	41,073
Intensity ratio (tCO2e per £m of revenue)	33 ^Δ	45
Energy consumption (kWh) resulting in above reported emissions	139,780,656	N/A
Proportion of energy consumption arising from UK operations (%)	98%	N/A
Proportion of emissions arising from UK operations (%)	98%	N/A

Δ Figures subject to FY20 assurance process undertaken by PwC.

Investing in our community

Our aim is to make a positive impact and be a good neighbour in the communities where we operate. We focus on sustainable long-term partnerships and understanding where we can help with our professional skills.

Employee volunteering increases engagement through rewarding and meaningful experiences, this supports employee wellbeing, and volunteers can develop their skills. A significant focus is on STEM Outreach as there is clear evidence that giving young people the opportunity to engage with business has a positive impact on their employability. This benefits our future recruitment pipeline and the wider socio-economic wellbeing of our communities. We value our work with partners to deliver outreach, and which help us to reach a specific, longer term or wider audience. Partners include Primary Engineer, Jon Egging Trust and UK Space Agency in the UK; In Australia we are a supporter of the Re-Engineering Australia (REA) Foundation and their Formula 1 in Schools and Subs-in-Schools programmes, providing engineering mentoring and judging competitions.

Highlights this year include:

- Launch of the Jon Egging Trust partnership in Wiltshire.
- Our STEM Ambassadors engaged with over 90 schools and youth groups, and approximately 3,200 young people in the UK, through activities such as inspirational projects with our STEM Ambassadors, visits to our sites, mentoring, support with extra-curricular coding clubs, and careers fairs. We have also engaged with approximately 18,000 people at larger events such as the Royal International Air Tattoo.
- QinetiQ Australia volunteer mentors supported F1-in Schools Team.
- A number of our sites in the UK and locations across the Group also choose a local or regional charity to support each year. Any other sponsorships are aligned with three key themes of Innovation, Skills (including young people) and supporting our Armed Forces.

In FY21 we plan to:

- We will continue to focus and grow outreach and maximise the partnership with the Jon Egging Trust.
- In FY21 we will begin a new charity partnership in the UK with SSAFA, which supports our Armed Forces covenant commitments.

Supporting the armed forces

As a signatory to the 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.



Jon Egging Trust

In 2019 QinetiQ started a new, three-year corporate partnership with the Jon Egging Trust (JET) in Wiltshire. JET delivers accredited learning programmes to develop young people's life and work skills by providing access to inspirational role models and life-changing opportunities linked to aviation, engineering and science. The programme includes five sessions, covering teamwork, communication, resilience and goal setting to help improve confidence and life skills in young people from disadvantaged backgrounds. The programme also includes an inspirational visit to QinetiQ at MOD Boscombe Down. The image shows students from the first cohort.

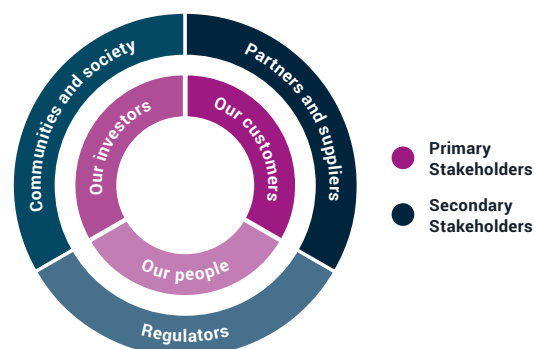


See more online at www.qinetiq.com



Stakeholder engagement

Creating value for our stakeholders is at the heart of our strategy and knowing what matters to them informs our decisions.



Stakeholder	Why they are important to us	What matters to them	
Our customers	Our customers are at the centre of our vision and the foundation of our success. We strive to apply our strengths to their advantage and so invest time in understanding and responding to their needs.	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 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.	
Our investors	Our investors' ongoing support is key to enabling us to deliver and sustain our strategy. Their support enables us to invest in our business to support our customers and deliver appropriate returns.	Our investors 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 in to account other key stakeholders.	
Our people	We are a people business and our employees are critical to our success. We want to ensure our people are highly engaged as we know this is beneficial for their personal wellbeing and productivity, which will underpin successful delivery to customers and the growth of our business.	Our people want a safe environment to work in, successful and rewarding careers and to do work that is meaningful. They also want to know that the company will listen to their concerns and feedback.	
Partners and suppliers	We occupy a unique position in defence where we are able to build powerful partnerships with a range of small and large companies, academia and customers. Our aim is to be the 'Partner of Choice' as many of our critical programmes are delivered utilising partnership models.	A collaborative environment in which all partners and suppliers can contribute and add value. They also want to be treated fairly regardless of their respective size.	
Communities and society	We strive to be a good neighbour in the communities in which we operate. It's where our people live, a source of future talent and local suppliers. We also consider wider society.	Our communities want us to be considerate neighbours but also a source of future employment and opportunities.	
Regulators	Some aspects of our business will have oversight by regulators, for example on safety and environmental issues.	Our regulators expect us to meet high standards of safety and environmental stewardship and legal requirements.	

- In line with statutory reporting requirements, we are highlighting the engagement activities we undertake, how we use this information in Board decision-making and our reporting on stakeholder engagement.
- With many stakeholders it is important that we understand how to engage and listen effectively and we must balance our approach (direct and indirect) so that we have the best outcome for all and focus on what is most material.
- Our approach to engagement will evolve as we grow, with new acquisitions in new territories requiring us to consider both new stakeholders but also different priorities.

	How we engaged/listened to them in FY20	The outcome/impact of that engagement
	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • 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.
	<ul style="list-style-type: none"> • We engage with our shareholders during the year through 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 policy. 	<ul style="list-style-type: none"> • 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 in addition to informing our approach to remuneration. • We have continued to place great emphasis on ESG related matters and are improving our disclosure accordingly.
	<ul style="list-style-type: none"> • Our methods of engagement include: Quarterly Peakon surveys, Q-talks, Global roadshows led by our CEO, our Employee Engagement Group (EEG) and other engagement forums (e.g. works councils) and indirectly through feedback such as Glass Door. 	<ul style="list-style-type: none"> • The identification of priority focus areas including reward and career pathways. • By listening to our people we have been able to make improvements in these areas which have been acknowledged in our Peakon survey.
	<ul style="list-style-type: none"> • 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 with the executive team and their counterparts in other key industry partners. • We also engage with our suppliers through industry tools (Defence contracts online), 'meet the buyer' events and regular review meetings. 	<ul style="list-style-type: none"> • 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.
	<ul style="list-style-type: none"> • We engage via a variety of community investment activity such as outreach, volunteering, supporting local charities and community liaison. 	<ul style="list-style-type: none"> • Our community investment activity is viewed positively. Through our community liaison, particularly for trials sites, our regular updates have ensured local people are aware of our activity.
	<ul style="list-style-type: none"> • We engage with regulators via meetings, audits and reports. 	<ul style="list-style-type: none"> • Through engagement we are able to ensure we continue to meet the high standards expected by regulators.

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.

Our Board ensures that all decisions are taken for the long term, and collectively and individually aims to always uphold the highest standard of conduct. Similarly, our Board acknowledges that the business can only grow and prosper over the long-term if it understands and respects the views and needs of the company's investors, customers, employees, suppliers and other stakeholders to whom we are accountable, as well as the environment we operate within.

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.

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.

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.

 For more information see pages 72 to 81.

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.

 See pages 62 to 71.

Engagement with the company's stakeholders.

 See pages 48 and 49.

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.

 For more information see pages 44 to 47.

Effect and impact – principal Board decisions and how the Board considered stakeholders views:

1. Response to COVID-19

With significant uncertainty created by the COVID-19 pandemic the Board oversaw the Group's response with the aim of ensuring we emerge from the crisis well positioned for long-term success, whilst supporting our employees and their safety and continuing to deliver for our customers. For more details on our priorities in response to the crisis, please see page 10.

Consideration	Outcome/impact
Employees	
<p>Considered the health, safety and wellbeing of all QinetiQ employees. In particular, for those still required to be on-site to support customer delivery, the Board deliberated the safety measures to protect their wellbeing. For those able to work from home the Board considered the infrastructure to support this and their working efficiency. Given the increase in homeworking consideration was also given to the increased risk of cyber-attacks and data breaches and how to mitigate this.</p> <p>A range of scenarios whereby QinetiQ experiences subdued demand or inability to deliver for a period of time were debated, with consideration given to how QinetiQ could manage the workforce to match this, whilst protecting our employees' interests and engagement and retaining their expertise within the business for the long-term.</p>	<p>The Board was satisfied that sufficient measures were in place to protect the health, safety and wellbeing of our people and continue to monitor the situation.</p> <p>Additional security measures were deployed to enhance the security of our networks further, in light of homeworking.</p> <p>Actions were taken to reduce costs and minimise the impact on employees, with discretionary costs being reduced, Non-Executive Directors agreeing to lower their fees and the senior leadership community agreeing to pay cuts.</p>
Customers	
<p>Considered continuity plans and our ability to continue delivering for our customers in the event of a significant proportion of the workforce being unable to work due to sickness. The Board also considered near-term demand and how customers' priorities might change over a longer period of time.</p>	<p>The Board were satisfied with the continuity plans in place to ensure the continued delivery of mission-critical work were a large proportion of the workforce to be absent. Particular attention was given to how we will respond to changing customer priorities over a longer time horizon.</p>
Shareholders	
<p>Considered the current liquidity and financial position of the business and various scenarios whereby cash flow deteriorates.</p>	<p>Concluded that the Group was in a strong financial position, but given the considerable uncertainty it was prudent to reduce discretionary cash outflows where possible, to ensure that the Group emerges well positioned to deliver long-term sustainable growth for shareholders. In addition to a range of actions taken to reduce cash outflows detailed on page 11, the Board took action to delay the decision around the dividend payment until there is more clarity around the true liquidity requirements over the coming months.</p>
Suppliers	
<p>Considered the financial health of suppliers, in particular SMEs and their ability to continue supporting QinetiQ in delivering for our customers over the long-term.</p>	<p>The Board supported the acceleration of supplier payments to SMEs to help minimise the impact of the pandemic on their financial health to ensure they can continue supporting us in delivering for our customers over the long-term.</p>

Section 172 (1) statement continued

2. Acquisition of MTEQ

In December 2019 we completed the acquisition of US-based Manufacturing Techniques Inc. (MTEQ). The Board concluded that this acquisition would promote the success of the Group over the long-term by substantially growing our US business and enhancing our capabilities in sensing technology, positively contributing to overall growth.

Consideration	Outcome/impact
Customers	
The Board considered the impact on customer offering and the quality of delivery for both MTEQ and QinetiQ customers. The Board also considered the impact of operating under a Special Security Agreement (SSA), this being a new and amended US governance structure to the previous Proxy regime.	The Board concluded the combination of existing robotics and autonomy capabilities with the advanced sensing solutions of MTEQ would enhance our customer offering in the US. The Board recognised that the new governance structure would enable us to better leverage Group-wide capabilities and that with the right retention plans in place to retain key individuals, the acquisition will benefit customers over the long-term.
Shareholders	
Considered the strategic fit, financial merits and valuation of MTEQ as well as our ability to successfully integrate MTEQ over a long period of time.	Concluded there was a strong strategic fit and the deal should deliver attractive returns in excess of our cost of capital over the long-term.
Employees	
Considered the retention of key MTEQ & QinetiQ employees and approved an integration plan, detailing the Groups strategy to retain key employees. Also considered the cultural fit of MTEQ and the type of work the combined entities could deliver and whether employees will have the required skills to deliver such projects.	Concluded the two organisations were culturally aligned and that the addition of MTEQ's focus on mission-led innovation will enhance our high performance customer focused culture. The Board was satisfied that the combined entities have the skills to deliver the sort of work the combined entities could win.
Suppliers	
With an ambition to move MTEQ towards larger production volumes, the ability of MTEQ's existing supply chain to support larger orders was considered.	The Board was satisfied that the existing supply chain could deliver larger quantities with adequate planning and within reason.
Governance	
The Board considered the importance of the governance structure under which MTEQ would operate for all stakeholders. This extended to considering the environmental credentials of MTEQ.	The move to a 'Special Security Agreement' was concluded to be a positive to our ability to effectively govern our US operation.

3. QinetiQ pension scheme buy in

The QinetiQ Pension Scheme completed a bulk annuity insurance buy-in with Scottish Widows for £690m, covering approximately 33% of the Scheme's liabilities. The Board concluded that a buy-in would remove risk and better position the Group for future long-term success.

Consideration	Outcome/impact
Shareholders	
The Board considered the potential liabilities arising from the pension scheme.	Concluded that the buy-in would reduce possible future calls on the company and therefore strengthen our financial profile, having a positive long-term effect on the company.
Members of the pension scheme	
The Board considered the impact of a buy-in on the members of the pension scheme and the security of the benefits promised.	Concluded that the buy-in represents a significant step in securing the benefits promised to the scheme's members as Scottish Widows, as a large insurance provider, is better positioned to manage risks associated with the pension scheme.

Note: The QinetiQ Pension Scheme buy-in was announced on 10 April 2019. Therefore whilst the transaction took place in FY20, the Board discussions around its approval actually occurred in FY19. However, given the impact of the transaction on stakeholders in FY20 it has been included in the above statement.

4. Acquisition of Newman & Spurr Consultancy Limited (NSC)

In February 2020 we acquired NSC. The members of the Board were satisfied that the acquisition would result in a long-term positive effect for the company with the combination of live and virtual training environments creating further opportunities for growth.

Consideration	Outcome/impact
Customers	
The Board considered the impact of QinetiQ ownership on NSC relationships and also considered the impact on overall customer value proposition.	Concluded that the combination of live and virtual training environments supports our customers in achieving value for money from their training programmes. Given our existing relationships with many NSC customers the Board concluded there to be limited risk as a consequence of QinetiQ's ownership of NSC.
Shareholders	
The Board considered the strategic fit, financial merits and valuation of NSC and our ability to integrate and leverage NSC's capabilities over a long period of time.	Concluded that the acquisition would enhance our offering in the training domain, a key area of growth for QinetiQ, ultimately resulting in value creation for our shareholders.
Employees	
Considered the retention of key NSC employees as well as the cultural fit of NSC and impact of our ownership on NSC employees.	The Board approved the integration plans and concluded a strong customer focus meant the businesses were culturally aligned, with our existing employee engagement strategies likely to continue to motivating NSC employees.
Environment	
Considered how the use of NSC's expertise in virtual training could potentially reduce the use of live training.	The Board concluded this to be a net benefit to the environment, with lower carbon emissions resulting from virtual training.

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	12–13
Policies	Non-financial information statement	54–55
Principal risks	Risk review	33
	Principal risk management	34–36
	Risk performance	32–36
Key performance indicators	Key performance indicators	28–31

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. 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 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 meetings and Risk and CSR Committee meetings, 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 executive as well as regular oversight by the Risk and CSR Committee.

The environment

Policy statement	Description
Environmental management	We are committed to embedding an environmentally sustainable approach to business because we know its importance to our business and our stakeholders. The effectiveness of the policy is governed through our assurance process and our six-monthly self certification. Environmental issues are part of a regular governance timetable, monthly through MD meetings, quarterly through GLT meetings and Risk and CSR Committee meetings, with a six-monthly summary overview to the Board. We are certified to ISO 14001 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 executive as well as regular oversight by the Risk and CSR Committee.
Sustainability appraisal	Sustainability appraisals are required under the LTPA. They involve an assessment of an activity across 16 sustainability themes. The effectiveness is governed via our assurance processes as well as regular review and oversight by the UK MOD customer.

Community and Society

Policy statement	Description
Volunteering policy	Our policy provides guidance for employees to use company time to use their skills 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 apprentice school 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 and was audited this year by our internal audit team who were content and made some minor suggestions for improvements.

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. We believe that this integrated approach is effective in ensuring our business acts responsibly and respects human rights.
Modern slavery	Our Modern Slavery policy was reviewed and updated this year. 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 (Exec 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 (Exec 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 Executive 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 policies 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 executive 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 policies which supports our zero tolerance approach to ABC. It provides clear guidance on what is appropriate and how to record. This policy has executive and Board oversight, is subject to our assurance process and self certification.