Directors' report

Statutory information contained elsewhere in the Annual Report

Information required to be part of this Directors' report can be found elsewhere in the Annual Report as indicated in the table below, and is incorporated into this report by reference:

Information	Page
Corporate governance statement	54
Directors' details	58–59
Directors' conflicts of interest	74
Directors' interests in shares	105
Employees	42–46
Financial instruments: Information on the Group's financial risk management objectives and policies, and its exposure to credit risk, liquidity risk, interest rate risk and foreign currency risk	150
Greenhouse gas emissions	40
Likely future developments in the business of the Company or its subsidiaries	2–51
Results	22–25

Disclosure specifically required pursuant to the Companies (Miscellaneous Reporting) Regulations 2018 can be found on the following pages:

Statement in the Directors' Report summarising how Directors have engaged with employees and taken account of their interests	114
Statement in the Directors' Report about the corporate governance arrangements applied by the Company	114
Publication of the ratio of the CEO's remuneration to the median, 25th and 75th quartile pay remuneration of their UK employees in the Directors' Remuneration report	107
Illustration of the effect of future share price increases on executive pay outcomes in the Directors' Remuneration report	100

Management report

The Strategic report on pages 1 to 51 and the Directors' report, as detailed on pages 113 to 116, including information which has been incorporated into those sections by reference, comprise the management report specified by rules 4.1.5R (2) and 4.1.8R of the FCA's Disclosure Guidance and Transparency Rules (DTRs).

Research and development

One of the Group's principal business streams is the provision of funded research and development (R&D) for customers. The Group also invests in the commercialisation of promising technologies across all areas of business.

In the financial year, the Group recorded £300.4m (2020: £292.3m) of total R&D-related expenditure, of which £281.9m (2020: £270.8m) was customer-funded work and £18.5m (2020: £21.5m) was internally funded. Additionally, £2.6m (2020: £1.6m) of late-stage development costs were capitalised and £2.4m (2020: £1.4m) of capitalised development costs were amortised in the year.

Political donations

QinetiQ does not make political donations to parties as that term would be commonly recognised. The legal definition of that term is, however, quite broad and may have the effect of covering a number of normal business activities that would not commonly be perceived to be political donations, such as sponsorship of events.

These may include legitimate interactions in making MPs and others in the political world aware of key industry issues and matters that affect QinetiQ, and that make an important contribution to their understanding of QinetiQ, the markets in which it operates and the work of their constituents.

Branches

The Company and its subsidiaries have established branches in a number of different countries; their results are, however, not material to the Group's financial results.

Share capital

As at 31 March 2021, the Company had an allotted and fully paid up share capital of 574,257,121 ordinary shares of 1p each with an aggregate nominal value of £5.7m and one Special Share with a nominal value of £1. The ordinary share total includes 3,191,431 shares held by employee share trusts.

Details of the shares in issue during the financial year are shown in note 29 on page 160.

Rights of ordinary shareholders

The holders of ordinary shares are entitled to receive the Company's Reports and Accounts, to attend and speak at general meetings of the Company, to exercise voting rights in person or by appointing a proxy, and to receive a dividend where declared or paid out of profits available for that purpose.

Directors' report continued

Rights of special shareholder

The Special Share is held by HM Government through the Secretary of State for Defence (the Special Shareholder) and it may only be held by and transferred to HM Government. It confers certain rights to protect UK defence and security interests. These include:

- The promotion and reinforcement of the MOD compliance principles which require QinetiQ to be an impartial, ethical and responsible contractor by avoiding conflicts of interest in its dealings with the MOD
- The protection of defined strategic assets of the Group, such as certain testing facilities, by providing the Special Shareholder with an option to purchase those assets in certain circumstances
- The right to require certain persons with a material interest in QinetiQ to dispose of some or all of their ordinary shares on the grounds of national security or conflict of interest
- A provisions whereby at least the Non-executive Chairman or Chief Executive Officer must be a British citizen.

The Special Share carries no financial and economic value and the Special Shareholder is not entitled to vote at a general meeting of the Company. At any time the Special Shareholder may require QinetiQ to redeem the share at par and, if wound up, the Special Shareholder would be entitled to be repaid at its nominal value before other shareholders. Any variation of the rights attached to the Special Share requires the written approval of the MOD. Further details can be found in note 29 on page 160.

Restrictions on the transfer of shares

As detailed above, the special share requires certain persons with an interest in QinetiQ's shares that exceed certain prescribed thresholds to dispose of some or all of their ordinary shares on the grounds of national security or conflict of interest.

Employee share schemes

The QinetiQ Group plc Employee Benefit Trust (the Trust) holds shares in connection with QinetiQ's employee share schemes, excluding the Share Incentive Plan. As at 31 March 2021, the Trust held 3,191,431 ordinary shares of 1p each (the Trust Shares). The Trustees of the Trust have agreed to waive their entitlement to dividends payable on the Trust Shares. The Trust holds further ordinary shares in respect of deferred shares held on behalf of participants in the Company's Deferred Annual Bonus Plan. Dividends received by the Trust in respect of the deferred shares are paid direct to the Plan participants on receipt and are not retained in the Trust.

Equiniti Share Plan Trustees Limited acts as Trustee in respect of all ordinary shares held by employees under the QinetiQ Group plc Share Incentive Plan (the Plan). Equiniti Share Plan Trustees Limited will vote on all resolutions proposed at general meetings in accordance with voting instructions received from participants in the Plan.

Corporate sponsored nominee

In circumstances where ordinary shares are held by the corporate sponsored nominee service, Equiniti Corporate Nominees Limited will vote on all resolutions proposed at general meetings in accordance with voting instructions received from shareholders using such corporate nominee service.

Major shareholdings

In accordance with DTR 5, the Company has been notified of the following from holders representing 3% or more of the issued ordinary share capital of the Company:

Name of shareholder	At 31 March 2021 % of issued share capital*	At 13 May 2021* % of issued share capital
Schroders	9.62%	9.62%
BlackRock, Inc	6.67%	6.83%
GLG Partners	6.18%	6.18%
Majedie Asset Management	5.03%	5.03%
Investec	4.95%	4.95%
Standard Life Aberdeen plc	4.81%	4.81%
Norges Bank	3.99%	3.99%

* As notified by the shareholder and based on the issued ordinary share capital at the time of the notification.

Employees

The Group is committed to the fair treatment of people with disabilities in relation to applications, training, promotion and career development. If an existing employee becomes disabled, the Company makes every effort to enable them to continue their employment and career development, and to arrange appropriate training, wherever practical.

Directors' interests in contracts

At the date of this report, there is no contract or arrangement with the Company or any of its subsidiaries that is significant in relation to the business of the Group as a whole in which a Director of the Company is materially interested.

Indemnities

The Company has entered into indemnity deeds with all its current Directors containing qualifying indemnity provisions, as defined in Section 234 of the Companies Act 2006, under which the Company has agreed to indemnify each Director in respect of certain liabilities, which may be attached to them as Directors or as former Directors of the Company or any of its subsidiaries. All such indemnity provisions are in force as at the date of this Directors' report. The Directors of QinetiQ Pension Scheme Trustee Limited, a Group company and the Trustee of the QinetiQ Pension Scheme (the Scheme), benefit from an indemnity contained in the rules of the Scheme. The indemnity would be provided out of the Scheme assets.

Change of control – significant agreements

The following significant agreements contain provisions entitling the counterparties to require prior approval, exercise termination, alteration or other similar rights in the event of a change of control of the Company, or if the Company ceases to be a UK company:

- The Combined Aerial Target Service contract is a 20-year contract awarded to QinetiQ by the MOD on 14 December 2006. The terms of this contract require QinetiQ Limited to remain a UK company which is incorporated under the laws of any part of the UK, or an overseas company registered in the UK, and that at least 50% of the Board of Directors are UK nationals. The terms also contain change of control conditions and restricted share transfer conditions which require prior approval from HM Government if there is a material change in the ownership of QinetiQ Limited's share capital, unless the change relates to shares listed on a regulated market; "material" is defined as being 10% or more of the share capital. In addition, there are restrictions on transfers of shares to persons from countries appearing on the restricted list as issued by HM Government.
- The Long Term Partnering Agreement (LTPA) is a 25-year contract, which QinetiQ Limited signed on 28 February 2003, to provide test, evaluation and training services to the MOD. This contract contains conditions under which the prior approval of HM Government is required if the contractor, QinetiQ Limited, ceases to be a subsidiary of the QinetiQ Group, except where such change in control is permitted under the Shareholders Agreement to which the MOD is a party.
- The Company is party to a £275m multi-currency revolving credit facility, provided by a consortium of banks, of which £65m will mature on 27 September 2024 and £210m will mature on 27 September 2025. Under the terms of the facility, in the event of a change of control of the Company, any lender may give notice to cancel its commitment under the facility and require all outstanding amounts to be repaid.

The Directors' contracts contain no provisions for compensation for loss of office on a change of control of the Company.

Disclosures in accordance with Listing Rule 9.8.4

There are no matters requiring disclosure under the FCA's Listing Rule 9.8.4, other than details of long-term incentive schemes, which are explained further on page 97.

Articles of Association

Changes to the Articles must be submitted to shareholders for approval. Save in respect of the rights attaching to the Special Share, the Company has not adopted any special rules relating to the appointment and replacement of Directors or the amendment of the Company's Articles of Association, other than as provided under UK corporate law.

Appointment and replacement of Directors

According to the Articles of Association, all Directors are subject to election by shareholders at the first AGM following their appointment, and to re-election thereafter at intervals of no more than three years. In line with best practice reflected in the Code, however, the Company requires each serving member of the Board to be put forward for election or re-election on an annual basis at each AGM.

Powers of the Directors: allotment/purchase of own shares

At the Company's AGM held in July 2020, the shareholders passed resolutions which authorised the Directors to allot relevant securities up to an aggregate nominal value of £3,786,037 (£1,893,019 pursuant only to a rights issue), to disapply pre-emption rights (up to 5% of the issued ordinary share capital) and to purchase ordinary shares (up to 10% of the issued ordinary share capital). The authorities will remain valid until the 2021 AGM.

Resolutions in respect of the allotment of relevant securities, the disapplication of pre-exemption rights and the purchase of own shares will be laid before the 2021 AGM.

Annual General Meeting

The Company's AGM will be held on Wednesday 21 July 2021 at 10:00am at Portsdown Technology Park, Southwick Road, Portsmouth PO6 3RU.

Independent auditor

PwC has expressed its willingness to continue in office as independent auditor and a resolution to re-appoint them will be proposed at the AGM.

Directors' report continued

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Additionally, the Financial Conduct Authority's Disclosure Guidance and Transparency Rules require the Directors to prepare the Group Financial Statements in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Under company law, Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- State whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements
- Make judgements and accounting estimates that are reasonable and prudent
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

Each of the Directors, whose names and functions are listed on pages 58 and 59 confirm that, to the best of their knowledge:

- The Group financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group
- The Company Financial Statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities, financial position and profit of the Company
- The Going concern statement on page 37 includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' report is approved.

Scope of the reporting in this Annual Report

The Board has prepared a Strategic report which provides an overview of the development and performance of the Group's business in the year ended 31 March 2021.

For the purposes of DTR 4.1.5R(2) and DTR 4.1.8 the Directors' report, the Directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware, and that they have taken all steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the Board.

Jon Messent
Company Secretary and Group General Counsel
20 May 2021

Independent auditors' report
to the members of QinetiQ Group plc

Report on the audit of the financial statements

Opinion

In our opinion:

- QinetiQ Group plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2021 and of the group's profit and the group's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Consolidated and Company balance sheets as at 31 March 2021; the Consolidated income statement and Consolidated comprehensive income statement, the Consolidated cash flow statement, and the Consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in note 36 to the financial statements, the group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in 8, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- We conducted full scope audit work in the UK over QinetiQ Limited, and in the US over QinetiQ Inc. (MTEQ). This provides significant coverage over all financial statement balances, except inventory.
- We performed a full scope financial statement line item audit over inventory balances at Foster Miller Inc. (QNA) and QinetiQ Target Systems Limited.
- Additionally in QNA, we performed full scope financial statement line item audits over revenue and associated balances.
- We performed procedures over goodwill, intangible assets, share-based payments, pensions, IFRS 16 lease accounting, taxation and testing of the consolidation at a Group level.

Key audit matters

- Long-term contract accounting (group)
- Provisions and contingent liabilities (group)
- Impairment of goodwill and acquired intangibles (group)
- Accounting for tax research and development expenditure credits (group)
- Impact of COVID-19 (group and parent)
- Impairment of investment in subsidiary company (parent)

Materiality

- Overall group materiality: £6,400,000 (2020: £6,200,000) based on 5% of underlying profit before tax.
- Overall company materiality: £5,000,000 (2020: £4,800,000) based on 1% of total assets.
- Performance materiality: £4,800,000 (group) and £3,750,000 (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Our audit approach continued

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Impairment of investment in subsidiary company (parent) is a new key audit matter this year. Acquisition accounting (Group), which was a key audit matter last year, is no longer included because of reduction in significance and complexity of the acquisitions made in the year ended 31 March 2021. Otherwise, the key audit matters below are consistent with last year.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">Long-term contract accounting (group)</td></tr>
<tr><td>Refer to page 88 (Report of the Audit Committee) and page 167 (note 36, Significant accounting policies - Revenue from contracts with customers) and page 132 (note 2, Revenue from contracts with customers and other income).

QinetiQ Group plc has a large number of contracts which span multiple periods and are accounted for on a percentage of completion (POC) basis in accordance with IFRS 15.

Long term contract accounting requires a number of judgements and management estimates to be made, particularly in calculating the forecast costs to complete the contract. These judgements drive the revenue and profit recognition, and together with cash paid by the customer, impact the balance sheet position at the year end.

Onerous contract provisions are recorded where there is an expectation that a contract will be loss-making, and judgement is applied to determine the magnitude of any provision. Particular focus is given to contracts which are technologically challenging.</td><td>We evaluated the contract governance policies and controls in place within the business and tested the design and operating effectiveness of key controls in place over long-term contracts.

We performed risk assessment procedures over the portfolio of contracts to identify higher-risk contracts. These higher risk contracts were selected for detailed contract audits. These detailed contract audits involved meeting with key financial and non-financial personnel through the year and at year end to discuss contract performance, as well as obtaining evidence to support contract financials. Specifically, our procedures included the following:

• We assessed the basis of revenue recognition to ensure it is in line with applicable accounting standards.
• We agreed overall anticipated revenue to the underlying contract and validated a sample of customer invoices through to cash receipt.
• We recalculated revenue recognised and agreed both revenue, costs and associated balance sheet positions to the underlying general ledger.
• We obtained evidence to corroborate management estimates and judgements, particularly around forecast costs to complete and risk contingencies. Where necessary, we obtained correspondence with the customer to evidence progress made on the contract during the year and remaining obligations.
• We validated costs incurred and allocated to contracts during the year to supporting documentation on a company-wide basis.

For remaining untested contracts, we selected a sample and performed testing over revenue, agreeing to supporting documentation including customer contracts and validating a sample of customer invoices to cash receipts.

We agreed contract loss provisions recorded based on the overall outcome anticipated on the contract through a combination of the procedures above.

Additional testing was performed, where not sufficiently covered by the above, over contract asset and liability balance sheet positions. These have been sample tested and agreed to supporting documentation.

No material exceptions were found.</td></tr>
</table>

Key audit matter	How our audit addressed the key audit matter
Provisions and contingent liabilities (group)	
Refer to page 88 (Report of the Audit Committee) and page 167 (note 36, Significant accounting policies - Provisions), page 147 (note 23, Provisions) and page 164 (note 32, Contingent liabilities and assets). QinetiQ Group plc holds provisions in respect of legal, contractual, regulatory and environmental issues. (Note: Long-term contract related provisions are covered within the 'long-term contract accounting' matter above). The Group operates in regulated environments and failure to comply with particular regulations could result in fines and/or penalties. There is judgement required in determining the significance of any instances of potential non-compliance and potential liability based on management's assessment of the most likely outcome. The financial statements should disclose any contingent liabilities in respect of contractual, regulatory or legal issues which have not been provided for on the basis that they are not considered to qualify for recognition as provisions.	We have assessed management's processes and controls over legal regulatory claims and contractual disputes and made enquiries with in-house legal counsel. We tested the appropriateness of management's assumptions by reference to third party evidence for key provisions recorded at the year end and movements in the year. In certain cases, we have also discussed matters directly with external legal counsel. In doing this, we concluded on whether our understanding of the facts and circumstances gained throughout the audit process corroborated the provision recorded. We challenged management's estimate of the most likely outcomes by critically evaluating the range of possible outcomes to determine if the amounts provided are appropriate. We have considered the completeness of provisions and contingent liabilities recorded by management with reference to other information obtained during the course of audit procedures, including the review of board minutes. We assessed the adequacy of the Group's financial statement disclosures and adherence to accounting standards. We found that the judgements formed by management were within an acceptable range and disclosures made in the financial statements are materially correct.
Impairment of goodwill and acquired intangibles (group)	
Refer to page 88 (Report of the Audit Committee), page 167 (note 36, Significant accounting policies - Impairment of goodwill and tangible, intangible and held for sale assets, page 140 (note 14, Goodwill) and page 142 (note 15, intangible assets). The Group has a material amount of acquired intangible assets and goodwill, including from recent acquisitions. There is a risk of impairment where the post-acquisition performance of businesses acquired is behind expectations from the time of the original acquisition. Management performed a discounted cash flow analysis based on the Board-approved five-year budget to assess whether the goodwill and intangible assets are supported by future cash flow projections. An impairment charge of £25.4m has been recognised in the QinetiQ Germany CGU during the year.	We have tested the principles and mathematical integrity of the Group's discounted cash flow model used to assess goodwill and indefinite-lived intangibles assets for potential impairment. With the assistance of our valuation specialists, we assessed the growth and discount rates used in the impairment calculation, by comparing the Group's assumptions to external data. We concluded that the Group's assumptions were appropriate. We have understood the rationale for the model used, the term of which is consistent with the internal budgeting and forecasting process and the long-term viability assessment, and agreed that this has been appropriately approved by the Board. We challenged the cash flow projections used within the model by reference to current level of sales and analysis of management's historic forecasting accuracy. We have held discussions with financial and non-financial personnel, corroborating explanations to supporting documentation, including third party evidence, where possible. We tested the sensitivity of the impairment calculation to changes in the underlying assumptions and concluded that no further impairments are required, and that the sensitivity to key assumptions is sufficiently disclosed. Where impairment charges have been recognised, we have challenged the basis and accuracy of the impairment, and have ensured that sufficient and appropriate disclosure is made within the financial statements. We assessed whether the Group's disclosures regarding sensitivity of the outcome of the impairment assessment to changes in key assumptions properly reflected the risks inherent in the valuation of goodwill. Through review of the impairment assessments performed by management and the disclosure made, we identified revenue cash flows in the forecasts of the Germany CGU that were reliant on future capital expenditure, which were revised by management to comply with IAS 36. As a result of the audit challenge, the impairment recognised against the Germany CGU was increased from £17.5m to the £25.4m disclosed on page 140.

Our audit approach continued

Key audit matter	How our audit addressed the key audit matter
Accounting for tax research and development expenditure credits (group)	
Refer to page 167 (note 36, Significant accounting policies - Taxation), page 137 (note 9, Taxation). The Group has determined that it is appropriate to account for the UK's Research and Development Expenditure Credit ('RDEC') under IAS 12, rather than as a government grant within IAS 20. Measurement of current tax includes RDEC and requires judgements as to the probable amount of tax payable after the preparation of tax filings and potential challenge by relevant tax authorities.	We have reviewed management's accounting policy for RDEC and disclosure of its impact on the Group's underlying effective tax rate. Management has made a judgement as to whether RDEC should be accounted for under IAS 12 or IAS 20 and we consider the disclosures made are sufficient to enable the user of the accounts to identify and understand the impact of management's accounting policy. We have used our tax specialists to challenge the appropriateness of management's assumptions and estimates in relation to tax positions, including RDEC, by critically assessing the range of possible outcomes. We obtained the latest correspondence with the relevant tax authorities to corroborate management's conclusions. We found that judgements made by management in regard to RDEC were within an acceptable range. We have reviewed the disclosures made in respect of tax, in particular around estimates and uncertainties and are satisfied that the disclosures made are appropriate.
Impact of COVID-19 (group and parent)	
Refer to page 88 (Report of the Audit Committee) and page 8 (Chief Executive Officer's review) and page 30 (Principal risks). The COVID-19 pandemic has caused significant global disruption and economic uncertainty. Management has assessed the impact of COVID-19 on the group, including any potential financial reporting implications. The group has proved resilient throughout the pandemic with no significant adverse impact on financial performance. Management implemented a series of temporary measures to respond to the fast evolving situation, including the temporary closure of sites and personnel working remotely, a reduction in international travel and a temporary reduction in senior salaries and Board fees during the initial outbreak. The pandemic has resulted in the year end financial close process, as well as the external audit, having to take place largely remotely.	We have independently assessed the impact of COVID-19 on the group and parent through inquiries performed of management at multiple levels across the group, review of Board minutes, discussions with our component audit team and consideration of financial performance and evaluation of the overall audit findings. Our audit work over long-term contracts described above included obtaining an understanding of COVID-19 implications on each contract and agreeing that risk assumptions with the contract accounting were supportable to corroboratory evidence. We have assessed the financial performance of the group as a whole and the performance of individual CGU's for impairment analysis to respond to any heightened risk surrounding the going concern of the group or impairment analysis of assets. We have found that management forecasts appear reasonable and support management's conclusion that the going concern basis is appropriate, and there is no indication of any material impairment in assets as a result of COVID-19. Whilst we have undertaken much of our year end audit work remotely, we did not encounter any significant difficulties in performing our audit testing or in obtaining the required evidence to support our audit conclusions.
Impairment of investment in subsidiary company (parent)	
Refer to page 178 (Accounting policies and note 2, Investments in subsidiary undertakings). The Company has an investment of £507.4 million in its subsidiary. Annually, the Directors consider whether any events or circumstances have occurred that could indicate that the carrying amount of the investment in subsidiaries may not be recoverable. If such circumstances are identified, an impairment review is undertaken to establish whether the carrying amount of the investment exceeds its recoverable amount, being the higher of fair value less costs to sell or value in use. Impairment assessments of this nature require significant judgement and there is a risk that a potential impairment trigger may not be identified by management and in the event that there is an impairment trigger identified, there is a risk that the calculation of the recoverable amount of the investment is incorrect and therefore the value of the investment may be misstated. No such indicators of impairment have been identified.	We have evaluated management's consideration of impairment triggers through performing our own independent assessment which has included: • Assessing the overall financial performance of the group to identify any indicators of impairment as a result of poor financial performance. • Considering other information gathered during the course of our audits of components and assessing whether there are any other indicators of impairment, as well as considering other factors that could indicate increased impairment risk such as regulatory change. • Considering the market capitalisation of the group at year end and comparing this to the carrying value of the investment. We found that management's conclusion that there are no impairment triggers in the investment carrying value was reasonable.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

We conducted full scope audit work over QinetiQ Limited and MTEQ, both components being considered as financially significant to the group. The audit of QinetiQ Limited is performed in the UK and the audit of MTEQ is performed in the US by our local PwC component audit team. This provides sufficient coverage over all financial statement balances, except inventory and central balances audited by the Group team.

We performed additional procedures over inventory balances at two further entities to ensure sufficient coverage over that financial statement line item. QinetiQ Target Systems Limited is located within the UK and work was performed by the Group audit team. QNA is located in the US and work was performed by our local PwC component audit team.

We performed additional procedures over revenue and associated financial statement balances at QNA, located in the US, which was performed by our local PwC component team.

In addition to the above, we performed analytical procedures on the remaining entities to understand key balances and transactions in the year and performed additional procedures on any unusual balances identified.

The audit procedures performed over the financial information of both full scope components, QinetiQ Limited and MTEQ, accounted for 77% of total Group revenue and 91% of underlying profit before taxation.

These full scope audits plus the additional audit procedures over inventory in two other locations and revenue and associated balance sheet accounts within QNA, resulted in coverage of 83% of total Group Revenue and 90% of total Group assets.

The combination of the work referred to above, together with additional procedures performed at Group level, including testing of significant journals posted within the consolidation, significant adjustments made to the financial statements, goodwill, intangible assets, share based-payments, pensions, IFRS 16 lease accounting and the taxation, gave us the evidence required for our opinion on the financial statements as a whole.

Only one component auditor, located in the US, was involved in the audit as all other procedures were performed by the Group audit team. The US business operates under a Special Security Agreement (SSA), with this being required to carry out business with the US Department of Defence. The SSA places certain restrictions on access to, and communication of, information outside of US borders. We planned our audit to ensure US personnel completed the audit work within the US and obtained approvals for transfer of information in advance of undertaking the audit work. The Group engagement leader discussed and agreed the audit plan with our US component audit team, in addition to agreeing the format and content of communications. We determined the level of involvement we needed to have in the audit work at these reporting entities to be able to conclude whether sufficient appropriate evidence had been obtained as a basis for our opinion on the financial statements as a whole. We maintained regular dialogue throughout the audit process with our US audit team, through the use of video conferencing. We also supervised the work performed through a review of the US team's working papers and we are comfortable that sufficient and appropriate procedures have been performed.

The Company audit was performed by the Group audit team. The parent company is principally a holding company and there are no branches or other locations to be considered when scoping the audit. There are no financial statement line items in scope for the group audit. The company is audited on a stand-alone basis, and hence, testing has been performed on all material financial statement line items.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - group	Financial statements - company
Overall materiality	£6,400,000 (2020: £6,200,000).	£5,000,000 (2020: £4,800,000).
How we determined it	5% of underlying profit before tax	1% of total assets.
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report and Accounts, underlying profit before tax is one of the primary measures used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark. It is considered appropriate to exclude specific adjusting items due to the nature of these balances as disclosed in note 4 to the Financial Statements.	We believe that total assets is the primary measure used by shareholders in assessing the performance of this entity, and is a generally accepted auditing benchmark for non-trading entities. This materiality relates to the audit of the Parent Company only, as the Company was not in scope for the Group audit.

Our audit approach continued

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £6,080,000 and £4,900,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £4,800,000 for the group financial statements and £3,750,000 for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £320,000 (group audit) (2020: £300,000) and £250,000 (company audit) (2020: £244,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the Directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- We have obtained management's strategic plan and detailed FY22 budget. We have held discussions with management to understand the budgeting process and the key assumptions made in the forecasting process;
- Performed a comparison of the going concern assessment to Board-approved forecasts and, where applicable, compared these forecasts for consistency to those used elsewhere in the business, including for long-term contact accounting and impairment assessments;
- Assessing whether the stress testing performed by management appropriately considered the principal risks facing the business, and were adequate;
- Using our own knowledge from the audit and assessment of previous forecasting accuracy we calculated sensitivities to apply to management's cash flow forecasts. These procedures confirmed significant head room in management's forecasts.
- Evaluating the feasibility of management's mitigating actions in response to the severe stress testing scenarios; and
- We assessed the adequacy of disclosures in the Going Concern statement on page 37, the audit committee report on page 89 and statements in note 36 of the Financial Statements and found these appropriately reflect our understanding of the process undertaken and the conclusion reached.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

In relation to the Directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 March 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

The Listing Rules require us to review the Directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The Directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The Directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The Directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The Directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the Directors' statement regarding the longer-term viability of the group was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

Corporate governance statement continued

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The Directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the Directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to relevant tax legislation, Single Source Contracting Regulations, the Health and Safety Executive and anti-bribery and corruption legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, and management bias in accounting estimates. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Discussions with management at multiple levels across the business, internal audit and the Group's legal counsel throughout the year, as well as at year end. These discussions have included consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Evaluation of management's controls designed to prevent and detect irregularities, in particular their anti-bribery controls;
- Understanding and evaluating changes in processes and controls as a result of the COVID-19 pandemic;
- Assessment of matters reported on the Group's whistleblowing helpline and the results of management's investigation of such matters;

- Reviewing correspondence with and reports to relevant regulatory authorities;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to long-term contract accounting and the impairment of goodwill and acquired intangible fixed assets (see related key audit matters below);
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management; and
- Incorporating elements of unpredictability into the audit procedures performed.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 22 June 2017 to audit the financial statements for the year ended 31 March 2018 and subsequent financial periods. The period of total uninterrupted engagement is 4 years, covering the years ended 31 March 2018 to 31 March 2021.

Julian Gray
Senior Statutory Auditor
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton

20 May 2021