Preliminary Results

19 May 2022

Focused on sustainable global growth

Unaudited Results for the year ended 31 March 2022

	Statutory results		Underlying* results	
	FY22	FY21[1]	**FY22**	FY21
Revenue	£1,320.4m	£1,278.2m	£1,320.4m	£1,278.2m
Operating profit	£117.5m	£108.7m	£137.4m	£151.8m
Profit after tax	£90.0m	£121.9m	£118.1m	£126.1m
Earnings per share	15.7p	21.4p	20.6p	22.1p
Full year dividend per share	7.3p	6.9p	7.3p	6.9p
Funded order backlog			£2,828.8m	£2,944.1m
Orders[2]			£1,226.6m	£1,149.4m
Net cash inflow from operations	£209.7m	£194.4m	£215.3m	£199.0m
Net cash			£225.1m	£164.1m

Good progress with strong second half momentum

- Orders up 9% on an organic basis with robust backlog
- Revenue up 5% on an organic basis
- Underlying operating profit of £137.4m, equivalent to 11.4% margin before a £14.5m write-down, within our short-term guidance
- 114% underlying cash conversion (FY21: 98%)[3], 26% ROCE
- Underlying EPS of 20.6p; 7.3p full year dividend declared – growth of 6%

Continued discipline in execution of growth strategy

- Secured record order intake[4] across the Group at £1.23bn
- Excellent revenue growth, with Australia up 26% and UK up 12%
- Slower US recovery but momentum building, orders up c.20% and new leadership team
- Delivered 75% revenue growth over last 6 years

Customer focus to drive c.75% growth in next 5 years

- Maintaining Group expectations for FY23, with £900m revenue under contract
- Heightening market needs for our distinctive offerings
- Investing in differentiated solutions and strategic acquisitions
- Enhancing focus on ESG and enabling our people to thrive

Steve Wadey, Group Chief Executive Officer said:

"Throughout the last year our people have continued to partner with our customers to deliver high-value solutions critical to current and future national defence and security challenges. Following a challenging first half we delivered a strong second half and achieved good underlying operational performance, ahead of market expectations. Recent world events have reinforced the long-term needs of our customers, including capabilities utilising differentiated technology, test and training solutions which are directly aligned with our strategy. With a clear focus on disciplined execution of our strategy, increasing demand for our solutions and good revenue coverage, we have positive momentum and are on-track to deliver sustainable global growth."

* Definitions of the Group's 'Alternative Performance Measures' can be found in the glossary
[1] Prior year comparatives have been restated due to a change in accounting policy in respect of software implementation costs (see note 1 to the financial statements).
[2] To be consistent with revenue reporting, prior year orders has been restated to exclude £1.7m of contribution from Joint Ventures
[3] New cash conversion definition: Operating cash flow pre-capex divided by EBITDA
[4] Excluding LTPA amendments, booked in FY16 and FY20

Preliminary results presentation:
Management will host a presentation at 09:30 hours BST on 19 May 2022 at Numis' auditorium, 45 Gresham Street, London EC2V 7BF. The presentation will also be shared as a live webcast. To register to join this event, please see details on our website here:
https://www.qinetiq.com/en/investors/results-reports-and-presentations/full-year-results-webcast-2022

You are warmly invited to join, either in person or virtually.

About QinetiQ:
QinetiQ (QQ.L) is a leading science and engineering company operating primarily in the defence and security markets. We work in partnership with our customers to solve real world problems through innovative solutions delivering operational and competitive advantage. Visit our website www.QinetiQ.com. Follow us on LinkedIn and Twitter @QinetiQ. Visit our blog www.QinetiQ-blogs.com.

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Basis of preparation:

This preliminary announcement does not constitute the Group's full financial statements for the year ended 31 March 2022. The Group's full financial statements will be approved by the Board of Directors and reported on by the auditors no later than 23 May 2022. Accordingly, the financial information for FY22 is presented unaudited in the preliminary announcement.

Throughout this document, certain measures are used to describe the Group's financial performance which are not recognised under IFRS or other generally accepted accounting principles (GAAP). The Group's Directors and management assess financial performance based on underlying measures of performance, which are adjusted to exclude certain 'specific adjusting items'. In the judgment of the Directors, the use of alternative performance measures (APMs) such as underlying operating profit and underlying earnings per share are more representative of ongoing trading, facilitate meaningful year-to-year comparison and, therefore, allow the reader to obtain a fuller understanding of the financial information. The adjusted measures used by QinetiQ may differ from adjusted measures used by other companies. Details of QinetiQ's APMs are set out in the glossary to the document.

Year references (FY22, FY21, FY20, 2022, 2021, 2020) refer to the year ended 31 March.

Disclaimer

This document contains certain forward-looking statements relating to the business, strategy, financial performance and results of the Company and/or the industry in which it operates. Actual results, levels of activity, performance, achievements and events are most likely to vary materially from those implied by the forward-looking statements. The forward-looking statements concern future circumstances and results and other statements that are not historical facts, sometimes identified by the words 'believes',' expects', 'predicts', 'intends', 'projects', 'plans', 'estimates', 'aims', 'foresees', 'anticipates', 'targets', 'goals', 'due', 'could', 'may', 'should', 'potential', 'likely' and similar expressions, although these words are not the exclusive means of doing so. These forward-looking statements include, without limitation, statements regarding the Company's future financial position, income growth, impairment charges, business strategy, projected levels of growth in the relevant markets, projected costs, estimates of capital expenditures, and plans and objectives for future operations. Forward-looking statements contained in this announcement regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Nothing in this document should be regarded as a profit forecast.

The forward-looking statements, including assumptions, opinions and views of the Company or cited from third party sources, contained in this announcement are solely opinions and forecasts which are uncertain and subject to risks. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to be correct. Actual results may differ materially from those expressed or implied by these forward-looking statements. A number of factors could cause actual events to differ significantly and these are set out in the principal risks and uncertainties section of this document.

Most of these factors are difficult to predict accurately and are generally beyond the control of the Company. Any forward-looking statements made by, or on behalf of, the Company speak only as of the date they are made. Save as required by law, the Company will not publicly release the results of any revisions to any forward-looking statements in this document that may occur due to any change in the Directors' expectations or to reflect events or circumstances after the date of this document.

Chief Executive Officer's Review

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

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

Delivering our global ambition

Recent world events have reinforced the long-term needs of our customers, requiring capabilities utilising differentiated technology, test and training solutions which are directly aligned with our strategy. This defence and security context is heightening the market needs for our six distinctive offerings. Our addressable market is worth more than £20bn per year and we see increased customer demand for our high value solutions in their priority growth segments. The major focus for growth is in our three home countries, the UK, US and Australia, where we are pursuing similar opportunities to support their shared defence and security mission. The formation of the AUKUS alliance, between these nations, reinforces our multi-domestic strategy and makes us increasingly relevant. We are well positioned to deliver strong growth in the UK and more than double our Australian and US businesses in the next five years.

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

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

1. Global leverage	2. Distinctive offerings	3. Disruptive innovation
Build an integrated global defence and security company to leverage our capability through single routes to market in UK, US, Australia, Canada, Germany and Belgium	Co-create high-value differentiated solutions for our customers in experimentation, test, training, information, engineering and autonomous systems	Invest in and apply disruptive business models, digitisation and advanced technologies to enable our customers' operational mission at pace

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

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

Environmental, Social and Governance (ESG)

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

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

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

Effective Governance is critical to our sustainability. We are focused on strengthening our own skills and processes, as well as those of our supply chain. We are focused on strengthening our own skills and processes and ensuring our supply chain is both vibrant and meets the same standards of safety, security, sustainability and governance that we do. In May 2022 we launched our sustainable procurement guide to help our suppliers achieve this objective. Driven by our company purpose, we take the ethics of defence seriously and carefully consider who we do business with and the projects we undertake, to protect lives and secure the vital interests of our customers.

This year we are taking our focus on ESG to a new level, with 17.5% of all leadership incentives focused on delivering our commitments.

Strategic achievements

We have continued to make good strategic progress implementing our strategy to become an integrated global defence and security company. A few selected examples are:

- **Leading role in securing the interests of our NATO allies** – we supported Formidable Shield, the largest live-fire Integrated Air and Missile Defence exercise in FY22 led by the US Sixth Fleet and conducted by Naval Striking and Support Forces NATO. This is a good example of the benefits arising from our investment in the LTPA contract, driving enhanced operational outcomes for our customers, increasing the demand for our ranges and positioning QinetiQ at the leading edge of safe delivery of complex events to ensure our NATO allies can defend against future threats.
- **Our large contracts continue to support significant growth in the UK** – we won orders totalling £115m on the Weapons Sector Research Framework (WSRF) contract, including work on the development and deployment of directed energy weapons for the UK MOD, an important capability as identified in the Integrated Review earlier in the year, particularly focused on counter-hypersonics. The Engineering Delivery Partner (EDP) programme

continues to evolve to deliver the ever changing needs of our customers, and has now delivered over £920m of orders since inception in October 2018. Over 97% of engineering outputs have been delivered on time, right first time. This year, we also achieved Full Operating Capability (FOC) as planned and we successfully passed through the 4-year review point demonstrating DE&S' confidence and commitment to the contract.

- **Strategic partner to Strategic Command** – we won more than £160m of orders with Defence Digital and Defence Intelligence, including a £33m contract to transform the aeronautical data management and aeronautical information production capability for UK MOD and a £20m contract to support defence intelligence transformation across electronic warfare, mission data, intelligence training, capability assessments and Urgent Operational Requirements implementation, adding automation and providing enhanced resilience. We have become a strategic partner supporting Strategic Command's digital change programmes and are well placed to continue to develop our position with these customers in the coming years.
- **Building a disruptive mid-tier company in the US** – we won a number of notable and strategically significant contracts in the US, including a $12m advanced sensor prototype contract, a $62m full-rate production contract for our SPUR robot and a $12m contract to deliver additional RCV-L prototypes for testing. With c.20% growth in orders coupled with our new leadership team, headed by Shawn Purvis, this provides a strong foundation for delivery of our strategy in the US through both organic growth and through strategy-led acquisitions.
- **Trusted partner in Australia** – our Australian business continues to deliver strong growth. Our Major Service Provider (MSP) contract has delivered orders totalling A$97m including an A$27m order to assist the Australian Department of Defence in delivering its largest and most complex Land projects. This contract positions us for future growth as a trusted partner able to provide sovereign Australian industry capability, while leveraging our global capabilities.
- **QinetiQ Target Systems (QTS) recovery** – QTS experienced disruption in FY21 due to COVID-19 with cancellations of trials and deployments due to travel restrictions around the world. Through FY22 we have seen significant positive progress across the QTS business with customers resuming trials and exercises and winning some significant orders, seeing growth in both their existing countries and new business wins in the US, India and Japan – the business has both recovered from COVID-19 and achieved its largest order intake ever with £42m orders.

Outlook – FY23

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

Outlook – Longer term

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

Trading Environment

Geopolitical tensions have risen to new heights following the Russian invasion of Ukraine. This has created more uncertainty around the world than has existed at any time since 9/11 and has risked moving Europe and NATO closer to a direct conflict with Russia. Alongside this, there has been a proliferation of grey-zone warfare, a need for advanced capabilities, informational advantage and better interoperability, as well as a focus on the resilience of domestic supply chains.

As a predominantly service-based business we are uniquely placed to operate across the breadth of platforms, systems and lifecycles unlike a more traditional vertical platform manufacturer. We can experiment, innovate and develop new capabilities, drawing on a broad range of existing, emerging and disruptive technologies across all our geographies.

UK

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

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

US

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

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

Australia

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

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

Broader international markets

The strategic landscape has undergone a seismic shift following Russia's invasion of Ukraine in February 2022. This has provoked NATO to increase its defence capabilities and readiness to respond, adding to the pressure for the NATO member countries to increase their defence spending of at least 2% GDP. Following the announcement of Germany to increase defence spending by EUR100bn over the next 5 years, many other NATO and European countries are also increasing their defence and security investment.

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

Chief Financial Officer's Review

Overview of full year results

We have made good progress with a strong second half, partially offsetting the challenging first half. We delivered strong orders and revenue, growing organically by 9% and 5% respectively. Prior to the complex project write-down, we delivered good underlying trading performance with operating profit margins within our short-term target range at 11.4%. Strong cash performance has continued in FY22 and we closed the year with net cash of £225.1m, which continues to provide support for investment opportunities. We have changed our cash conversion definition to reflect our pre-capex cash flows as a proportion of EBITDA – using this new definition we achieved underlying cash conversion of 114% (FY21: 98%). We enter FY22 in a strong position, with a large order backlog and a robust balance sheet.

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

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

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

At the beginning of FY23 approximately £900m of the Group's FY23 revenue was under contract, compared to £800m (of the FY22 revenue) at the same point last year. This notable increase reflects the strong performance on our key framework contracts in EMEA services and the ongoing recovery in Global Products.

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

As explained in our Interim Results, in the first half we reported a write-down on a large complex project due to technical issues and supplier delay on system development for a service contract. The write-down was due to a unique combination of emergent risks across system maturity, supplier capability and contract delivery conditions. Our first half results included a prudent judgement of the revenue and additional cost impact to resolve the project. The project has now been fully closed and the financial impact remains consistent with and contained in our first half results.

The below table demonstrates our full year underlying results before and after the effect of the complex project write-down:

	FY22			FY21	Underlying change		
	Underlying results	Complex project write-down	**Excluding write-down**	Underlying results	*Including write-down*	*Excluding write-down*	*Excluding write-down (organic)*
Orders	**£1,226.6m**	£22.5m	**£1,249.1m**	£1,149.4m	*+7%*	*+9%*	*+11%*
Revenue	**£1,320.4m**	£10.7m	**£1,331.1m**	£1,278.2m	*+3%*	*+4%*	*+6%*
Operating profit	**£137.4m**	£14.5m	**£151.9m**	£151.8m	*(9)%*	*+0%*	*(3)%*
Margin	***10.4%***		***11.4%***	*11.9%*			

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

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

Underlying profit before tax decreased 9% to £136.0m (FY21: £149.9m) in line with the decrease in underlying operating profit, with underlying net finance expense at £1.4m (FY21: £1.9m).

Specific adjusting items

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

Below operating profit, specific adjusting items included income of £4.5m (FY21: £7.1m) in respect of the defined benefit pension net surplus and a tax expense of £11.8m (FY21 restated: £3.1m income), discussed in more detail below. The prior year also included a gain on sale of businesses and investments of £28.7m and a £25.4m goodwill impairment in relation to the QinetiQ Germany business.

Further analysis is set out in note 3.

Net finance costs

Net finance income was £3.1m (FY21: £5.2m). The underlying net finance expense was £1.4m (FY21: £1.9m) with additional income of £4.5m (FY21: £7.1m) in respect of the defined benefit pension net surplus reported within specific adjusting items. The pension net finance income is calculated as a percentage of the opening net asset. In FY22 the opening net asset (£214.3m) was substantially smaller than the net asset at the start of FY21 (£309.7m) generating a reduction in the level of net finance income. Similarly, the increase in the net surplus within FY22 (closing at £362.2m) will lead to an increase in the pension net finance income in FY23.

Tax

The total tax charge was £29.7m (FY21 restated: £20.7m), with specific adjusting items driving the increase. The underlying tax charge was £17.9m (FY21: £23.8m), on lower underlying profit before tax with an underlying effective tax rate of 13.2% for the year ending 31 March 2022 (FY21: 15.9%). The underlying effective tax rate continues to be below the UK statutory rate, primarily as a result of the benefit of research and development expenditure credits ('RDEC') in the UK which are accounted for under IAS 12 within the tax line. An adjusted underlying effective tax rate before the impact of RDEC would be 17.3% (FY21: 19.4%). The impact of RDEC is shown net of £9.5m (FY21: £10.6m) appropriated by the MOD. Within other creditors there are provisions for payments of MOD appropriations awaiting the resolution of an SSRO decision with regard to RDEC which may give rise to a reversal of the creditor and to an increased benefit from RDEC in the income statement in the current and future periods. 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 £15.9m charge in respect of the impact on UK deferred tax balances due to the UK corporation tax rate change from 19% to 25% has been classified as a specific adjusting item. Together with a £4.1m income (FY21 restated: income of £3.1m) in respect of the pre-tax specific adjusting items (see note 3), the total specific adjusting items tax expense was £11.8m (FY21 restated: income of £3.1m).

At 31 March 2022 the Group had unused tax losses and US carried forward interest expense of £128.1m (FY21: £73.2m) which are available for offset against future taxable profits. Deferred tax assets are recognised on the balance sheet of £15.5m in respect of £59.7m of US net operating losses, £4.5m in respect of £19.0m of Canadian net operating losses and £1.8m in respect of £5.5m of German trade losses.

Cash Performance

Underlying net cash flow from operations was £215.3m (FY21: £199.0m). Listening to stakeholder feedback we have changed our cash conversion definition to reflect our pre-capital expenditure cash flows as a proportion of EBITDA in order to demonstrate how we convert our profit (excluding interest, tax, depreciation and amortisation) into cash flow – under this new definition we achieved underlying cash conversion of 114%, an increase from 98% last year applying the new definition; for reference using our prior year definition we delivered cash conversion (pre-capex cash flow vs operating profit) of 157% (FY21: 131%). This cash flow included a £21.5m working capital inflow driven by the timing of contract receivables and payables.

Capital expenditure increased to £84.3m (FY21 restated: £75.9m), driven by ongoing LTPA contract investment and digital transformation. After paying tax and net interest of £21.0m the Group generated free cash flow of £110.0m (FY21: £106.7m). Looking forward, given the nature of our business model, we expect to continue to fund our capex requirements from operational cash flow.

As at 31 March 2022 the Group had £225.1m net cash (FY21: £164.1m). The increase in net cash was primarily due to the £110.0m free cash flow, offset by dividend payments of £40.2m (FY21: £37.7m).

We retain a strong balance sheet to support investment in our long-term growth strategy and maintain a rigorous approach to the deployment of our capital, scrutinising organic and inorganic opportunities in the same manner to ensure returns to our shareholders are appropriate for the risks taken.

Our priorities for capital allocation, following this rigorous methodology, are:

1. Organic investment complemented by acquisitions where there is a strong strategic fit;
2. The maintenance of balance sheet strength;
3. A progressive dividend; and
4. The return of excess cash to shareholders.

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

Through FY22 we have demonstrated our capital allocation policy in action: excellent cash conversion and balance sheet strength retained; £84m capital investment in year; M&A targets pursued; and a progressive dividend payment confirmed. Whilst we have had a material cash balance for a few years and with good operational and strategic rigour this may continue to increase in the short-term, we are comfortable with this as it gives us the flexibility and ability to prosecute our strategy.

Committed facilities

The Group has a £275m bank revolving credit facility with an additional 'accordion' facility to increase the limit up to £400m. The facility, of which £65m will mature on 27 September 2024 and £210m will mature on 27 September 2025, was undrawn at 31 March 2022 and provides the Group with significant scope to execute its strategic growth plans.

Return on Capital Employed (ROCE)

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

For FY22 Group ROCE was 26% (FY21: 28%). Before the impact of the complex project write-down FY22 ROCE is 28%, in line with the prior year. As we continue to invest in our business to support sustainable long term growth our ROCE is forecast to remain attractive, at the upper end of the 15-20% range.

Earnings per share

Underlying basic earnings per share decreased by 7% to 20.6p (FY21: 22.1p) driven by the lower underlying profit after tax. Basic earnings per share for the total Group (including specific adjusting items) decreased 26% to 15.7p (FY21 restated: 21.4p).

The average number of shares in issue during the year, as used in the basic earnings per share calculations, was 573.2m (FY21: 569.7m) and there were 573.8m shares in issue at 31 March 2022 (all net of Treasury shares).

Dividend

The Board proposes a final FY22 dividend per share of 5.0p (FY21: 4.7p) making the full year dividend 7.3p (FY21: 6.9p). The full year dividend represents an increase of 6% in line with the Group's progressive dividend policy.

Subject to approval at the Annual General Meeting, the final FY22 dividend will be paid on 25 August 2022 to shareholders on the register at 29 July 2022.

Pensions

The net pension asset under IAS 19, before adjusting for deferred tax, was £362.2m (31 March 2021: £214.3m). The key driver for the increase in the net pension asset since March 2021 was gains due to changes in financial assumptions (primarily in respect of the discount rate), which decrease the present value of scheme liabilities, partially offset by a small decrease in value of scheme assets.

The key assumptions used in the IAS 19 valuation of the scheme are set out in note 15.

Foreign exchange

The Group's income and expenditure is largely settled in the functional currency of the relevant Group entity, mainly Sterling, US Dollar or Australian Dollar. The Group has a policy to hedge all material transaction exposure at the point of commitment to the underlying transaction. Uncommitted future transactions are not routinely hedged. The Group does not hedge its exposure to translation of the income statement.

The principal exchange rates affecting the Group were the Sterling to US Dollar and Sterling to Australian Dollar exchange rates.

	FY22	FY21
£/US$ - opening	1.38	1.24
£/US$ - average	1.36	1.31
£/US$ - closing	1.31	1.38
£/A$ - opening	1.81	2.03
£/A$ - average	1.85	1.84
£/A$ - closing	1.75	1.81

Operating Review

EMEA Services

	FY22 £m	FY21 £m
Orders[1]	**918.9**	864.4
Revenue	**1,059.2**	939.9
Underlying operating profit	**135.6**	118.6
Underlying operating margin	**12.8%**	12.6%
Book to bill ratio[2]	**1.1x**	1.2x
Total funded order backlog	**2,541.6**	2,710.6

(1) To be consistent with revenue reporting prior year orders has been restated to exclude £1.7m of contribution from Joint Ventures
(2) B2B ratio is orders won divided by revenue recognised, excluding the LTPA non-tasking services revenue of £222m (FY21: £226m)

Overview

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

Financial performance

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

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

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

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

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

Business Unit commentary

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

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

- We supported Formidable Shield, the largest live-fire Integrated Air and Missile Defence exercise in FY22 led by US Sixth Fleet and conducted by Naval Striking and Support Forces NATO. In total, 16 ships, 31 aircraft, and approximately 3,300 personnel from ten NATO nations participated in the live training event at the Hebrides range. We provided the safe environment, logistics and range control to facilitate this trial, across the maritime and air domains. A range of targets were used to test defences, including subsonic, supersonic and ballistic targets. This is an excellent example of our investment in the LTPA contract driving enhanced operational outcomes for our customers, increasing the demand for our ranges and QinetiQ being at the leading edge of safe delivery of complex events to ensure our NATO allies can defend against future threats.
- We supported the Royal Navy Carrier Strike Group Strike Warrior exercise at MOD Aberporth and Hebrides ranges, with our operational training and missions system business Inzpire, supporting the overall training activity using its God's Eye View (GEV) capability. Exercise Strike Warrior involved more than 20 warships, three submarines and 150 aircraft from 11 nations and was the final test for the Carrier Strike Group before its first operational deployment. The GEV system developed by QinetiQ enabled the Royal Navy and Royal Air Force to enhance the training value from the exercise with a near real time picture of the overall exercise tracking each asset across waters off north-west Scotland by connecting sensors across the Hebrides range and RAF bases through a digital backbone.
- We have won orders totalling £115m on the Weapons Sector Research Framework (WSRF) contract, including work on the development and deployment of directed energy weapons for the UK MOD, an important capability as identified in the Integrated Review earlier in the year, particularly focused on counter-hypersonics. We were appointed to lead the WSRF in June 2020 by DSTL, alongside industry partners MBDA and Thales. The framework, which we expect to be worth £300m over five years, brings together more than 100 industry and academic partners to research and develop technologies for the benefit of the UK MOD.
- Working alongside a range of industry and NATO partners, we successfully delivered the *Robotic Experimentation and Prototyping augmented by Maritime Unmanned Systems* (REPMUS) trials in Portugal. This was an important unmanned system development trial that combined multi-national and multi-domain data to generate a detailed mobile command and control picture of the battle space, used by an amphibious raiding party.
- Under the LTPA Air Ranges Modernisation programme we have completed a significant upgrade to our facilities on the island of St Kilda – St Kilda is the UK's only dual UNESCO World Heritage site, 40 miles off the west coast of the Outer Hebrides in Scotland. We have developed a new energy centre, accommodation, tracking radars and telemetry, completed on time and to budget.
- We have made an investment in our autonomy capability in the UK, acquiring the Northstar autonomous navigation software intellectual property and related test and trials assets from TP Group Plc. As part of the investment, the software development team have also moved to QinetiQ. This investment demonstrates our capital allocation policy in action, investing in important capabilities and IP to support future growth in the UK and internationally.

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

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

- The Engineering Delivery Partner (EDP) programme continues to evolve to deliver the ever changing needs of our customers, and has now delivered over £920m of orders since inception of this 10-year framework contract in October 2018. Over 97% of engineering outputs have been delivered on time, right first time. This year, we also achieved Full Operating Capability (FOC) as planned and we successfully passed through the 4-year review point demonstrating DE&S' continued confidence and commitment to the contract. Key wins this year include:
  - A £25m, 3-year contract to integrate all Lightning II Technical Support requirements to provide the continuity and flexibility necessary to support safe, effective and operationally focused aircraft capability development;
  - A multi-year contract bringing together the Land Assurance QinetiQ is providing into a single, agile contract, supporting the achievement of Full Operating Capability (FOC) of the AJAX vehicle line by 2025;
  - A series of contract amendments totalling £22m to supporting the New Style of IT programme in its delivery of critical engineering delivery commitments and timelines through maintaining essential engineering expertise and continuity of technical knowledge.

- Despite logistical challenges presented by COVID-19, we have successfully delivered the full 2021 Test Aircrew Training course. Aligned with our global ambitions and broadening international success, our training courses are attracting significant international demand. In FY22, we have welcomed students from Australia, Finland, Switzerland, Netherlands, Sweden, German and Turkey.
- We have made good progress on developing the tools, people, processes and procedures for Digital Test & Evaluation. We are applying these to the New Medium Helicopter acquisition programme for DE&S where we will pilot our digital innovation on this important procurement to help MOD speed up its decision-making and reduce cost.
- Building on our pre-collaboration agreement on the UK's next generation fighter concept known as Tempest, throughout the year we have signed contracts with the four main key industry partners to develop our role and position in the programme. We will provide capability assurance, helping streamline the development programme while also exploring how our advanced technologies could be used to enhance operational capability of the platform. We have also continued to develop opportunities on the FCAS Acquisition Programme.
- We continue to deliver on a range of other critical programmes and capabilities in the Air domain, including Merlin CROWSNEST radar trials and Future Anti Surface Guided Weapon trials in support of the MOD Carrier Strike Group (CSG) capability, acceleration of the Tribune program, bringing the C130J capability across to the A400M, support to the Battle of Britain Memorial Flight, and continued provision tests for Boeing in our five-metre wind tunnel at Farnborough.

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

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

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

International (~10% of EMEA Services revenue)

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

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

Global Products

	FY22 £m	FY21 £m
Orders	**307.7**	285.0
Revenue	**261.2**	338.3
Underlying operating profit	**1.8**	33.2
Underlying operating margin	**0.7%**	9.8%
Book to bill ratio[(1)]	**1.2x**	0.8x
Funded backlog	**287.2**	233.5

(1) B2B ratio is orders won divided by revenue recognised

Overview

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

Financial performance

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

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

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

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

Business Unit commentary

United States (~58% of Global Products revenue)

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

- US organic revenue reduced by 24% compared to prior year with the second half revenue performance recovery slower than expected. As we reported in November in our Interim results, there were a number of compounding effects that impacted our first half results in the US including lower opening order backlog due to COVID, supply-chain and the US administration change, and the customer priority pivot from Afghanistan to the Indo-Pacific.

- Whilst we took proactive steps to manage the revenue shortfall in the first half and position us for growth in the second half, our second half revenue recovery performance was slower than targeted, with the second half in line with the first half largely due to the US defence budget being constrained by the extended Continuing Resolution. The US defence budget was constrained by the extended Continuing Resolution through the first quarter of calendar 2022 which had a material impact on contract funding held back, and therefore customer spending behaviour, impacting our ability to deliver revenue in our fourth quarter; the impact of the Continuing Resolution delay was particularly felt by those companies like ours with March year ends. Furthermore we have also seen some delays to other contract wins due to overall customer sentiment during these times, which has had the effect of shifting spend patterns to the right. Despite these challenges, we have secured an impressive $253m of orders in FY22, 19% growth on the prior year.
- Building on the successful delivery and trials of our Intelligence, Surveillance and Reconnaissance (ISR) prototype system on a Program of Record, we have won a $24m contract from the US Army to build three additional SPECTRE next generation full spectrum hyperspectral prototype sensors. SPECTRE is an ISR sensor system that enables multi-mission Uncrewed Air Systems (UAS) and crewed aircraft to operate in parallel to other critical sensor payloads and weapons, with improved performance at a fraction of the size and weight of the sensors currently in use by the US Government. This is exciting progress for our US business, with opportunity for greater exploitation in the future.
- Our Next Generation Advanced Bomb Suit (NGABS) for the US Army has successfully completed field testing to enable full rate production to commence in FY23 worth an estimated $70m over a five-year period. Our solution brings together a novel see-through Heads-Up Display, combined with advanced integrated sensing capability, to bring a differentiated capability for Explosive Ordinance Disposal operators. As a Program of Record, NGABS production will provide another significant foundation for our growth in the US.
- We have won a $10m contract with US Army to develop our supersonic target offering. The contract, known as Modernizing Instrumentation Solutions for Test and Evaluation (MISTE) for High Energy Laser Measurement (HELM), is a great example of our single routes to market in action, leveraging our Rattler target into the US for the testing of high energy lasers on supersonic targets.
- We have also secured a $62m FRP contract in the US for over 1,200 SPUR robots under the Common Robotic System–Individual (CRS-I) contract with a multi-year delivery schedule for the US Army. The SPUR robot enables a heightened capability for organic tactical reconnaissance, surveillance and target acquisition to enhance manoeuvres and protection for dismounted forces. The small advanced robotic platform is lightweight and highly mobile offering unprecedented capability in multi-domain environments including special payloads, advanced sensors and mission modules. CRS-I is the largest US Government Program of Record in robotics, giving us a strong platform for growth. During the year we have completed necessary steps to transition the contract from low rate to full rate production to meet customer delivery milestones in the years ahead.
- We received a $12m contract for delivery of additional prototype vehicles under the Robotic Combat Vehicle Light (RCV-L) programme, for testing and experimentation by the US DoD. Furthermore, we have established a strategic partnership with Oshkosh for the Optionally Manned Fighting Vehicle (OMFV) competition, seeking to position ourselves to be the primary provider of autonomous controls and integration for the US military land platforms.
- We are investing in tactical airborne and strategic ISR capabilities and strategic teaming to exploit our expertise on combat vehicle platforms over the next few years to drive future growth. We are confident to deliver growth in the second half from existing contracted customer-funded R&D work and new growth opportunities on airborne sensors and ground vehicle integration
- In January 2022 we announced the appointment of Shawn Purvis as the new President and CEO of QinetiQ US. Shawn has more than 25 years of experience in the US defence and intelligence industry with Northrop Grumman and SAIC, with a track record of transformational leadership, driving billion-dollar P&L performance of complex organisations and large scale acquisition integration. Shawn is further building her US leadership team to support the scale of our ambition of growth. In July 2021 we also appointed Lawrence (Larry) Prior III to the

QinetiQ Plc Board bringing a wealth of US experience from aerospace, defence and government services. With these executive and non-executive appointments, we are building the right foundations for growth to more than double the size of the US business over the next 5 years, through both organic growth and strategy-led acquisitions. For more context and information on our growth ambition and plan, please refer to the investor seminar we presented on 27 April 2022: *Delivering our global ambition*; a playback can be found on our website here:
https://www.qinetiq.com/en/investors/investor-seminars/delivering-global-growth

Space Products (~15% of Global Products revenue)

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

- We have won two significant new contracts in our Belgium Space business:
  - A €28m contract for satellite and payload integration of Quantum Key Distribution encryption technology. This is a significant commercial satellite win with our customer, ArQit, aiming to be the first provider of quantum encryption services to the defence and commercial sectors. This contract also provides market opportunity for further follow-on satellite sales over the next 10 years.
  - Building on the success of the PROBA satellite platform, we have won a >€10m contract for the European Commission, contracted via the European Space Agency (ESA) to deliver and operate an important new satellite that will support technological innovation, de-risking and concept testing for public agencies and commercial enterprises in Europe. The satellite will provide organisations with new opportunities to capitalise on affordable access to space demonstration and validation, essential for driving advances in new space technologies and capabilities.

EMEA Products (~27% of Global Products revenue)

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

- We have entered into a strategic collaboration agreement with automotive manufacturer AM General to accelerate the development of electrification technologies for military vehicles. The partnership has begun with the development of a hybrid concept of the globally iconic HMMWV (High-Mobility Multipurpose Wheeled Vehicle often referred to as 'HUMVEE') – demonstrating the viability of electrifying military land vehicles to deliver enhanced performance while decarbonising military operations. The HUMVEE vehicle concept is the first step of a highly ambitious programme in which QinetiQ and AM General are exploring how electrification can transform competitive advantage in the land domain. This collaboration will lay the foundation for further research into electrification capabilities for land vehicles, for example autonomous systems, increased situational awareness through enhanced sensor capability and optical communications.
- QinetiQ Target Systems (QTS) experienced disruption in FY21 due to COVID-19 with cancellations of trials and deployments due to travel restrictions around the world. Through FY22 we have seen significant positive progress across the QTS business with customers resuming trials and exercises and winning some significant orders, seeing growth in both their existing countries and new business wins in the US, India and Japan – the business has both recovered from COVID and achieved its largest order intake ever with £42m orders.
- QinetiQ Target Systems, under the LTPA and CATS contracts, in September 2021 supported trials of our Banshee Jet 80+ on the flight-deck of HMS Prince of Wales. The Banshee flights represent the first step for the UK Royal Navy in exploring how crewless technology could be operated from the Queen Elizabeth-class aircraft carriers in the future. Commander Rob Taylor, lead for Royal Navy air test and evaluation group, commented: *"There is a real need*

for a low-cost drone such as the Banshee that can replicate a range of the threats in the skies and provide a test bed for future payloads".

- Our sensors and communication products have seen strong global demand and growth, with orders of £15m for our SIGINT, counter-drone radar, secure communication and secure navigation products to UK and international customers.

Principal risks and uncertainties

The Group continues to be exposed to a number of risks and uncertainties which management continue to identify, assess and mitigate to minimise their potential impact on the reported performance of the Group. An explanation of risks and their mitigations, together with details of our risk management framework can be found in the annual report which will be available for download at: https://www.qinetiq.com/investors.

A summary of the significant risks and uncertainties is set out below:

- Reduced spending in the core markets in which the Group operates due to government budget pressures;
- Failure to execute our growth strategy within the UK market impacts the overall financial performance of the Group;
- Difficulty in establishing a robust and distinct position in the US market, resulting in slower growth;
- Failure to execute the international strategy or adequately to mitigate specific risks arising from international business;
- 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;
- Large long-term contracts that contribute a material element of the Group's revenue do not continue or are not renewed;
- The M&A strategy, which is a key element of our strategic growth does not realise the maximum potential benefits;
- The transformation and digitisation programmes do not realise the expected benefits;
- The Group operates in highly regulated environments and recognises that its operations have the potential to have an impact on a variety of stakeholders;
- A breach of physical data security, cyber-attacks or IT systems failure could have an adverse impact on our customers' operations;
- Our Portfolio, Programme and Project Management (P3M) maturity fails to keep pace with our growth plans and the successful delivery of larger, longer-term contracts;
- Failure to manage our climate change risk would leave operations on our estates and our supply chains exposed and we may not meet legislative or customer requirements, stakeholder expectations and may not be correctly positioned in a decarbonised future; and
- Failure to grow and adapt our ways of working in order to ensure that we attract, develop and retain the right capability to deliver excellence for our customers to support QinetiQ's future growth.

Consolidated income statement for the year ended 31 March

(Unaudited)		2022			2021 restated^		
All figures in £ million	Note	Underlying*	Specific adjusting items*	Total	Underlying*	Specific adjusting items*	Total
Revenue	2	**1,320.4**	**-**	**1,320.4**	**1,278.2**	**-**	**1,278.2**
Operating costs excluding depreciation and amortisation		(1,140.7)	(8.7)	(1,149.4)	(1,086.0)	(6.4)	(1,092.4)
Other income		9.8	0.7	10.5	9.9	0.1	10.0
EBITDA (earnings before interest, tax, depreciation and amortisation)		**189.5**	**(8.0)**	**181.5**	**202.1**	**(6.3)**	**195.8**
Depreciation and impairment of property, plant and equipment		(46.7)	(1.2)	(47.9)	(45.6)	(0.5)	(46.1)
Impairment of goodwill		-	-	-	-	(25.4)	(25.4)
Amortisation and impairment of intangible assets		(5.4)	(10.7)	(16.1)	(4.7)	(10.9)	(15.6)
Operating profit/(loss)		**137.4**	**(19.9)**	**117.5**	**151.8**	**(43.1)**	**108.7**
Gain on business divestments	6	-	(0.9)	(0.9)	-	28.4	28.4
Gain on sale of investments		-	-	-	-	0.3	0.3
Finance income	7	0.5	4.5	5.0	0.3	7.1	7.4
Finance expense	7	(1.9)	-	(1.9)	(2.2)	-	(2.2)
Profit/(loss) before tax		**136.0**	**(16.3)**	**119.7**	**149.9**	**(7.3)**	**142.6**
Taxation (charge)/income	8	(17.9)	(11.8)	(29.7)	(23.8)	3.1	(20.7)
Profit/(loss) for the year		**118.1**	**(28.1)**	**90.0**	**126.1**	**(4.2)**	**121.9**
Profit is attributable to:							
Owners of the parent company		118.1	(28.1)	90.0	125.9	(4.2)	121.7
Non-controlling interests		-	-	-	0.2	-	0.2
Profit/(loss) for the year		**118.1**	**(28.1)**	**90.0**	**126.1**	**(4.2)**	**121.9**

Earnings per share for profit attributable to the owners of the parent company		2022		2021 restated^	
All figures in pence	Note	Underlying*	Total	Underlying*	Total
Basic	9	20.6p	15.7p	22.1p	21.4p
Diluted	9	20.4p	15.5p	21.9p	21.1p

^ Prior year comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 1.

* Alternative performance measures are used to supplement the statutory figures. These are additional financial indicators used by management internally to assess the underlying performance of the Group. Definitions can be found in the glossary. Also refer to notes 1 and 3 for details of 'specific adjusting items'.

Consolidated comprehensive income statement for the year ended 31 March

(Unaudited) All figures in £ million	2022	2021^
Profit for the year	**90.0**	**121.9**
Items that will not be reclassified to profit and loss:		
Actuarial gain/(loss) recognised in defined benefit pension schemes	144.0	(104.1)
Tax on items that will not be reclassified to profit and loss	(47.6)	19.8
Total items that will not be reclassified to profit and loss	**96.4**	**(84.3)**
Items that may be reclassified subsequently to profit and loss:		
Foreign currency translation gains/(losses) on foreign operations	5.6	(12.0)
Movement in deferred tax on foreign currency translation	(0.8)	0.8
Increase/(decrease) in the fair value of hedging derivatives	0.6	(1.0)
Movement in deferred tax on hedging derivatives	(0.1)	0.2
Total items that may be reclassified to profit and loss	**5.3**	**(12.0)**
Other comprehensive income/(expense) for the year, net of tax	**101.7**	**(96.3)**
Total comprehensive income for the year	**191.7**	**25.6**
Total comprehensive income is attributable to:		
Owners of the parent company	191.5	25.4
Non-controlling interests	0.2	0.2
Total comprehensive income for the year	**191.7**	**25.6**

^ Prior year comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 1.

Consolidated statement of changes in equity for the year ended 31 March

(Unaudited) All figures in £ million	Share capital	Capital redemption reserve	Share premium	Hedge reserve	Translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
At 31 March 2021 – previously reported	**5.7**	**40.8**	**147.6**	**(0.4)**	**(2.9)**	**698.6**	**889.4**	**0.3**	**889.7**
Change in accounting policy – software implementation costs	-	-	-	-	-	(4.8)	(4.8)	-	(4.8)
At 1 April 2021 – restated^	**5.7**	**40.8**	**147.6**	**(0.4)**	**(2.9)**	**693.8**	**884.6**	**0.3**	**884.9**
Profit for the year	-	-	-	-	-	90.0	90.0	-	90.0
Other comprehensive income for the year, net of tax	-	-	-	0.5	4.8	96.4	101.7	-	101.7
Purchase of own shares	-	-	-	-	-	(0.8)	(0.8)	-	(0.8)
Issues of new shares	0.1	-	-	-	-	-	0.1	-	0.1
Share-based payments charge	-	-	-	-	-	7.4	7.4	-	7.4
Deferred tax on share options	-	-	-	-	-	(0.3)	(0.3)	-	(0.3)
Fair value adjustment in respect of equity-based contingent consideration	-	-	-	-	-	0.7	0.7	-	0.7
Dividends	-	-	-	-	-	(40.2)	(40.2)	(0.1)	(40.3)
At 31 March 2022	**5.8**	**40.8**	**147.6**	**0.1**	**1.9**	**847.0**	**1,043.2**	**0.2**	**1,043.4**
At 31 March 2020 – previously reported	**5.7**	**40.8**	**147.6**	**0.4**	**8.3**	**681.9**	**884.7**	**2.4**	**887.1**
Change in accounting policy – software implementation costs	-	-	-	-	-	(2.0)	(2.0)	-	(2.0)
At 1 April 2020 – restated^	**5.7**	**40.8**	**147.6**	**0.4**	**8.3**	**679.9**	**882.7**	**2.4**	**885.1**
Profit for the year	-	-	-	-	-	121.7	121.7	0.2	121.9
Other comprehensive expense for the year, net of tax	-	-	-	(0.8)	(11.2)	(84.3)	(96.3)	-	(96.3)
Purchase of own shares	-	-	-	-	-	(9.0)	(9.0)	-	(9.0)
Share-settled liabilities	-	-	-	-	-	13.7	13.7	-	13.7
Share-based payments charge	-	-	-	-	-	10.6	10.6	-	10.6
Deferred tax on share options	-	-	-	-	-	0.5	0.5	-	0.5
Transactions with NCI	-	-	-	-	-	(1.6)	(1.6)	(2.3)	(3.9)
Dividends	-	-	-	-	-	(37.7)	(37.7)	-	(37.7)
At 31 March 2021^	**5.7**	**40.8**	**147.6**	**(0.4)**	**(2.9)**	**693.8**	**884.6**	**0.3**	**884.9**

^ Prior year comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 1.

Consolidated balance sheet as at 31 March

(Unaudited) All figures in £ million	Note	2022	2021 restated^	2020 restated^
Non-current assets				
Goodwill	14	149.4	145.5	180.8
Intangible assets		140.3	133.1	136.4
Property, plant and equipment		414.5	397.2	375.6
Other financial assets		0.5	0.8	1.0
Financial assets at fair value through profit or loss	6	-	0.9	-
Equity accounted investments		2.6	4.2	3.6
Retirement benefit surplus	15	362.2	214.3	309.7
Deferred tax asset		21.0	11.7	13.3
		1,090.5	**907.7**	**1,020.4**
Current assets				
Inventories		54.9	54.4	52.3
Other financial assets		0.6	0.9	6.7
Trade and other receivables		361.2	326.7	250.0
Current tax asset		1.4	0.7	0.2
Cash and cash equivalents		248.1	190.1	105.8
		666.2	**572.8**	**415.0**
Total assets		**1,756.7**	**1,480.5**	**1,435.4**
Current liabilities				
Trade and other payables		(462.7)	(411.7)	(379.8)
Current tax payable		(3.9)	(2.5)	(3.6)
Provisions		(21.1)	(4.2)	(1.8)
Other financial liabilities		(6.9)	(7.0)	(8.9)
		(494.6)	**(425.4)**	**(394.1)**
Non-current liabilities				
Deferred tax liability		(156.7)	(89.7)	(101.3)
Provisions		(6.0)	(7.8)	(9.7)
Other financial liabilities		(17.2)	(20.7)	(19.9)
Other payables		(38.8)	(52.0)	(25.3)
		(218.7)	**(170.2)**	**(156.2)**
Total liabilities		**(713.3)**	**(595.6)**	**(550.3)**
Net assets		**1,043.4**	**884.9**	**885.1**
Equity				
Ordinary shares		5.8	5.7	5.7
Capital redemption reserve		40.8	40.8	40.8
Share premium account		147.6	147.6	147.6
Hedging reserve		0.1	(0.4)	0.4
Translation reserve		1.9	(2.9)	8.3
Retained earnings		847.0	693.8	679.9
Capital and reserves attributable to shareholders of the parent company		**1,043.2**	**884.6**	**882.7**
Non-controlling interest		0.2	0.3	2.4
Total equity		**1,043.4**	**884.9**	**885.1**

^ Prior year comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 1.

Consolidated cash flow statement for year ended 31 March

(Unaudited) All figures in £ million	Note	2022	2021^
Underlying net cash inflow from operations	10	**215.3**	**199.0**
Less specific adjusting items: change in accounting policy	1	(1.9)	(3.6)
Less specific adjusting items: acquisition transaction costs	10	(3.7)	(1.0)
Net cash inflow from operations	10	209.7	194.4
Tax paid		(20.0)	(15.0)
Interest received		0.5	0.3
Interest paid		(1.5)	(1.7)
Net cash inflow from operating activities		**188.7**	**178.0**
Purchases of intangible assets		(21.4)	(10.9)
Purchases of property, plant and equipment		(62.9)	(65.0)
Proceeds from sale of property		1.5	0.1
Proceeds from disposal of businesses		-	54.4
Proceeds from disposal of investment		-	0.3
Dividends from joint venture and associates		2.0	-
Acquisition of businesses	5	(0.8)	(28.5)
Net cash outflow from investing activities		**(81.6)**	**(49.6)**
Purchase of own shares		(0.8)	(9.0)
Dividends paid to shareholders		(40.2)	(37.7)
Payment of bank facility arrangement fees		-	(0.4)
Capital element of finance lease payments		(6.2)	(8.5)
Transaction with non-controlling interests		(0.1)	-
Net cash outflow from financing activities		**(47.3)**	**(55.6)**
Increase in cash and cash equivalents		**59.8**	**72.8**
Effect of foreign exchange changes on cash and cash equivalents		(1.8)	11.5
Cash and cash equivalents at beginning of year		190.1	105.8
Cash and cash equivalents at end of year		**248.1**	**190.1**

^ Prior year comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 1.

Reconciliation of movement in net cash for the year ended 31 March

All figures in £ million	Note	2022	2021
Increase in cash and cash equivalents in the year		**59.8**	**72.8**
Add back net cash flows not impacting net cash		6.2	8.9
Increase in net cash resulting from cash flows		66.0	81.7
Lease liabilities derecognised on disposal of subsidiaries		-	1.9
Lease liabilities recognised on acquisition of subsidiaries		-	(1.3)
Net increase in lease obligation		(1.3)	(9.1)
Other movements including foreign exchange		(3.7)	6.2
Increase in net cash as defined by the Group		61.0	79.4
Net cash as defined by the Group at beginning of the year		164.1	84.7
Net cash as defined by the Group at end of the year	11	**225.1**	**164.1**
Less: non-cash net financial liabilities	11	23.0	26.0
Total cash and cash equivalents	11	**248.1**	**190.1**

Notes to the financial statements (unaudited)

1. Significant accounting policies

Basis of preparation

QinetiQ Group plc is a public limited company, which is listed on the London Stock Exchange and is incorporated and domiciled in the United Kingdom.

The summary financial information set out above does not constitute the Group's statutory Consolidated Financial Statements for the years ended 31 March 2022 or 2021. QinetiQ has completed its preparation of the Group's 2022 Annual Report and Accounts. The Group has, however, been advised by its auditor, PwC, that their audit procedures are not yet fully complete and that they are therefore not yet in a position to sign their audit report on the annual financial statements. PwC has confirmed to QinetiQ that at the present time PwC are not aware of any matters that may give rise to a modification to their audit report. Based on the latest guidance from PwC, the Group expects the 2022 full Financial Statements to be signed by the Directors no later than 23 May 2022.

Statutory Consolidated Financial Statements for the Group for the year ended 31 March 2021, prepared in accordance with adopted IFRS, have been delivered to the Registrar of Companies. The auditors have reported on those accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of any emphasis without qualifying their opinion and (iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006. This preliminary announcement does not constitute the Group's full financial statements for 2022. This report is based on accounts which are in the process of being audited and will be approved by the Board and subsequently filed with the Registrar of Companies in the United Kingdom. Accordingly, the financial information for 2022 is unaudited and does not constitute statutory accounts within the meaning of Section 434 of the United Kingdom Companies Act 2006.

The financial information included within the preliminary announcement has been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006. The accounting policies followed are the same, subject to the changes noted below under 'recent accounting developments', as those published by the Group within its Annual Report for the year ended 31 March 2021 which is available on the Group's website, www.QinetiQ.com.

The preliminary announcement was approved by the Board of Directors on 19 May 2022. The financial information in this preliminary announcement does not constitute the statutory accounts of QinetiQ Group plc ('the Company') within the meaning of section 435 of the Act.

In the income statement, the Group presents specific adjusting items separately. In the judgement of the Directors, for the reader to obtain a proper understanding of the financial information, specific adjusting items need to be disclosed separately because of their size and nature. Underlying measures of performance exclude specific adjusting items. Specific adjusting items include:

Item	Distorting due to irregular nature year on year	Distorting due to fluctuating nature (size and sign)	Does not reflect in-year operational performance of continuing business
Amortisation of intangible assets arising from acquisitions			✓
Pension net finance income		✓	✓
Gains/losses on disposal of property and investments	✓	✓	✓
Transaction & integration costs in respect of business acquisitions	✓		✓
Impairment of property and goodwill	✓		
Software as a Service implementation costs previously capitalised under IAS 38.	✓	✓	✓
The tax impact of the above	✓	✓	✓
Other significant non-recurring tax movements	✓	✓	✓

All items treated as a specific adjusting item in the current and prior year are detailed in note 3. These 'specific adjusting items' are of a 'non-operational' nature and do not include all significant, irregular items that are of an operational nature, for example contract risk provisions, cost of redundancy exercises and gains/losses on disposal of plant and equipment. Such 'non-recurring trading items' are referred to in the business performance narrative to aid readers from a 'quality of earnings perspective'. They are considered by the Directors to be irregular but still part of our businesses' normal 'operating' performance and are included within the KPIs used to measure those business units (and total Group performance for remuneration purposes).

Recent accounting developments adopted by the Group

IFRIC Agenda Decision 'Configuration and customisation costs in a cloud computing arrangement'

The Group has changed its accounting policy related to the capitalisation of configuration and customisation costs in a cloud computing (Software as a Service, 'SaaS') arrangement. This change is as a result of the IFRS Interpretations Committee's agenda decision published in April 2021.

The Group's accounting policy has historically been to capitalise costs directly attributable to the configuration and customisation of cloud computing arrangements as intangible assets in the Balance sheet, whether or not the services were performed by the SaaS provider or SaaS subcontractors or a third party. Following the publication of the above IFRIC agenda decision, current cloud computing arrangements were identified and assessed to determine if the Group has control of the software. For those arrangements where it was determined that we do not have control of the developed software, to the extent that the services were performed by third parties, the Group derecognised the intangible asset previously capitalised. Amounts paid to the SaaS provider in advance of the commencement of the service period, including for configuration or customisation, if identified as not distinct, are treated as a prepayment.

The change in accounting policy led to adjustments amounting to a £8.0m, £6.1m and £2.5m reduction in the intangible assets recognised in the 31 March 2022, 31 March 2021 and 1 April 2020 balance sheets respectively, and to a £2.4m, £3.6m and £2.5m increase in operating costs, in those respective years.

Accordingly, the prior period balance sheets at 31 March 2021 and 1 April 2020 have been restated in accordance with IAS 8, together, together with related notes. The following tables show the adjustments recognised for each individual line item as at 31 March 2022, 31 March 2021 and 1 April 2020.

Impact on the condensed consolidated balance sheet at 31 March 2022 and 31 March 2021

		2022				2021
All figures in £ million	**Pre-IFRIC agenda**	**Applying IFRIC agenda**	**As presented**	As originally presented	Impact of restatement	Restated
Assets/liabilities						
Intangible assets	148.3	(8.0)	140.3	139.2	(6.1)	133.1
Current tax payable	(5.6)	1.7	(3.9)	(3.8)	1.3	(2.5)
Other net assets	907.0	-	907.0	754.3	-	754.3
Net assets	**1,049.7**	**(6.3)**	**1,043.4**	**889.7**	**(4.8)**	**884.9**
Equity						
Retained earnings	853.3	(6.3)	847.0	698.6	(4.8)	693.8
Share capital and other reserves	196.2	-	196.2	190.8	-	190.8
Non-controlling interest	0.2	-	0.2	0.3	-	0.3
Total equity	**1,049.7**	**(6.3)**	**1,043.4**	**889.7**	(4.8)	**884.9**
Impact on net cash						
Net cash (as defined by the Group – see glossary)	**225.1**	-	**225.1**	**164.1**	-	**164.1**

Impact on the condensed consolidated balance sheet at 1 April 2020

All figures in £ million	**1 April 2020 As originally presented**	**Impact of restatement**	**1 April 2020 restated**
Assets/liabilities			
Intangible assets	138.9	(2.5)	136.4
Current tax payable	(4.1)	0.5	(3.6)
Other net assets	752.3	-	752.3
Net assets	**887.1**	**(2.0)**	**885.1**
Equity			
Retained earnings	681.9	(2.0)	679.9
Share capital and other reserves	202.8	-	202.8
Non-controlling interest	2.4	-	2.4
Total equity	**887.1**	(2.0)	**885.1**

Impact on the condensed consolidated income statement

The impact on the Group's consolidated income statement of applying the restatement is set below:

All figures in £ million unless stated otherwise	Year ended 31 March 2022			Year ended 31 March 2021		
	Pre-IFRIC agenda	**Applying IFRIC agenda**	**As presented**	As originally presented	Impact of restatement	Restated
EBITDA (earnings before interest, tax, depreciation and amortisation)	**183.9**	**(2.4)**	**181.5**	**199.4**	**(3.6)**	**195.8**
Depreciation and impairment of property, plant and equipment	(47.9)	-	(47.9)	(46.1)	-	(46.1)
Impairment of goodwill	-	-	-	(25.4)	-	(25.4)
Amortisation of intangible assets	(16.6)	0.5	(16.1)	(15.6)	-	(15.6)
Operating profit/(loss)	**119.4**	**(1.9)**	**117.5**	**112.3**	**(3.6)**	**108.7**
Gain on sale of investment	(0.9)	-	(0.9)	28.4	-	28.4
Sale of investments	-	-	-	0.3	-	0.3
Finance income	5.0	-	5.0	7.4	-	7.4
Finance expense	(1.9)	-	(1.9)	(2.2)	-	(2.2)
Profit/(loss) before tax	**121.6**	(1.9)	**119.7**	**146.2**	(3.6)	**142.6**
Taxation expense	(30.1)	0.4	(29.7)	(21.5)	0.8	(20.7)
Profit/(loss) for the year attributable to equity shareholders	**91.5**	(1.5)	**90.0**	**124.7**	(2.8)	**121.9**

The impact is classified as a specific adjusting item and there is no impact on underlying measures of performance.

Going concern basis

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

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

2. Disaggregation of revenue and segmental analysis

Revenue by category

for the year ended 31 March

All figures in £ million	**2022**	2021
Service contracts with customers	1,234.4	1,189.4
Sale of goods contracts with customers	82.9	83.0
Royalties and licences	3.1	5.8
Total revenue	**1,320.4**	**1,278.2**
Less: adjust current year for acquired businesses[1]	(2.6)	-
Less: adjust prior year for disposed businesses[1]	-	(16.8)
Adjust to constant prior year exchange rates	10.3	-
Total revenue on an organic, constant currency basis[2]	**1,328.1**	**1,261.4**
Organic revenue growth at constant currency[2]	*5%*	*10%*

[1] For the period of which there was no contribution in the equivalent period in the comparator year which was pre-ownership (for acquisitions) or post-ownership (for disposals) by the Group.
[2] Alternative performance measures are used to supplement the statutory figures. See Glossary.

Other income

for the year ended 31 March

All figures in £ million	2022	2021
Share of joint ventures' and associates' profit after tax	0.3	0.7
Other income	9.5	9.2
Other income – underlying	**9.8**	**9.9**
Specific adjusting item: gain on sale of property	0.7	0.1
Total other income	**10.5**	**10.0**

Revenue by customer geographical location

for the year ended 31 March

All figures in £ million	2022	2021
US	153.0	215.6
Australia	98.2	77.9
Europe	76.9	88.2
Rest of World	30.4	38.7
International	**358.5**	**420.4**
United Kingdom	961.9	857.8
Total revenue	**1,320.4**	**1,278.2**
International revenue %	*27%*	*33%*
Revenue from 'home countries' (UK, US and Australia)	1,213.1	1,151.3
Home countries revenue %	*92%*	*90%*

Revenue by major customer type

for the year ended 31 March

All figures in £ million	2022	2021
UK Government	881.7	794.6
US Government	104.7	140.8
Other*	334.0	342.8
Total revenue	**1,320.4**	**1,278.2**

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

Operating segments

for the year ended 31 March

All figures in £ million	**2022**		2021	
	Revenue from external customers	**Underlying operating profit***	Revenue from external customers	Underlying operating profit*
EMEA Services	1,059.2	135.6	939.9	118.6
Global Products	261.2	1.8	338.3	33.2
Total operating segments	**1,320.4**	**137.4**	**1,278.2**	**151.8**
*Underlying operating margin**		*10.4%*		*11.9%*

* Definitions of the Group's 'Alternative Performance Measures' can be found in the glossary.

Reconciliation of segmental results to total profit

for the year ended 31 March

All figures in £ million	Note	2022	2021^
Underlying operating profit		137.4	151.8
Specific adjusting items loss	3	(19.9)	(43.1)
Operating profit		**117.5**	**108.7**
(Loss)/gain on business divestments		(0.9)	28.4
Gain on sale of investment		-	0.3
Net finance income		3.1	5.2
Profit before tax		**119.7**	**142.6**
Taxation expense		(29.7)	(20.7)
Profit for the year		**90.0**	**121.9**

^ Prior year comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 1 for details.

3. Specific adjusting items

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

All figures in £ million	Note	2022	2021^
Acquisition transaction costs		-	(1.0)
Unsuccessful acquisition costs		(3.7)	-
Acquisition related remuneration costs		(1.3)	(1.8)
Pension past service cost		(2.4)	-
Change in accounting policy in respect of software implementation costs^		(1.9)	(3.6)
Fair value adjustment in respect of contingent consideration		0.6	-
Operating costs excluding depreciation and amortisation		**(8.7)**	**(6.4)**
Gain on sale of property		0.7	0.1
Specific adjusting items loss before interest, tax, depreciation and amortisation		**(8.0)**	**(6.3)**
Impairment of property		(1.2)	(0.5)
Impairment of goodwill	14	-	(25.4)
Amortisation of intangible assets arising from acquisitions		(10.7)	(10.9)
Specific adjusting items operating loss		**(19.9)**	**(43.1)**
(Loss)/gain on business divestments	6	(0.9)	28.4
Gain on sale of investment		-	0.3
Defined benefit pension scheme net finance income		4.5	7.1
Specific adjusting items loss before tax		**(16.3)**	**(7.3)**
Specific adjusting items - tax	8	4.1	3.1
Deferred tax impact of change in future UK corporation tax rate	8	(15.9)	-
Total specific adjusting items loss after tax		**(28.1)**	**(4.2)**

Reconciliation of underlying profit for the year to total profit for the year

all figures in £ million	2022	2021^
Underlying profit after tax - total Group	118.1	126.1
Total specific adjusting items loss after tax	(28.1)	(4.2)
Total profit for the year	**90.0**	**121.9**

^ Prior year comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 1 for details.

4. Profit before tax

The following items have been charged in arriving at profit before tax for continuing operations:

All figures in £ million	2022	2021
Cost of inventories expensed^	47.1	35.8
Owned assets: depreciation	40.3	37.2
Leases assets: depreciation	5.9	8.4
Foreign exchange (gain)/loss	(0.7)	0.5
Research and development expenditure - customer funded contracts	287.5	281.9
Research and development expenditure - Group funded	14.6	18.5

^ The 2021 cost of inventories expensed was incorrectly reported as £10.2m in the 2021 financial statements and has been restated.

5. Business combinations

There were no acquisitions in the year to 31 March 2022. Deferred consideration of £0.8m has been paid in respect of the prior year acquisition of QinetiQ Training & Simulation Limited (formerly known as Newman & Spurr Consultancy Limited).

Acquisition related cash flows in the year to 31 March
All figures in £ million

Company acquired	2022	2021
Naimuri Limited	-	28.4
Inzpire Group Limited	-	3.9
Less: cash acquired within Naimuri Limited	-	(4.0)
QinetiQ Training & Simulation Limited	0.8	0.2
Total acquisitions cash outflow	**0.8**	**28.5**

6. Loss/gain on business divestments

All figures in £ million	**2022**	2021
Boldon James business	-	19.3
Commerce Decisions business	(0.9)	1.6
OptaSense business	-	7.5
(Loss)/gain on business divestments	**(0.9)**	**28.4**

Deferred consideration of £1.5m was potentially receivable in respect of the Commerce Decisions business, contingent on performance of the disposed business in the year to 31 March 2022. The fair value of which had been estimated at £0.9m as at 31 March 2021. The required performance was not achieved, nil deferred consideration became due and the receivable has been written off to the income statement in the current year, classified as a specific adjusting item.

7. Finance income and expense

All figures in £ million	**2022**	2021
Receivable on bank deposits	0.5	0.3
Finance income before specific adjusting items	**0.5**	**0.3**
Amortisation of deferred financing costs	(0.4)	(0.4)
Bank interest and commitment fees	(0.5)	(0.6)
Lease expense	(1.0)	(1.0)
Unwinding of discount on financial liabilities	-	(0.2)
Finance expense before specific adjusting items	**(1.9)**	**(2.2)**
Net finance expense - underlying	**(1.4)**	**(1.9)**
Specific adjusting items:		
Defined benefit pension scheme net finance income	4.5	7.1
Net finance income	**3.1**	**5.2**

8. Taxation

All figures in £ million		**2022**			2021^	
	Underlying	**Specific adjusting items**	**Total**	Underlying	Specific adjusting items	Total
Profit/(loss) before tax	**136.0**	**(16.3)**	**119.7**	**149.9**	**(7.3)**	**142.6**
Taxation (expense)/income	(17.9)	(11.8)	(29.7)	(23.8)	3.1	(20.7)
Profit/(loss) for the year	**118.1**	**(28.1)**	**90.0**	**126.1**	**(4.2)**	**121.9**
Effective tax rate	13.2%		24.8%	15.9%		14.5%

^ Prior year comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 1 for details.

The total tax charge was £29.7m (2021 restated: £20.7m), with specific adjusting items driving the increase, see below. The underlying tax charge was £17.9m (2021: £23.8m), on lower underlying profit before tax, with an underlying effective tax rate of 13.2% for the year ending 31 March 2022 (2021: 15.9%). The underlying effective tax rate continues to be below the UK statutory rate, primarily as a result of the benefit of research and development expenditure credits (‘RDEC’) in the UK which are accounted for under IAS12 within the tax line. An adjusted underlying effective tax rate before the impact of RDEC would be 17.3% (2021: 19.4%). The impact of RDEC is shown net of £9.5m (2021: £10.6m) appropriated by the MOD. Within other creditors there are provisions for payments of MOD appropriations awaiting the resolution of a SSRO decision with regard to RDEC which may give rise to a reversal of the creditor and to an increased benefit from RDEC in the income statement in the current and future periods.

Tax on specific adjusting items
A £15.9m charge in respect of the impact on UK deferred tax balances due to the UK corporation tax rate change from 19% to 25% has been classified as a specific adjusting item. Together with a £4.1m income (2021 restated: income of £3.1m) in respect of the pre-tax specific adjusting items (see note 3), the total specific adjusting items tax expense was £11.8m (2021 restated: income of £3.1m).

Factors affecting future tax charges
The effective tax rate is expected to remain below the UK statutory rate, subject to the impact of any tax legislation changes, the geographic mix of profits and the assumption that RDEC retained by the Group remain in the tax line. Future recognition of unrecognised tax losses will also affect future tax charges. The OECD has released model rules for Pillar II of the Base Erosion and Profit Shifting regulations covering application of a Global Minimum Tax. The Group is monitoring progress of these rules and management's initial view is that they are not expected to have a material effect on the tax charge.

Changes in tax rates
In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate will increase from 19% to 25%. The 25% rate has been substantively enacted at the balance sheet date. An adjustment has been made to reflect that a portion of the UK deferred tax balances are expected to unwind at the new rate of 25%. The adjustment has been recorded as a specific adjusting item tax expense to the Consolidated income statement of £15.9m and an expense of £20.6m to the Consolidated comprehensive income statement increasing the deferred tax liability by £36.5m. US deferred tax balances have not yet been adjusted for a potential increase in the US federal tax rate, as an increase has not yet been passed into law.

Tax losses
At 31 March 2022 the Group had unused tax losses and US carried forward interest expense of £128.1m (2021: £73.2m) which are available for offset against future taxable profits. Deferred tax assets are recognised on the balance sheet of £15.5m in respect of £59.7m of US net operating losses, £4.5m in respect of £19.0m of Canadian net operating losses and £1.8m in respect of £5.5m of German trade losses. No deferred tax asset is recognised in respect of the £43.8m of US interest deductions due to uncertainty over the timing and extent of their utilisation. Full recognition of the US interest deductions would increase the deferred tax asset by £11.8m. The Group has £30.5m of time-limited US net operating losses of which £21.5m will expire in 2035 and £9.0m in 2036. Deferred tax has been calculated using the enacted future statutory tax rates. The Group has reviewed the latest forecasts for these businesses which incorporate the unsystematic risks of operating in the defence business. In the period beyond the 5 year forecast we have reviewed the terminal period profits and based on these and our expectations for these businesses we believe it is probable the losses, with the exception of the interest deductions will be fully utilised. Based on the current forecasts the losses will be fully utilised over the next 6-8 years. A 10% change in the forecast profits would alter the utilisation period by 1 year.

9. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity shareholders by the weighted average number of ordinary shares in issue during the year. The weighted average number of shares used excludes those shares bought by the Group and held as own shares. For diluted earnings per share the weighted average number of shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares arising from unvested share-based awards including share options.

for the year ended 31 March		**2022**	2021
Weighted average number of shares	**Million**	**573.2**	**569.7**
Effect of dilutive securities	Million	6.4	6.1
Diluted number of shares	**Million**	**579.6**	**575.8**

Underlying basic earnings per share figures are presented below, in addition to the basic and diluted earnings per share, because the Directors consider this gives a more relevant indication of underlying business performance and reflects the adjustments to basic earnings per share for the impact of specific adjusting items (see note 3) and tax thereon.

Underlying EPS

for the year ended 31 March		**2022**	2021^
Profit attributable to the owners of the Company	£ million	90.0	121.7
Remove loss after tax in respect of specific adjusting items	£ million	28.1	4.2
Underlying profit after taxation	**£ million**	**118.1**	**125.9**
Weighted average number of shares	Million	573.2	569.7
Underlying basic EPS	**Pence**	**20.6**	**22.1**
Diluted number of shares	Million	579.6	575.8
Underlying diluted EPS	**Pence**	**20.4**	**21.9**

Basic and diluted EPS

for the year ended 31 March		2022	2021^
Profit attributable to the owners of the Company	£ million	90.0	121.7
Weighted average number of shares	Million	573.2	569.7
Basic EPS – total Group	**Pence**	**15.7**	**21.4**
Diluted number of shares	Million	579.6	575.8
Diluted EPS – total Group	**Pence**	**15.5**	**21.1**

^ Prior year comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 1 for details.

10. Cash flows from operations

All figures in £ million	2022	2021^
Profit after tax for the year	90.0	121.9
Adjustments for:		
Taxation expense	29.7	20.7
Net finance income	(3.1)	(5.2)
Loss/(gain) on disposal of businesses	0.9	(28.4)
Gain on disposal of investment	-	(0.3)
Gain on sale of property	(0.7)	(0.1)
Impairment of plant and equipment	0.5	0.5
Impairment of property	1.2	-
Impairment of goodwill	-	25.4
Acquisition related remuneration costs unpaid as at year end	-	1.8
Amortisation of purchased or internally developed intangible assets	5.4	4.7
Amortisation of intangible assets arising from acquisitions	10.7	10.9
Depreciation of property, plant and equipment	46.2	45.6
Loss on disposal of plant and equipment	-	1.0
Share of post-tax profit of equity accounted entities	(0.3)	(0.7)
Share-based payments charge	7.4	10.6
Pension past service cost	2.4	-
Fair value adjustment in respect of contingent consideration	(0.6)	-
Retirement benefit contributions in excess of income statement expense	(1.8)	(1.6)
Net movement in provisions	(1.0)	0.3
	186.9	207.1
Decrease/(increase) in inventories	1.4	(4.6)
Increase in receivables	(12.8)	(97.3)
Increase in payables	34.2	89.2
Changes in working capital	22.8	(12.7)
Net cash flow from operations	**209.7**	**194.4**

^ Prior year comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 1 for details.

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

All figures in £ million	2022	2021^
Net cash flow from operations	209.7	194.4
Add back specific adjusting item: change in accounting policy in respect of software implementation	1.9	3.6
Add back specific adjusting item: acquisition transaction costs	3.7	1.0
Underlying net cash flow from operations	**215.3**	**199.0**
Less: tax and net interest payments	(21.0)	(16.4)
Less: purchases of intangible assets and property, plant & equipment	(84.3)	(75.9)
Free cash flow	**110.0**	**106.7**

^ Prior year comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 1 for details.

Underlying cash conversion ratio

	2022	2021
Underlying EBITDA - £ million	189.5	202.1
Underlying net cash flow from operations - £ million	215.3	199.0
Underlying cash conversion ratio^ - %	**114%**	**98%**

^ Prior year comparative restated to reflect new definition of underlying cash conversion. See glossary.

11. Net cash

All figures in £ million	**2022**	2021
Current financial assets/(liabilities)		
Deferred financing costs	0.4	0.4
Derivative financial assets	0.2	0.5
Lease liabilities	(5.5)	(6.9)
Derivative financial liabilities	(1.4)	(0.1)
Total current net financial liabilities	(6.3)	(6.1)
Non-current financial assets/(liabilities)		
Deferred financing costs	0.5	0.8
Derivative financial assets	-	-
Lease liabilities	(16.6)	(19.8)
Derivative financial liabilities	(0.6)	(0.9)
Total non-current net financial liabilities	(16.7)	(19.9)
Total net financial liabilities	**(23.0)**	**(26.0)**
Cash and cash equivalents	248.1	190.1
Total net cash as defined by the Group	**225.1**	**164.1**

12. Financial risk management

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

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

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

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

The Group's assets and liabilities that are measured at fair value, as at 31 March 2022, are as follows:

All figures in £ million	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Current derivative financial instruments	-	0.2	-	0.2
Non-current derivative financial instruments	-	-	-	-
Financial instruments at fair value through profit or loss	-	-	-	-
Liabilities:				
Current derivative financial instruments	-	(1.4)	-	(1.4)
Non-current derivative financial instruments	-	(0.6)	-	(0.6)
Total	**-**	**(1.8)**	**-**	**(1.8)**

The following table presents the Group's assets and liabilities that are measured at fair value at 31 March 2021:

All figures in £ million	Level 1	Level 2	Level 3	Total
Assets:				
Current derivative financial instruments	-	0.5	-	0.5
Non-current derivative financial instruments	-	-	-	-
Financial instruments at fair value through profit or loss	-	-	0.9	0.9
Liabilities:				
Current derivative financial instruments	-	(0.1)	-	(0.1)
Non-current derivative financial instruments	-	(0.9)	-	(0.9)
Total	-	**(0.5)**	**0.9**	**0.4**

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

13. Dividends

An analysis of the dividends paid and proposed in respect of the years ended 31 March 2022 and 31 March 2021 is provided below:

	Pence per ordinary share	**£m**	**Date paid/payable**
Interim 2022	2.3	13.2	Feb 2022*
Final 2022 (proposed)	5.0	28.8	Aug 2022
Total for the year ended 31 March 2022	**7.3**	**42.0**	
Interim 2020	2.2	12.6	Feb 2021
Final 2020	4.7	27.0	Aug 2021*
Total for the year ended 31 March 2021	**6.9**	**39.6**	

*Total cash paid in the year to 31 March 2022 was £40.2m (2021: £37.7m).

The proposed final dividend in respect of the year ending 31 March 2022 will be paid on 25 August 2022. The ex-dividend date is 28 July 2022 and the record date is 29 July 2022.

14. Goodwill

All figures in £ million	**2022**	2021
Cost		
At 1 April	287.6	307.9
Acquisitions	-	15.0
Disposals	-	(17.2)
Foreign exchange	8.5	(18.1)
At 31 March	**296.1**	**287.6**
Impairment		
At 1 April	(142.1)	(127.1)
Disposals	-	0.2
Impairment in the year	-	(25.4)
Foreign exchange	(4.6)	10.2
At 31 March	**(146.7)**	**(142.1)**
Net book value at 31 March	**149.4**	**145.5**

Cash-generating units (CGU)

Goodwill is allocated across five cash generating units ('CGUs') within the EMEA Services segment and four CGUs within the Global Products segment. The full list of CGUs that have goodwill allocated to them is as follows:

All figures in £ million	Primary reporting segment	2022	2021
US Technology Solutions	Global Products	41.5	39.6
US C5ISR	Global Products	34.6	33.0
Target Systems	Global Products	24.7	24.3
Space Products	Global Products	5.6	5.7
QinetiQ Germany	EMEA services	2.6	2.7
Inzpire	EMEA services	11.7	11.7
QinetiQ Training & Simulation Limited	EMEA services	7.8	7.8
Naimuri Limited	EMEA services	14.8	14.8
Australia	EMEA Services	6.1	5.9
Net book value at 31 March		**149.4**	**145.5**

Goodwill is attributable to the excess of consideration over the fair value of net assets acquired and includes expected synergies, future growth prospects and employee knowledge, expertise and security clearances. The Group tests each CGU for impairment annually, or more frequently if there are indications that goodwill might be impaired. Impairment testing is dependent on management's estimates and judgments, particularly as they relate to the forecasting of future cash flows, the discount rates selected and expected long-term growth rates. As a result of impairment in prior years, QinetiQ Germany has limited headroom (26%) and a critical sensitivity is discussed further below. US Technology Solutions also displays limited headroom (23%) reflecting the balance of opportunity and risk of securing new government contracts as the business responds from its recent short-term challenges, discussed further below. However, alongside all other CGUs, management considers that there are no likely variations in the key assumptions which would lead to an impairment being recognised.

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

Cash flows for periods beyond these periods are extrapolated based on the last year of the plans, with a terminal growth-rate assumption applied.

Terminal growth rates and discount rates
The specific plans for each of the CGUs have been extrapolated using the terminal growth rates as detailed below. Growth rates are based on management's estimates which take into consideration the long-term nature of the industry in which the CGUs operate and external forecasts as to the likely growth of the industry in the longer term. The Group's weighted average cost of capital was used as a basis in determining the discount rate to be applied, adjusted for risks specific to the market characteristics of CGUs, as appropriate on a pre-tax basis. This is considered an appropriate estimate of a market participant discount rate.

All figures % 2022: (2021)	US Technology Solutions	Target Systems	Space NV	US C5ISR	Inzpire	Australia	QinetiQ Germany	QinetiQ Training & Simulation	Naimuri
Terminal growth rate	2.3 (2.1)	2.1(1.7)	2.1(1.7)	2.3(2.1)	2.1(1.7)	2.3 (2.3)	1.6 (1.5)	2.1 (1.7)	2.1(1.7)
Pre-tax discount rate	10.8(11.3)	11.6(12.2)	11.5 (11.9)	10.8 (11.3)	12.2 (12.8)	9.4 (10.0)	9.1 (9.3)	11.5(12.3)	12.2(12.2)

Sensitivity analysis shows that the value of the terminal year cash flow, the discount rate and the terminal growth rates have a significant impact on the value of the discounted cash flow.

Significant CGUs
US Technology Solutions
The carrying value of the goodwill for the US Technology Solutions CGU was £41.5m as at 31 March 2022 (2021: £39.6m). The recoverable amount of this CGU as at 31 March 2022, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £98.5m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. These cash flows include certain assumptions around a turnaround in FY23 from a period of softened performance in FY22 which is then sustained through growth of new product lines in development with clear market opportunity and winning identified future government contracts. US organic revenue reduced by 21% compared to prior year with the second half revenue performance recovery slower than expected due to the US defence budget being constrained by the extended Continuing Resolution. Confidence remains in the turnaround in FY23 having secured significant growth in order intake in FY22 which, coupled with a new leadership team provides a strong foundation for delivery of our strategy in the US. An increase in the discount rate of 1%, a decrease in the terminal growth rate of 1% or a decrease in the terminal year cash flows of £2.0m would not cause the net operating assets to exceed their recoverable amount.

US C5ISR (previously MTEQ)
The carrying value of the goodwill for the US C5ISR CGU as at 31 March 2022 was £34.6m (2021: £33.0m). The recoverable amount of this CGU as at 31 March 2022, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £82.0m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate of 1%, a decrease in the terminal growth rate of 1% or a decrease in the terminal year cash flows of £2.0m would not cause the net operating assets to exceed their recoverable amount.

Target Systems
The carrying value of the goodwill for the Target Systems CGU as at 31 March 2022 was £24.7m (2021: £24.3m). The recoverable amount of this CGU as at 31 March 2022, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £85.0m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate of 1%, a decrease in the terminal growth rate of 1% or a decrease in the terminal year cash flows of £2.0m would not cause the net operating assets to exceed their recoverable amount.

Germany
The carrying value of the goodwill for the Germany CGU as at 31 March 2022 was £2.6m (2021: £2.7m). Our German operations generally performed below expectations in the year, however its core contract is in the process of being extended to June 2023 and increased in scope, underpinning performance in future years. Whilst a further impairment is a risk (following a £25m impairment in 2021) if additional contracts are not won, or the core contract not successful re-tendered in June 2023, the current forecasts result in a small headroom when comparing discounted future cash flows to carrying value of assets. The key sensitivity impacting on the value in use calculations is the terminal year cash flows, with the core contract contributing approximately one third of the business's revenue in the terminal year (2027). Should this key contract not be successfully won (on a long-term basis) in June 2023 then there would be a significant decrease in future cash flows and this would lead to full impairment of the residual £2.6m carrying value of goodwill together with an impairment charge of approximately £1.3m against the £26.8m carrying value of intangible assets. An increase in the discount rate of 1% or a decrease in the terminal growth rate of 1% would decrease the headroom by £7.0m and £5.3m respectively.

Inzpire
The carrying value of the goodwill for the Inzpire CGU as at 31 March 2022 was £11.7m (2021: £11.7m). The recoverable amount of this CGU as at 31 March 2022, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £25.8m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate of 1%, a decrease in the terminal growth rate of 1% or a decrease in the terminal year cash flows of £2.0m would not cause the net operating assets to exceed their recoverable amount.

Naimuri
The carrying value of the goodwill for the Naimuri CGU as at 31 March 2022 was £14.8m (2021: £14.8m). The recoverable amount of this CGU as at 31 March 2022, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £25.8m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate of 1%, a decrease in the terminal growth rate of 1% or a decrease in the terminal year cash flows of £2.0m would not cause the net operating assets to exceed their recoverable amount.

15. Post-retirement benefits

In the UK the Group operates a defined benefit pension scheme ('the Scheme') for approximately one fifth of its UK employees. The Scheme closed to future accrual on 31 October 2013 and there is no on-going service cost. After this date, defined benefit members transferred to a defined contribution section of the Scheme. The Scheme is a final salary plan, which provides benefits to members in the form of a guaranteed level of pension payable for life. The Scheme is in a net asset position with the market value of assets in excess of the present value of Scheme liabilities. These have the values set out below as at 31 March of each year end.

All figures in £ million	**2022**	2021
Total market value of assets – see following table for analysis by category of asset	2,065.7	2,071.8
Present value of Scheme liabilities	(1,703.5)	(1,857.5)
Net pension asset before deferred tax	**362.2**	**214.3**
Deferred tax liability	(96.4)	(45.5)
Net pension asset after deferred tax	**265.8**	**168.8**

The balance sheet net pension asset is a snapshot view which can be significantly influenced by short-term market factors. The calculation of the surplus or deficit depends, therefore, on factors which are beyond the control of the Group – principally the value at the balance sheet date of the various categories of assets in which the Scheme has invested and long-term interest rates and inflation rates used to value the Scheme liabilities.

Total expense recognised in the income statement

All figures in £ million	**2022**	2021
Net finance income	4.5	7.1
Administrative expenses	(1.1)	(1.3)
Total net income recognised in the income statement (gross of deferred tax)	**3.4**	**5.8**

Movement in the net pension asset

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

All figures in £ million	**2022**	2021
Opening net pension asset	214.3	309.7
Net finance income	4.5	7.1
Net actuarial gain/(loss)	144.0	(104.1)
Administration expenses	(1.1)	(1.3)
Past service cost	(2.4)	-
Contributions by the employer	2.9	2.9
Closing net pension asset	**362.2**	**214.3**

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

All figures in £ million		**2022**			2021	
	Quoted	**Not quoted in an active market**	**Total**	Quoted	Not quoted in an active market	Total
Equities	176.1	44.7	220.8	140.2	47.4	187.6
Liability Driven Investment	291.8	-	291.8	362.3	-	362.3
Asset backed securities	501.7	-	501.7	455.6	-	455.6
Alternative bonds[1]	-	208.6	208.6	118.7	136.1	254.8
Corporate bonds	-	97.4	97.4	-	98.0	98.0
Property fund	-	29.5	29.5	-	76.6	76.6
Cash and cash equivalents	-	78.5	78.5	-	49.3	49.3
Insurance buy-in policies	-	645.9	645.9	-	588.0	588.0
Derivatives	-	(8.5)	(8.5)	-	(0.4)	(0.4)
Total market value of scheme assets	**969.6**	**1,096.1**	**2,065.7**	**1,076.8**	**995.0**	**2,071.8**

[1]Primarily private market debt investments. Prior year split restated to show split of quoted and not quoted.

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

Assumptions

The major assumptions used in the IAS 19 valuations of the Scheme were:

		2022	**2021**
	Insured members*	**Uninsured members***	**All members**
Discount rate applied to Scheme liabilities	2.80%	2.70%	2.10%
CPI inflation assumption	3.00%	2.90%	2.60%
Net rate (discount rate less inflation)	(0.20%)	(0.20%)	(0.50%)
Assumed life expectancies in years:			
Life expectancy at 60 for male currently aged 40	n/a	28.4	28.4
Life expectancy at 60 for female currently aged 40	n/a	30.7	30.7
Life expectancy at 60 for male currently aged 60	22.0^	26.7	26.7
Life expectancy at 60 for female currently aged 60	23.7^	28.6	28.6

*As a result of two recent insurance buy-in transactions the Scheme has two distinct membership groups: insured members and un-insured members. Insured members are all pensioners and un-insured members are predominantly not yet drawing pensions. As such, the future cash outflows will be over differing timeframes and it is more accurate to use different key assumptions to each of the two groups when calculating the Scheme liabilities. These are now presented separately.
^For pensioners currently aged 65.

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

Key assumptions	Change in assumption	Indicative impact on gross Scheme liabilities before deferred tax	Indicative impact on net pension asset
Discount rate	Increase/decrease by 0.1%	Decrease/increase by £32m	Decrease/increase by £9m
Rate of inflation	Increase/decrease by 0.1%	Increase/decrease by £31m	Increase/decrease by £3m
Life expectancy	Increase by one year	Increase by £64m	Decrease by £37m

The impact of movements in Scheme liabilities will, to an extent, be offset by movements in the value of Scheme assets as the Scheme has assets invested in a Liability Driven Investment portfolio. As at 31 March 2022 this hedges against approximately 95% of the interest rate and also 95% of the inflation rate risk, as measured on the Trustees' gilt-funded basis. The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (projected unit credit method) has been applied as when calculating the pension liability recognised within the statement of financial position. The methods and types of assumption did not change.

In addition to the sensitivity of the liability side of the net pension surplus (which will impact the value of the net pension surplus) the net pension surplus is also exposed to significant variation due to changes in the fair value of Scheme assets. A specific sensitivity on assets has not been included in the above table but any change in valuation of assets flows straight through to the value of the net pension surplus e.g. if equities fall by £10m then the net pension surplus falls by £10m. The values of unquoted assets assume that an available buyer is willing to purchase those assets at that value. For the Group's portfolio of assets, the unquoted alternative bonds of £208.6m; the unquoted corporate bonds of £97.4m; the unquoted equities of £44.7m and the property funds of £29.5m are the assets with most uncertainty as to valuation as at 31 March 2022.

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

16. Own shares and share-based awards

Own shares represent shares in the Company that are held by independent trusts and include treasury shares and shares held by the employee share ownership plan. Included in retained earnings are 6,816,291 shares (2021: 5,020,832 shares). In the year ended 31 March 2022 the Group granted/awarded 1.3m new share-based awards to employees (2021: 7.7m).

17. Contingent liabilities and assets

Subsidiary undertakings within the Group have given unsecured guarantees of £37.2m at 31 March 2022 (2021: £31.6m) in the ordinary course of business.

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

18. Related party transactions with equity accounted investments

During the year there were sales to associates and joint ventures of £5.2m (2021: £6.0m). At the year end there were outstanding receivables from associates and joint ventures of £1.0m (2021: £1.4m).

19. Capital commitments

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

All figures in £ million	**2022**	2021
Total contracted	34.7	33.0

Capital commitments at 31 March 2022 include £24.5m (2021: £25.3m) in relation to property, plant and equipment that will be wholly funded by a third party customer under long-term contract arrangements. These primarily relate to investments under the LTPA contract.

Glossary

CPI	Consumer Price Index
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPS	Earnings per share
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
LTPA	Long Term Partnering Agreement: 25-year contract established in 2003 to manage the MOD's test and evaluation ranges
MOD	UK Ministry of Defence
SSRO	Single Source Regulations Office

Alternative performance measures ('APM's)

The Group uses various non-statutory measures of performance, or APMs. Such APMs are used by management internally to monitor and manage the Group's performance and also allow the reader to obtain a proper understanding of performance (in conjunction with statutory financial measures of performance). The APMs used by QinetiQ are set out below:

Measure	**Explanation**	**Note reference to calculation or reconciliation to statutory measure**
Organic growth	The level of year-on-year growth, expressed as a percentage, calculated at constant prior year foreign exchange rates, adjusting for business acquisitions and disposals to reflect equivalent composition of the Group	Note 2
Underlying operating profit	Operating profit as adjusted to exclude 'specific adjusting items'	Note 2
Underlying operating margin	Underlying operating profit expressed as a percentage of revenue	Note 2
Underlying net finance income/expense	Net finance income/expense as adjusted to exclude 'specific adjusting items'	Note 7
Underlying profit before/after tax	Profit before/after tax as adjusted to exclude 'specific adjusting items'	Note 8
Underlying effective tax rate	The tax charge for the year excluding the tax impact of 'specific adjusting items' expressed as a percentage of underlying profit before tax	Note 8
Underlying basic and diluted EPS	Basic and diluted earnings per share as adjusted to exclude 'specific adjusting items'	Note 9
Orders	The level of new orders (and amendments to existing orders) booked in the year	N/A
Backlog, funded backlog or order book	The expected future value of revenue from contractually committed and funded customer orders	N/A
Book to bill ratio	Ratio of funded orders received in the year to revenue for the year, adjusted to exclude revenue from the 25-year LTPA contract due to significant size and timing differences of LTPA order and revenue recognition which distort the ratio calculation	N/A
Underlying net cash flow from operations	Net cash flow from operations before cash flows of specific adjusting items	Note 10
Underlying operating cash conversion or cash conversion ratio	The new ratio for 2022 is the ratio of underlying net cash from operations to underlying EBITDA. In previous years this was the ratio of underlying net cash from operations to operating profit	Note 10
Free cash flow	Underlying net cash flow from operations less net tax and interest payments less purchases of intangible assets and property, plant and equipment plus proceeds from disposals of plant and equipment	Note 10
Net cash	Net cash as defined by the Group combines cash and cash equivalents with other financial assets and liabilities, primarily available for sale investments, derivative financial instruments and lease liabilities	Note 11
Return on capital employed	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)	CFO Review
Specific adjusting items	Amortisation of intangible assets arising from acquisitions; impairment of property and goodwill; gains/losses on disposal of property, investments and businesses; net pension finance income; transaction and integration costs in respect of business acquisitions; change in accounting policy in respect of software implementation costs; tax impact of the preceding items and significant non-recurring deferred tax movements	Note 3