Preliminary Results

QINETIQ

25 May 2023

Serving the national security interests of our customers

Results for the year ended 31 March 2023

	Statutory results		Underlying* results	
	FY23	FY22	**FY23**	FY22
Revenue	£1,580.7m	£1,320.4m	1,580.7m	£1,320.4m
Operating profit[2]	£172.8m	£123.7m[1]	£178.9m	£137.4m
Profit after tax	£154.4m	£90.0m	£152.9m	£118.1m
Earnings per share	26.8p	15.7p	26.5p	20.6p
Full year dividend per share	7.7p	7.3p	7.7p	7.3p
Funded order backlog			£3,070.3m	£2,828.8m
Orders			£1,724.1m	£1,226.6m
Net cash inflow from operations	£240.6m	£215.1m[1]	£270.1m	£220.7m[1]
Net (debt)/cash	£(206.9)m	£225.1m	£(206.9)m	£225.1m

Excellent operational performance across the Group

- Orders up 41%, a record-high of £1.7bn, growing our backlog to £3.1bn
- Revenue is up 20% and profit is up 30%; up 11% and 12% respectively on an organic basis, excluding the impact of the write-down in FY22
- Cash performance remains strong with 106% conversion
- Statutory operating profit of £172.8m, an increase of 40%
- Returns are healthy with underlying EPS up to 26.5p and the full year dividend up 5% to 7.7p

The defence & security context is heightening market demand for our distinctive offerings

- We now see an addressable market of more than £30bn per year
- We have delivered a step-change in our global growth platform with two strategic acquisitions in the US and Australia, both are performing well and the integrations are on-track

FY24 expectations unchanged, upgraded long-term guidance

- We are targeting high single digit organic revenue growth at 11-12% margin
- We have increased the scale of our ambition to grow the company to approx. £3bn revenue by FY27, including further strategic acquisitions
- This upgraded guidance will approximately double our revenue and profit over the next 4 years, a 20% improvement to our previous guidance

Steve Wadey, Group Chief Executive Officer said:

"We have delivered an excellent set of results characterised by a record order intake and strong operational performance across the Group. The integration of the two strategically significant acquisitions of Avantus and Air Affairs gives us a compelling global platform from which to grow.

"We are operating in an uncertain world and the heightened threat environment is increasing demand for our distinctive offerings, which are closely aligned to our customers' priorities. We are now seeing an increased addressable market presenting opportunities for further growth and enhanced shareholder returns.

"As a result we have accelerated our global ambition to build an integrated global company with c.£3bn revenue by FY27. We move forward into FY24 with optimism due to our track-record of performance and confidence in our strategy. We are proud of the critical role we play serving the national security interests of our customers."

* 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 for Research and Development Expenditure Credits (RDEC). See note 20 to the financial statements for details.

[2] Underlying operating profit refers to operating profit from segments. See note 2 for details.

Preliminary results presentation:
Management will host a presentation at 09:30 hours BST on 25 May 2023 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-2023

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

About QinetiQ:
QinetiQ is an integrated global defence and security company focused on mission-led innovation. QinetiQ employs more than 8,000 highly-skilled people, committed to creating new ways of protecting what matters most; testing technologies, systems, and processes to make sure they meet operational needs; and enabling customers to deploy new and enhanced capabilities with the assurance they will deliver the performance required.

Visit our website www.QinetiQ.com. Follow us on LinkedIn and Twitter @QinetiQ.

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Basis of preparation:
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 (FY23, FY22, FY21, 2023, 2022, 2021) 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.

Group Chief Executive Officer's Review

We delivered excellent operational performance throughout the year, reflecting continued disciplined execution of our strategy. We grew orders by 41% at a record-high of more than £1.7bn, demonstrating the continued high demand for our distinctive offerings. We achieved 20% revenue growth, 11% on an organic constant currency basis excluding the impact of the write-down in the prior year, with underlying operating profit margin at 11.3%. In addition to the robust orders, revenue and profit performance, cash flow management continues to remain strong with 106% underlying cash conversion. We have successfully reduced leverage to 0.8x net debt to EBITDA, a year ahead of our original guidance.

EMEA Services continues to perform well, delivering 10% organic revenue growth and margins of 11.6%, with ongoing investment in our people supporting long-term growth. Global Products performance has been strong with revenue growth of 20% organically and profit margin of 10.4%. In particular our US business has performed well, with high order intake of $280m and impressive revenue growth of 25%, prior to the benefit of the Avantus acquisition. We have won a number of key contracts in the US that will support the delivery of our ambitious growth targets. The performance throughout the year in the US demonstrates greater stability and resilience, providing a strong platform for continued growth.

We completed three M&A transactions in late-2022, the disposal of QinetiQ Space NV in Belgium, the acquisition of Air Affairs in Australia, and of most strategic significance the acquisition of Avantus in the US. These transactions demonstrate the disciplined execution of our strategy and focused deployment of capital to drive long-term growth, building one integrated global defence and security company operating in our three home countries with six distinctive offerings.

Today we are announcing an increase in our global ambition for the company. We are targeting high single digit organic revenue growth at stable 11-12% margins, supplemented by strategically aligned acquisitions to build a business with revenues of c.£3bn by FY27. As we pursue our strategy the geographic mix of the company will change. Whilst the UK will scale by 50%, we will more than double the scale of our businesses in Australia and the US. This evolving mix across our home countries will result in delivering higher revenue growth at 11-12% margins, representing upper quartile performance. The result of this upgrade in our long-term guidance will deliver an increase of approximately 20% profit by FY27, compared to our previous guidance.

Strategic achievements

We have continued to make good progress implementing our strategy. Our major strategic achievements as we are building an integrated global defence and security company are:

- **Partnering to deliver experimentation, test and evaluation for the Royal Navy's fleet** – We renewed our Maritime Strategic Capability Agreement (MSCA) with the Submarine Delivery Agency. The 10 year, £260m contract, will deliver critical capabilities in Hydromechanics, Stealth and Signatures, Structures and Maritime Life Support that assure the UK's ability to design, build and safely operate the Royal Navy's surface and subsurface fleet, including the UK's Continuous at Sea Deterrent. This significant 10 year commitment from the MoD, which includes an option for an additional 5 years, is a testament to the value that QinetiQ has delivered since 2008 when the original 15 year contract was secured.
- **Transforming Mission Data for the UK MOD** – The UK MOD has signed an £80m, 10 year industry partnership, with QinetiQ-led Team Pegasus enhancing the UK's ability to provide its military platforms and systems with the data needed to keep them safe and effective. Team Pegasus will work in partnership with the MOD for a 10 year period on the transformation project, known as SOCIETAS, providing a specialist mission data and electronic warfare skills solution alongside training and IT support.
- **Delivering Digital Night Vision Technology for US Army** – We have been awarded a $93m single award four year contract to support the US Army with the development, testing, deployment and training of Digital Night Vision Technology (DNVT) to support military

operations. DNVT will substantially enhance the user's situational awareness and decision-making abilities by fielding digital night vision capabilities coupled with component technology enhancements.
- **Acquisition of Avantus extending into US intelligence customer** – At the end of November 2022 we completed the acquisition of Avantus for an enterprise value of $590 million. Avantus is a leading provider of mission-focused cyber, data analytics and software development solutions to the US Department of Defense, Intelligence Community, Department of Homeland Security and other Federal civilian agencies. Avantus has a strong track record of achieving speed-to-mission impact. Since completion, Avantus has continued to perform well, including two successful re-competes and selection for a new $80m multi-year contract with a national intelligence customer.
- **Acquisition of Air Affairs expanding Australian threat representation** – In December 2022 we completed the acquisition of Air Affairs (Australia) Pty Ltd for a cash consideration of A$53m. Air Affairs provides targets and training services, and electronic warfare capabilities to the Australian Defence Force, as well as aerial surveillance and reconnaissance in support of government firefighting efforts. The business positions QinetiQ as a market leader in air threat representation and aerial target services and further extends the scope of our capabilities.
- **Developing new laser technology with Australian Armed Forces** – We have partnered with the Australian Department of Defence to develop and manufacture a high energy defensive laser weapon system prototype. The contract involves leveraging QinetiQ's high-power laser technology and test and evaluation expertise from the UK in collaboration with DST's scientific innovation, to deliver enhanced sovereign capability to the Australian Defence Force.

The growing market opportunity

The global security situation continues to worsen and tensions remain high. In Europe, Russia's invasion of Ukraine is reshaping their relationship with the West, and the threat from China remains uncertain. These dynamics are driving defence and security policies, prioritisation of budgets and modernisation of capabilities. Our major focus is on our three home countries who have a shared defence and security mission under the trilateral partnership known as AUKUS.

The US has requested the largest ever Research & Development and Test & Evaluation, budget at $145bn, increasing 40% since 2020. The UK has refreshed its Integrated Review and is investing £6.6bn in R&D and experimentation over 4 years. And the Australian government has completed its Defence Strategic Review and is increasing defence spending by 7% to $53bn.

Beyond the new nuclear submarine programme, all three countries are committed to working together on a range of advanced capabilities and technologies, critical to future warfare, such as advanced cyber and directed energy. These areas align well with our strengths and provide attractive opportunities over the long-term.

In response to this geo-political context, we see greater opportunity from the widening threat spectrum and our enhanced offerings. As a result, we have increased our addressable market from £20bn to more than £30bn per year. This increase is driven by RDT&E markets growing in each of our home countries, adding intelligence and security markets for the first time, and our offerings are increasingly aligned with high-priority customer needs, enabling us to grow market share.

Building a £3bn defence and security company

QinetiQ is a purpose-driven company: protecting lives and securing the vital interests of our customers. Our purpose drives our strategy: to build an integrated global defence and security company, operating in attractive markets with distinctive offerings, to deliver sustainable growth for our shareholders.

Our strategy is increasingly relevant and provides focus for our business decisions, our people and our investment choices. Our multi-domestic strategy has a clear focus on building one integrated global defence and security company, in three home countries, with six distinctive offerings:

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, the US, Australia, Canada and Germany	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

We have a clear business plan, guiding our strategic focus and investment choices, to enhance our global platform for growth.

The integration of Avantus is ahead of plan and will complete before the end of the year. The business continues to perform well, delivering high quality operational outcomes for our customers, and winning $100m of customer business including 100% of re-competes. The leadership team is now fully integrated and working together to pursue a number of revenue synergies by leveraging and cross-selling our offerings to existing and new customers, for example our sensor solutions for the US Army into the US Intelligence community. We've had a strong start to the year and we remain excited about the opportunity we've created, building a disruptive mid-tier defence and intelligence company, in the largest defence and security market in the world.

Following the acquisitions of Avantus and Air Affairs, we will now achieve our previous FY27 growth ambition and guidance organically. Given our significant growth potential, we have chosen to increase the scale of our ambition. We are upgrading our revenue target to deliver high single digit organic growth, supplemented by further strategic acquisitions, to build the company to £3bn revenue approximately doubling revenue and profit over the next four years.

As we pursue our strategy the geographic mix of the company will change. Whilst the UK will scale by 50%, we will more than double the scale of our businesses in Australia and the US. This evolving mix across our home countries will result in delivering higher revenue growth at 11-12% margins, representing upper quartile performance. The result of this upgrade in our long-term guidance will deliver an increase of approximately 20% profit by FY27, compared to our previous guidance. We remain disciplined in the execution of our strategy and have a robust plan to achieve this increased ambition, which will accelerate sustainable profitable growth.

Creating an environment for our people to thrive is critical to our performance and growth. We have increased employee engagement to a new high and invested in our response to ongoing cost of living pressures to retain, attract and reward the best talent across the whole company. We have also continued to strengthen our leadership with over 35% of our Top 100 leaders being American or Australian. We have a leadership team with the diversity, skills and experience to deliver the scale of our AUKUS growth ambition.

In response to today's threat environment, our people are delivering for our customers with increasing agility and pace. They are focused on co-creating innovative solutions that are directly aligned with the priorities of the AUKUS customers in advanced technologies, such as sensing, autonomy and directed energy. To maintain our relevance at the forefront of innovation, we continue to invest in our ongoing Internal Research and Development programme of c.£20m per year.

Our people are also passionate about protecting the environment and delivering sustainable solutions for our customers. This year we have continued to make progress on our net zero plan and reduced our Scope 1 & 2 emissions by a further 12%. To accelerate progress, our top 1,000 managers have

17.5% of their incentives aligned to delivery of our ESG commitments. This is just one example of why we have been rated as a top ESG company in our industry by *Sustainalytics*.

Outlook: FY24 expectations unchanged[1]

We enter FY24 with confidence, a healthy order-book and positive momentum with 61% revenue under contract. Consistent with our upgraded long-term guidance, we expect to deliver high single digit revenue growth compared to the FY23 pro-forma revenue (full year effect of FY23 M&A activity); this equates to high teens total revenue growth versus the FY23 reported revenue. Operating profit margin will be at the lower end of the 11-12% range. Capital expenditure is expected to remain within the £90m to £120m range.

Outlook: Longer-term upgraded guidance

We are targeting high single-digit organic revenue growth, supplemented by strategically aligned acquisitions to build a circa £3bn company by FY27. This increased level of growth will be delivered at stable margins of 11-12%, reflecting the evolving geographic mix of the global company. Cash conversion will remain strong at over 90%, supporting our ability to deploy capital effectively to achieve our long-term growth ambition and deliver a return on capital employed at the upper end of the 15-20% range.

[1] Analyst expectations (average) for FY24 operating profit as at 23/05/23: £206m

Trading Environment

Global context

We are operating in an environment where there is an increasing threat of wider global conflict. This follows Russia's full-scale invasion of Ukraine; the threat posed by China's growing military power coupled with its push to change global norms and potentially threaten its neighbours; the rise of extremism in Africa; and ongoing tensions and conflict in the Middle East.

In parallel, rapidly emerging and evolving technologies continue to disrupt traditional business and society with both positive and negative outcomes as well as creating unprecedented vulnerabilities.

Strategic response

To meet these increasing challenges, the UK, US and Australia have reviewed their strategic defence and security capabilities and investment priorities as well as their allied activities.

UK

The 2023 Integrated Review Refresh (IRR) recognised the urgent and immediate pressures brought about by the deteriorating security situation. In the Spring 2023 budget statement, the government announced that the UK defence budget would be increased by £11bn over the next five years in response to these growing threats. The IRR emphasised that strategic advantage in science and technology is a core national priority. As announced in 2021, the UK MOD is also 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.

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

US

The 2022 National Defense Strategy and National Security Strategy recognised an intensifying competitive landscape and the urgent need to sustain and strengthen deterrence, with China as its pacing challenge. The 2024 Department of Defense Budget Request builds on the principles of National Security Strategy and has grown by nearly $100bn (13%) to $842bn since 2022. As part of this, the FY24 research development test and evaluation budget request is the largest ever at $145bn. This represents an increase of $26bn (22%) since FY22.

Investment in critical technology areas aimed at strengthening technological advantage include: directed energy, hypersonics and integrated sensing and cyber.

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. With the acquisition of Avantus we are also a leading cyber, data analytics and software development provider. There is 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

The 2023 Defence Strategic Review addresses the prospect of major conflict in the Indo-Pacific that directly threatens Australia's national interest. It frames the priority of investment in Defence capability and posture to meet Australia's security challenges through to 2032-33. In the 2023 Budget, Defence spending will increase by 7% to AUD$52.6bn in 2023-24.

The Australian government reinforced its commitment to delivering on the recommendations of the Defence Strategic Review, with plans to commence the work to deliver Australia's nuclear-powered submarine program. Defence spending as a proportion of GDP will lift above its current trajectory to be 0.2 per cent higher by 2032-33. As part of this, the Government announced it would invest more than $19bn to implement the immediate priorities identified in response to the Defence Strategic Review, namely:

- $9bn for the nuclear-powered submarine programme through AUKUS;
- $4.1bn for long-range strike capabilities;
- $3.8bn for northern base infrastructure and;
- $900m on defence innovation, to establish the Advanced Strategic Capabilities Accelerator and through AUKUS Pillar 2.

We see many opportunities to support the Australian forces in modernising sovereign defence capabilities, leveraging expertise from across QinetiQ.

The significance of the AUKUS Alliance

In September 2021, leaders of Australia, the United Kingdom, and the United States announced the creation of an enhanced trilateral security partnership called "AUKUS". AUKUS is intended to strengthen the ability of each government to support security and defence interests, building on longstanding and ongoing bilateral ties. It will promote deeper information sharing and technology sharing; and foster deeper integration of security and defence-related science, technology, industrial bases and supply chains.

The first initiative under AUKUS is a commitment to support Australia in acquiring nuclear-powered submarines for the Royal Australian Navy. The second initiative centres on enhancing joint capabilities and interoperability, focusing on cyber and electronic warfare capabilities, artificial intelligence, quantum technologies, additional undersea capabilities, as well as hypersonic and counter-hypersonic capabilities.

With these collaboration activities involving technology development, trials and experimentation, we anticipate increasing demand for support across each of our three 'home' nations.

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% of GDP. Following the announcement of Germany to increase defence spending by €100bn over the next five years, many other NATO and European countries are also increasing their defence and security investment.

While 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.

Group Chief Financial Officer's Review

Overview of full year results

The Group has delivered excellent growth and underlying performance across all metrics, reflecting continued disciplined execution of our strategy. We have deployed our balance sheet to acquire Avantus and Air Affairs in the year, expanding our capabilities in the US and Australia. Strong cash generation, driven by disciplined working capital management, with underlying cash conversion of 106% (FY22 restated: 113%), has successfully reduced leverage to 0.8x net debt to EBITDA, well ahead of our original guidance. The acquisitions are performing as expected with integration on-track. The Global Products segment has performed particularly well during FY23, driven by strong US performance. The full year dividend is up 5% at 7.7p per share.

Record orders in the year, totalling £1,724.1m (FY22: £1,226.6m), a year-on-year 41% increase, 37% on an organic basis excluding the impact of the write-down in prior year; this demonstrates the continued high demand for our six distinctive offerings. This has been driven by multi-year framework contracts including a £260m, 10-year extension of the Maritime Strategic Capability Arrangement (MSCA) contract to deliver critical sovereign capabilities to the UK MoD, £404m of Engineering Delivery Partner (EDP) framework orders and £80m for SOCIETAS within EMEA Services, and in Global Products a $93m award for the Digital Night Vision Technology (DNVT) over 4-years.

We continue to see positive trends in our order book progression:

- Backlog: The Long-term Partnering Agreement (LTPA) is a large multi-year contract that was booked in prior years – as we deliver non-tasking revenue (c.£225m per annum) this will naturally reduce the LTPA order backlog. Outside of the LTPA, with our high orders in FY23 and the addition of Avantus, our backlog has seen significant growth: total order backlog as at 31 March 2023 was £3.1bn (FY22: £2.8bn).
- Opportunity size: As part of our previously stated strategy, we are also seeing success in winning and delivering on larger longer-term contracts, with 47% of our FY23 orders from contracts over £5m in size, up from 28% three years ago.

At the beginning of FY24 approximately £1.1bn of the Group's FY24 revenue was under contract, compared to £900m (of the FY23 revenue) at the same point last year. This notable increase reflects the strong performance on our key framework contracts in EMEA Services and the good FY23 order intake in the US.

We delivered strong revenue growth of 20% to £1,580.7m (FY22: £1,320.4m), 11% on an organic basis excluding the impact of the write-down in prior year, with operating profit margins within our guidance range at 11.3%, demonstrating increasing demand for our six distinctive offerings. We saw a 10% organic revenue increase in EMEA Services primarily due to a 37% year-on-year growth in EDP delivery and work delivered under the Major Service Provider (MSP) contract in Australia. Global Products revenue increased 15% organically excluding the write-down in the prior year, due to the strong performance in the US business with the full rate CRS-I production contract now underway following delays due to COVID-related delivery and supply chain issues during the previous year. Our Targets business also delivered good growth.

Operating profit from segments of £178.9m (FY22: £137.4m) was up 30%, this represents 11.3% operating margin (FY22: 10.4%), consistent with our guidance range of 11-12% demonstrating sustainable revenue growth at stable margins. Global Products was the largest contributor to year-on-year growth, with this segment at double-digit margins, 10.4% (FY22: 0.7%). The increase has been driven by strong performance across the US business and the prior year being impacted by the write-down. EMEA Services saw a modest decrease in operating margin to 11.6% (FY22: 12.8%), driven by our investment in our people, capabilities and tools.

Following a routine Financial Reporting Council (FRC) review of the consolidated financial statements for the year ended 31 March 2022, the Group engaged with the FRC which resulted in the decision to change its accounting policy for Research and Development Expenditure Credits (RDEC). We welcomed the FRC's review and have set out the impact of the change in accounting policy in note 20. As a result we are now reporting RDEC under IAS 20 within underlying operating profit.

To ensure consistency and clarity on our headline profit figures, our headline profit figure remains as *Operating profit from segments* and we have determined that any benefit arising from the RDEC change should not be attributed to segmental performance. Statutory operating profit, as set out below, was £172.8m (FY22 restated: £123.7m), including the impact of specific adjusting items and RDEC income.

Underlying profit before tax increased 33% to £189.7m (FY22 restated: £142.2m) in line with the increase in underlying operating profit, with underlying net finance expense at £6.6m (FY22: £1.4m). Underlying net finance expense increased due to the interest payable on the term loan drawn down to fund the Avantus acquisition.

The acquisitions of Avantus and Air Affairs have together contributed £91.1m revenue and £9.4m underlying operating profit in the year. Since completion of the acquisitions, the businesses have continued to perform as expected and integration is progressing on-track.

Specific adjusting items

In line with our previously approved policy, the total impact of specific adjusting items (which are excluded from underlying performance due to their distorting nature) on operating profit was a £23.5m cost (FY22: cost of £19.9m). M&A activity during the year has contributed to the overall level of specific adjusting items.

Acquisition and integration costs of £18.7m (FY22: £5.0m) comprise costs associated with the Avantus and Air Affairs acquisitions which completed in FY23.

Restructuring costs of £5.0m have been incurred as part of significant Group-wide organisation redesign completed in FY23 to better align the organisation structure with future growth ambitions of the Company. These restructuring costs have been completed in year to enable our next step-change in growth.

We continue to deliver on our digital investment programme to modernise the IT infrastructure to support our future growth ambitions. The non-recurring costs will be reported as specific adjusting items in the P&L, with ongoing recurring operating costs (such as licence costs and overheads) remaining within underlying operating costs. In FY23 the non-recurring cost of the digital investment programme is £5.8m (FY22: £1.9m).

In FY23 specific adjusting items includes a £19.6m credit in respect of UK MOD appropriation for RDEC. Following a determination by the Single Source Regulations Office (SSRO) on the interpretation of the Statutory Guidance for Allowable Costs regulations (SGAC), the accounting judgement is that RDEC on single source contracts from 1 April 2019 onwards will no longer be paid on to the UK MoD, which is a change from the accounting judgement at FY22 year end. Therefore the release of the liability is reported as a specific adjusting item through operating profit.

Also included within specific adjusting items are a gain of disposal of the Space NV business in Belgium of £15.9m, a gain on the sale of property of £2.0m (FY22: £0.7m), financing income from pensions of £9.9m (FY22: £4.5m) and amortisation of acquisition intangibles of £15.6m (FY22: £10.7m), the last of which has increased due to the amortisation of new intangible assets recognised on the FY23 acquisitions (primarily the Customer Relationships asset associated with Avantus).

Tax

The total tax charge was £37.6m (FY22: £35.9m restated). The underlying tax charge was £36.8m (FY22: £24.1m restated), on a higher underlying profit before tax, with an underlying effective tax rate (ETR) of 19.4% for the year ended 31 March 2023 (FY22: 16.9% restated). The underlying effective tax rate is above the UK statutory rate primarily as a result of higher tax rates in overseas jurisdictions. The total specific adjusting items tax charge was £0.8m (FY22 charge: £11.8m). The tax charge arises on the UK statutory rate change to 25% from 1 April 2023 (£4.6m) and a taxable Research and Development Allowances clawback (£1.2m), offset by non-taxable profit on sale of Space NV (£3.0m) and overseas rate differences (£2.5m).

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 was made in FY22 and a further £4.6m adjustment has been made in FY23 to reflect that the revised UK deferred tax balances that are expected to unwind at the new rate of 25%.

The effective tax rate is expected to remain above the UK statutory rate, subject to the impact of any tax legislation changes and the geographic mix of profits. 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 will engage with advisers to assess any potential future impact on the tax charge.

RDEC was previously included as a tax benefit and included in the tax line, reducing the ETR. Due to the change in treatment of RDEC, this has moved it out of the tax line and into underlying operating profit, therefore the headline tax rate has increased compared to prior year reporting periods. As explained above, to be consistent with prior reporting and guidance the RDEC benefit is not included in our headline reported operating profit from segments, but is included in reported underlying operating profit. The table below illustrates the impact of the accounting change on the tax rate:

	FY23 £m	**FY22 £m**
Underlying operating profit	196.3	143.6
Underlying tax charge	36.8	24.1
Underlying tax rate	*19.4%*	*16.9%*
Illustrative effective tax rate, with impact of RDEC income included in the tax charge		
Operating profit from segments	178.9	137.4
Tax charge including RDEC income	19.4	17.9
Effective tax rate including RDEC income	*11.3%*	*13.2%*

For comparison and modelling purposes, if using operating profit from segments the equivalent tax rate is 11.3% (not the headline 19.4% ETR). With the increase in UK statutory rate, this 11.3% baseline ETR is expected to increase to c.19% in FY24.

Capital allocation policy

Working capital management and overall cash performance has remained consistently strong. Underlying net cash flow from operations was £270.1m (FY22 restated: £220.7m). Our cash conversion definition reflects 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 definition we achieved underlying cash conversion of 106%, (FY22 restated: 113%).

As at 31 March 2023 the Group had £206.9m net debt (FY22: £225.1m net cash), a transition into debt and a more efficient balance sheet position, due to the strategic acquisitions completed in the year and higher capital expenditure to support the Group strategic growth ambitions. We have successfully reduced leverage to 0.8x, within 4 months of the completion of the Avantus and Air Affairs acquisitions, ahead of our original guidance by 12 months.

Through FY23 we have demonstrated our capital allocation policy in action:

1. Organic and inorganic investment – increased capital expenditure to £109.0m (FY22: £84.3m), focused on contractual commitments (£44m into the LTPA), sustainment of the portfolio and investment to support future growth. Inorganic investment to acquire Avantus and Air Affairs.
2. The maintenance of balance sheet strength – continued discipline and cash generative nature of the business model, further reinforced by the strategic disposal of Space NV.
3. A progressive dividend policy with a proposed 5% year-on-year increase.
4. Return of excess cash to shareholders – we continue to review this element of the capital allocation policy in the best interests of all our stakeholders to support long-term sustainable growth.

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

Committed facilities

The acquisition of Avantus was financed using a combination of cash and debt from a multicurrency floating rate Term Loan placed with our relationship banks, acquisition financing totalled £340m. The Loan is split into two Tranches: GBP Term Loan £273m (Tranche A); and, USD Term Loan £67m (Tranche B), and has a 3-year term with two 1-year extension options. Participating banks have lent on a 2-tier basis – 3-banks at £67m and 4-banks at £35m. In line with Group policy, £270m (c.80%) of the floating rate debt has been fixed using SONIA interest rate swaps split over a 3-year and 5-year tenure at a weighted average rate of 3.29%. Including all fees and charges, the weighted average cost of debt is 5.21%.

The Group has a £275m bank revolving credit facility with an additional 'accordion' facility to increase the limit up to £400m. The facility which will mature on 27 September 2025 was undrawn at 31 March 2023 and provides the Group with significant scope to execute its strategic growth plans.

We highlight that the Group adopts a strict policy on managing counterparty risk through a combination of diversification of investments and regular reviews of counterparty limits using credit rating assessments. We are proud that our debt sits with our key relationship banks who have strong credit ratings and diverse portfolios demonstrating their resilience to the bank turmoil. The banks have been selected for their capabilities in our home countries to support our business.

Return on Capital Employed (ROCE)

In order to help understand the overall return profile of the Group, we continue to report our Return on Capital Employed, using the calculation of: profit from segments less amortisation / (average capital employed less net pension asset), where average capital employed is defined as shareholders' equity plus net debt (or minus net cash).

For FY23 Group ROCE was 23% (FY22: 26%), modestly lower due to the increased capital employed with the acquisitions completed in 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 increased by 29% to 26.5p (FY22: 20.6p) driven by the higher underlying profit after tax. Basic earnings per share for the total Group (including specific adjusting items) increased 71% to 26.8p (FY22: 15.7p).

The average number of shares in issue during the year, as used in the basic earnings per share calculations, was 575.9m (FY22: 573.2m) and there were 578.8m shares in issue at 31 March 2023 (all net of Treasury shares).

Dividend

The Board proposes a final FY23 dividend per share of 5.3p (FY22: 5.0p) making the full year dividend 7.7p (FY22: 7.3p). The full year dividend represents an increase of 5% in line with the Group's progressive dividend policy.

Subject to approval at the Annual General Meeting, the final FY23 dividend will be paid on 24 August 2023 to shareholders on the register at 28 July 2023.

Pensions

The key driver for the decrease in the net pension asset since 31 March 2022 was the turmoil in financial markets following the Government's 'mini-budget' in September 2022, particularly a sharp increase in gilt yields (and reduced gilt prices) which significantly reduced the value of the Scheme's Liability Driven Investments (LDIs) and related asset-backed securities. Together with falls in other assets the reduction across the whole investment portfolio was in excess of the reduction in Scheme liabilities (which have also fallen substantially, due to an increase in the discount rate). As with previous years, Aon have undertaken the IAS19 valuation.

During the current financial year, due to the increased volatility in gilt yields and reflecting increased liquidity requirements for Schemes running LDI portfolios, the hedges have been amended to cover approximately 65% of the interest rate risk and 80% of the inflation rate risk as at 31 March 2023, as measured on the Trustees' gilt-funded basis.

The key assumptions used in the IAS 19 valuation of the Scheme are set out in note 16.

Net finance costs

Net finance income was £3.3m (FY22: £3.1m). The underlying net finance expense was £6.6m (FY22: £1.4m), increased due to the interest payable on the Avantus funding borrowings, with additional income of £9.9m (FY22: £4.5m) 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 FY23 the opening net asset (£362.2m) was larger than the net asset at the start of FY22 (£214.3m) generating an increase in the level of net finance income. Similarly, the decrease in the net surplus within FY23 (closing at £119.8m) will lead to a decrease in the pension net finance income in FY24.

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.

	FY23	FY22
£/US$ - opening	1.31	1.38
£/US$ - average	1.21	1.36
£/US$ - closing	1.24	1.31
£/A$ - opening	1.75	1.81
£/A$ - average	1.76	1.85
£/A$ - closing	1.85	1.75

Foreign exchange translation has provided a modest tailwind to revenue and operating profit in the year. Most significantly, the US Dollar has strengthened with the average exchange rate to Sterling decreasing from 1.36 to 1.21. In FY23, 19% of our total Group revenue was generated in the US. As a result of the strengthening US Dollar and other FX movements in year, revenue increased by £31.9m and operating profit increased by £1.3m. Looking ahead we expect US revenues to represent 25-30% of Group revenues in FY24, so for every 1% move in the FX rate this would impact Group revenue by c.£5m and Group profit by c.£0.5m.

Operating Review

EMEA Services

	FY23 £m	FY22 £m
Orders	**1,372.2**	**918.9**
Revenue	**1,179.3**	**1,059.2**
Underlying operating profit	**137.1**	**135.6**
Underlying operating margin	**11.6%**	**12.8%**
Book to bill ratio*	**1.4x**	**1.1x**
Total funded order backlog	**2,768.8**	**2,541.6**

* B2B ratio is orders won divided by revenue recognised, excluding the LTPA non-tasking services revenue of £225m (FY22: £222m)

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 49% to £1,372.2m (FY22: £918.9m), driven by a £260m MSCA contract in the UK, for the delivery of critical sovereign capabilities to the UK and continued growth in orders through the EDP framework, totalling £404m orders in-year.

Revenue increased by 11% to £1,179.3m (FY22: £1,059.2m), and grew by 10% on an organic basis, as a result of new work under the EDP framework and under the Major Service Provider (MSP) contract in Australia.

At the beginning of FY24, we had £0.8bn of EMEA Services' FY24 revenue under contract, compared to £0.7bn (of the FY23 revenue) at the same point last year. This increase is driven by the 49% orders growth in the year.

Underlying operating profit grew by 1% to £137.1m (FY22: £135.6m). Operating margin decreased to 11.6% reflecting the investment in our people in response to the cost of living crisis.

Approximately 64% of EMEA Services revenue is derived from single source contracts, including the LTPA (FY22: approximately 67%). 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.

Sector commentary

UK Defence (58% of EMEA Services revenue)

The UK Defence Sector delivers mission critical solutions, innovating for our Air, Maritime and Land customers' advantage. This Sector represents the previously reported Air and Space, and Maritime and Land business units. Its formation provides a sharper focus on our strategy of maximising growth through our framework contracts, building new core offerings through our global campaigns and exploring new growth opportunities. The new Sector improves coherence of our distinctive offerings across our customer base, with the embedding of enabling functions bringing greater cohesion to operational strategy execution for business performance excellence.

- We secured a £260m contract with the Submarine Delivery Agency for a further ten years of the Maritime Strategic Capability Arrangement (MSCA), which also includes an option for an additional five years. The MSCA delivers critical sovereign capabilities that contribute to the assurance of the UK's ability to design, build and safely operate the Royal Navy's surface and subsurface fleet, including the UK's continuous at sea deterrent.

- We have also seen a high level of usage of LTPA capabilities over the last 12 months supporting operational training needs and urgent capability requirements:
  - We have completed our Air Range Modernisation investment programme, securing recognition by the Ministry of Defence (MoD) Sanctuary Awards for achievements in conservation and sustainability in relation to the renovation programme on St Kilda in the Outer Hebrides;
  - Usage of LTPA capabilities by allies continues to increase and included the Atlantic Thunder 22 live-fire exercise. This involved the US Naval Forces Europe, US Air Forces Europe, the UK Royal Navy and UK Royal Air Force developing combined proficiency in tactics, targeting and live-firing against a surface target at sea;
  - We continue to work in partnership with our customer to develop new approaches to test and evaluation increasing the adoption of modelling, synthetics and artificial intelligence (AI) techniques; and
  - Investment to pilot the transition to Net-Zero site operations has been secured and is underway.
- The Engineering Delivery Partner (EDP) programme has now delivered over £1.3bn of orders since inception in October 2018, and our partnership continues to evolve in support of our customers' need to transform their approach to capability acquisition. Key achievements this year include:
  - Securing the £32m contract to provide technical support to the UK MoD's Future Combat Air System (FCAS) Enterprise and the Defence Equipment & Support (DE&S) Catalyst delivery team, which is responsible for delivering the latest combat air capabilities to UK frontline commands;
  - Increasing the EDP supplier network by c.25% and the volume of work delivered through them;
  - Continuing to deliver over 97% of outputs on time and right first time;
  - Embedding new services supporting the adoption of digital design technologies; and
  - Starting to provide Net-Zero engineering services.
- Science and technology is a priority area where we continue to make progress primarily through contracting with Defence Science and Technology Laboratory (DSTL), but also through increasing international collaboration across the Group which provides a great platform to support the priorities of AUKUS:
  - Delivering the UK's first high-powered, long-range laser-directed energy weapon (LDEW) trial at DSTL Porton Down in partnership with Leonardo and MBDA, demonstrating the capabilities of our phase-combined laser technology;
  - Leading the Weapons Sector Research Framework with an increasing focus on novel and hypersonic weapons, including an annual conference with over 300 representatives from across the MOD and industry;
  - Developing our E-X Drive technology through our US Sector for the BAE Systems solution to the US Army's Optionally Manned Fighting Vehicle (OMFV) programme;
  - Supporting our Australian Sector to secure and deliver a higher energy laser development programme to their Australian Defence Science and Technology (DST) customer.
- We continue to develop our mission rehearsal offerings through:
  - Securing the second demonstration phase in partnership with BAE Systems for the Platform Enabled Training Capability (PETC) programme delivering multi-platform innovative synthetic training capability to the Royal Navy in support of the wider Defence Operational Training Capability (Maritime) (DOTC(M)) programme;
  - Fielding a new threat representation training capability with the Royal Navy through securing the four-year Vampire Phase 1 contract to support the Royal Navy's future high-performance Unmanned Aerial Systems (UAS) operations;

- Delivering enhanced mission support through the Royal Navy Sharpshooter training exercise providing operationally realistic scenarios to train as they would fight with close-in weapon systems.

UK Intelligence (30% of EMEA Services revenue)

The UK Intelligence Sector 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. Contained within UK Intelligence (UK-I) are three acquired businesses: QinetiQ Training and Simulation Limited (QTSL, formerly NSC), Inzpire and Naimuri. This Sector represents the previously reported Cyber and Information business unit.

- We won an £80m transformation programme focused on accelerating the production of mission data, enabling the UK's military platforms and personnel to be better protected in a rapidly changing threat landscape. We formed and led a winning industrial partnership team that included Inzpire, SRC, CGI and an ecosystem of other expert SMEs. The team will contribute to the UK's export agenda by providing our allies with access to world-class mission data. In demonstrating our commitment to the Social Value Act, this programme includes a significant investment to create at least 70 highly skilled data science jobs in the Lincolnshire Area, and upskill customer personnel in advanced data analysis techniques and technology.
- Through the SERAPIS framework contract, we have won a £5m 18-month research contract focused on helping the UK MOD solve one of its most enduring and significant capability challenges: pervasive, full spectrum, multi-domain ISR (intelligence, surveillance and reconnaissance). The aim is to use coherent real-time multi-modal sensing to find and identify difficult land targets on a complex battlefield.
- The partnership with Defence Intelligence in the UK has continued to grow strongly with orders exceeding £100m in the year. Using the EDP framework, combined with the rapid innovation it enables, we have pulled through expertise from across industry and led delivery of a wide portfolio which is helping Defence Intelligence to drive its transformation strategy.
- We won the Vivace contract with the Home Office in 2017 to deliver our Accelerated Capability Environment (ACE). ACE leverages a wide and diverse ecosystem of suppliers to drive innovation into the delivery of mission critical capability, and it operates at high tempo greatly accelerating delivery of deployable capability. In the past year Vivace has extended its core team and under open competition was awarded the next phase in development of ACE through the Private Sector Partner contract.
- We continue to deliver well on the Battlefield Tactical Communication and Information Systems (BATCIS) contract, winning the fifth year option contract award worth £35m. This is the public sector support programme for Defence Digital, delivering procurement and engineering expertise for this transformational digital backbone programme. With our partners ATOS, BMT and Roke we deliver specialist expertise across this complex set of projects (Trinity, Niobe, Morpheus, DSA etc.) covering a wide array of disciplines; developing concepts, engineering solutions, managing obsolescence issues, supporting critical operational requirements and enabling procurement competitions.
- We continue to demonstrate our ability to take acquisitions and position them for future success:
  - This year has seen Inzpire reach a major milestone in the delivery of the GECO Mission planning system to the UK's Military Flying Training System. GECO is now used on the RAF's Prefect, Phenom and Texan Fixed Wing aircraft and also Juno and Jupiter Rotary Wing platforms as well as integration into the simulators. In total, more than 100 systems will be rolled out.
  - We have established the Training and Simulation Centre of Excellence at our Farnborough site combining expertise from the NSC acquisition with its extant training business unit (NSC now rebranded as QinetiQ Training and Simulation Limited: QTSL). This business area is growing strongly with recent key wins in the Land (Army Virtual Proving Ground), Maritime (T23 and T45 training simulation systems), and secure Cyber domains coupled with a significant increase in simulation research and war-gaming demand as the UK Armed Forces consider future operating requirements.

    - Similarly, Naimuri's portfolio has significantly diversified beyond National Security into Homeland Security, and the UK MOD. Naimuri continues to be cited as an example of a high-performing SME working on the highest priority government systems and highly engaged in supporting social values growth.
- We remain committed to providing operational support to the UK Government including 24/7 support to operations and deployment, which has enabled UK platforms to support burden sharing with Allies, assisting with military aid provision.

<u>Australia (12% of EMEA Services revenue)</u>

Our Australia Sector provides advisory services, engineering services and training and mission rehearsal in the Australian and German markets.

- The Australian business has continued to deliver impressive growth in the year with a significant improvement in revenue coming from the Advisory Services business. Notably, the business has responded successfully to an increase in delivering to operations and exercises as our customer uplifts activity in response to geo-political challenges. An increase in deployments and training events has seen a positive impact on the engineering, technical and advisory services contracts.
- In December 2022 we completed the acquisition of Air Affairs (Australia) Pty Ltd for A$53m. Air Affairs is an Australian defence services company – a leader in air threat representation, Test and Evaluation (T&E), unmanned targets and mission rehearsal. Air Affairs provides targets and training services, and electronic warfare capabilities to the Australian Defence Force, as well as aerial surveillance and reconnaissance in support of government firefighting efforts. It owns and operates a fleet of special mission aircraft and maintains an advanced manufacturing and engineering facility providing design, manufacture and certification operations. Air Affairs employs c.180 people, headquartered in Nowra, New South Wales.
- Integration of Air Affairs is progressing to plan and the business is performing well, including securing the next phase of airborne training services for the Australian Defence Force. As demand for threat representation increases across all our home countries, we are focused on leveraging our airborne training and target capabilities across QTS, GmbH and Air Affairs to pursue new customer opportunities. A recent example is the successful sale of our Banshee target into the US Army's Threat Systems Management Office.
- The engineering services facility in South Melbourne (named "QTech") is now open and will be a cornerstone facility for further growth through the Robotics and Autonomous Systems and the Test and Evaluation Campaigns. Additionally, the inaugural Test and Evaluation Sovereign Skills Programme has commenced with the 2023 cohort in the United Kingdom undertaking T&E training already.
- In Germany, we have continued to invest in the business with a strategic uplift in fleet composition with a number of aircraft added to the fleet. The fleet has seen further improvement with modifications to target towing and cameras resulting in increased capability and capacity. In the year, the business delivered more flying hours than in any previous contract year. These successes continue to mature our flexibility and credibility in our Air Services growth plans. In response to the ongoing and increased customer demand for live environment target simulations, the German business has proactively responded with precision and professionalism to an increased tempo, by delivering an increase of 50% in aerial target service tasks in the last two years. The Government's commitment to increased defence spending supports a positive view of business growth into the future.

Global Products

	FY23 £m	FY22 £m
Orders	**351.9**	**307.7**
Revenue	**401.4**	**261.2**
Underlying operating profit	**41.8**	**1.8**
Underlying operating margin	**10.4%**	**0.7%**
Book to bill ratio[(1)]	**0.9x**	**1.2x**
Funded backlog	**301.5**	**287.2**

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

Overview

Global Products delivers innovative solutions to meet customer requirements. The segment 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 segment.

Financial performance

Orders increased by 14% to £351.9m (FY22: £307.7m). This was driven by a good order intake in the US and the effect of the complex project write-down in the prior year.

Revenue was up 54% on a reported basis at £401.4m (FY22: £261.2m), due to strong US growth following prior year supply-chain challenges on the initial production ramp-up of CRS-I robots. Furthermore there was an increase in revenue from the acquisition of Avantus of £83.0m offset partially by the disposal of Space NV. Excluding the impact of this acquisition and foreign exchange, revenue was up 20% (£48.9m) on an organic basis.

At the beginning of FY24, we had £0.3bn of Global Products' FY24 revenue under contract, compared to £0.2bn (of the FY23 revenue) at the same point last year. This increase is driven by the significant orders growth in year plus the contribution from the Avantus acquisition.

Underlying operating profit increased to £41.8m (FY22: £1.8m), with an underlying operating profit margin of 10.4% (FY22: 0.7%). This was driven by strong performance in both the US and within QinetiQ Target Systems, and the acquisition of Avantus. FY22 operating profit included the £14.5m write-down on the complex project.

Sector commentary

<u>United States (75% of Global Products revenue)</u>

Our US Sector provides technical advice, design and manufacture of innovative defence products specialising in robotics, autonomy and sensing solutions, and with the acquisition of Avantus is an expert in cyber, data analytics and software development. We have invested to support the long-term growth of our US Sector, in leadership, integration, systems and tools; the business is now a fully integrated single US Sector.

- The US Sector has had a strong year, with high order intake of $280m and impressive revenue growth of 25%, prior to the benefit of Avantus. We have won a number of key contracts in the US that will support the delivery of our ambitious growth targets.
- We have won a $93m single award Indefinite Delivery Indefinite Quantity (IDIQ) by the US Army for a Digital Night Vision Technology (DNVT) contract to support the continued evolution of DNVT capabilities through development, integration, experimentation and laboratory and platform test and evaluation including using digital imaging, display, processing and network architecture technologies. DNVT will substantially enhance the user's situational awareness

and decision-making abilities by developing digital night vision capabilities coupled with component technology enhancements including fused imagers, display enhancements, and image processing hardware and algorithms.

- We secured a contract to provide technical services to the US Army. The five year contract, worth up to $45m, will provide services for the Development Command (DEVCOM) Command, Control, Computers, Communications, Cyber, Intelligence, Surveillance and Reconnaissance (C5ISR) at the Fort Belvoir Prototyping Integration Facility (PIF). The contract, a one-year base period followed by four one-year option periods, will provide technical services for system development, fabrication, sensor and system integration, prototyping of multi-function sensor suites, and technology assessment efforts aimed at supporting current and future DEVCOM C5ISR PIF Belvoir customers. This contract is an important competitive win for the business and reinforces our continued value to our customers.
- We also won a multi-year research, development and technology integration contract, worth up to $49m, with the US Army C5ISR Center, Research & Technology Integration Directorate's Image Processing Division for Image Processing and advanced Optics Technologies.
- We completed the RCV-L Surrogate Prototype base program activities through the successful completion of US Army Performance Testing. We delivered four (of eight) option vehicles (awarded in FY22) and received circa $20m in orders to support ongoing experimentation through the provision of spare parts, platform integration and updates, technology insertions, and support and maintenance activities.
- Following successful completion of the Low Rate Production (LRIP) phase we made significant progress on the Common Robotic System-Individual (CRS-I) programme, entering into Full Rate Production in September 2022. In the year over 600 units were delivered bringing the total delivery to over 900, with over 500 systems fielded to Combat Engineering and Explosive Ordnance Disposal (EOD) units. Production remains on track with full production continuing through FY24.
- We completed Optionally Manned Fighting Vehicle (OMFV) Phase 2, supporting prime contractor Oshkosh Defense. This phase delivered a successful concept design to the US Army with QinetiQ US supporting the development of the modular open architecture next generation infantry fighting vehicle to replace the US Army Bradley fighting vehicle.
- At the end of November 2022 we completed the acquisition of Avantus for $590m. Avantus has a strong track record of achieving speed-to-mission impact. Over the last three years, Avantus has demonstrated a strong track record of consistent double-digit revenue growth on a proforma organic basis, at attractive margins.
- Since completion, Avantus has continued to perform well, including two successful re-competes and selection for a new $80m multi-year contract with a national intelligence customer. In the first four months of our ownership, while new business awards were lower than assumed, we achieved good performance across our contracts delivering $100m revenue at our expected margin of 10.8%. Integration is progressing ahead of plan and we are actively pursuing revenue synergies by leveraging and cross selling our offerings to our existing and new customer base. The combination of capabilities across QinetiQ and Avantus has created a disruptive defence and intelligence business in the US and we remain on track to deliver on the strategic and financial returns outlined previously.

Other Products (18% of Global Products revenue)

The portfolio of our other Global Products provide research services and bespoke technological solutions developed from intellectual property spun out from EMEA Services, and includes QinetiQ Target Systems (QTS).

- QTS continues to make positive progress with customers resuming trials and exercises. In response to increased customer demand for live environment target simulations, QTS has successfully delivered a significant improvement in production throughput which has been positively received by our UK MOD customer and has delivered positive growth.
- QTS has responded with agility to customer requirements including the delivery of a Dutch and German training exercise led by the Royal Netherlands Army where QTS provided products and services to support a bi-national Tactical Firing event with Germany at the NATO Missile Firing Installation on Crete. QTS has also made good progress in the US with the integration of the Army Ground Aerial Target Control System and our QTS targets. This represents a major milestone in US market penetration.
- Following the successful demonstration of Banshee Jet80+ from the deck of the Royal Navy's HMS Prince of Wales aircraft carrier late last year, QTS has recently won a contract that enables the test and evaluation of the capability of small fixed wing, jet-powered uncrewed systems to support Carrier Aviation.
- We continue to experience strong demand for QTS products and services arising from an increased demand from many of our global customers which has resulted in March 2023 being the biggest production month to date with over 100 aerial and surface targets delivered.
- We continue to invest in and see demand for our sensors and communication product portfolio. This past year saw record demand for its Position Navigation and Timing (PNT) product (Q20) across a number of customers. This gives a high degree of confidence that the market potential remains strong ahead of launching the next generation product (Q40) in the near future.

Space Products (7% of Global Products revenue)

Space NV is a Belgium-based commercial space business providing design and integration of small commercial satellites, docking and berthing systems, and instruments for end-to-end space missions; its principal customer is the European Space Agency. In October 2022, we completed the disposal of QinetiQ Space NV in Belgium to Redwire Space Europe for an enterprise value of €32m. Space NV is an attractive and well-positioned business in the commercial space sector, which has delivered good operational performance and growth under our ownership. Whilst the space domain remains an integral part of our core defence and security strategy, Space NV products provided limited operational synergies and alignment with our global ambition.

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 2023 Annual Report and Accounts which is available for download at: https://www.qinetiq.com/investors.

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

- 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;
- Failure to develop an inclusive, high-performing culture where our people can thrive and maximise potential in a rapidly changing and disruptive global landscape;
- Failure to anticipate, plan and scenario-test for volatile macroeconomic environments that could impact customer spending, inflationary impacts on our cost-base, interest rates and foreign currency exchange movements;
- Large long-term UK 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 Group operates in highly regulated environments and recognises that non-compliance could pose a risk to both our ability to conduct business, and to our stakeholders;
- A breach of physical, personnel or sensitive asset security could lead to loss of information or harm to our employees, customers and broader stakeholders;
- A successful Cyber-attack could impact our customer deployed capabilities, our ability to operate as a business or exclude us from some types of future government or cyber domain work
- 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 resilience 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;
- Failure to achieve the intended outcomes of the Digital and Data Programme within budget will constrain our growth strategy; and
- Failure of our Health and Safety Strategy could increase the risk of serious injury to our employees, contractors or third parties, potentially resulting in regulatory enforcement and reputation loss.

Consolidated income statement for the year ended 31 March

All figures in £ million	Note	FY23 Underlying*	FY23 Specific adjusting items*	FY23 Total	FY22^ Underlying*	FY22^ Specific adjusting items*	FY22^ Total
Revenue	1,2	**1,580.7**	**-**	**1,580.7**	**1,320.4**	**-**	**1,320.4**
Operating costs excluding depreciation and amortisation		(1,353.4)	(29.5)	(1,382.9)	(1,140.7)	(8.7)	(1,149.4)
Other income		28.0	21.6	49.6	16.0	0.7	16.7
EBITDA (earnings before interest, tax, depreciation and amortisation)		**255.3**	**(7.9)**	**247.4**	**195.7**	**(8.0)**	**187.7**
Depreciation and impairment of property, plant and equipment		(51.5)	-	(51.5)	(46.7)	(1.2)	(47.9)
Amortisation of intangible assets		(7.5)	(15.6)	(23.1)	(5.4)	(10.7)	(16.1)
Operating profit/(loss)	2	**196.3**	**(23.5)**	**172.8**	**143.6**	**(19.9)**	**123.7**
Gain/(loss) on business divestments	6	-	15.9	15.9	-	(0.9)	(0.9)
Finance income	7	6.8	9.9	16.7	0.5	4.5	5.0
Finance expense	7	(13.4)	-	(13.4)	. (1.9)	-	(1.9)
Profit/(loss) before tax		**189.7**	**2.3**	**192.0**	**142.2**	**(16.3)**	**125.9**
Taxation charge	8	(36.8)	(0.8)	(37.6)	(24.1)	(11.8)	(35.9)
Profit/(loss) for the year		**152.9**	**1.5**	**154.4**	**118.1**	**(28.1)**	**90.0**
Profit/(loss) is attributable to:							
Owners of the parent company		152.9	1.5	154.4	118.1	(28.1)	90.0
Non-controlling interests		-	-	-	-	-	-
Profit/(loss) for the year		**152.9**	**1.5**	**154.4**	**118.1**	**(28.1)**	**90.0**

Earnings per share for profit attributable to the owners of the parent company

All figures in pence	Note	FY23 Underlying*	FY23 Total	FY22 Underlying*	FY22 Total
Basic	9	26.5	26.8	20.6	15.7
Diluted	9	26.3	26.5	20.4	15.5

^ Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 20 for details.

* 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 note 3 for details of 'specific adjusting items'.

Consolidated comprehensive income statement for the year ended 31 March

All figures in £ million	**FY23**	FY22
Profit for the year	**154.4**	**90.0**
Items that will not be reclassified to profit and loss:		
Actuarial (loss)/gain recognised in defined benefit pension schemes	(253.9)	144.0
Tax on items that will not be reclassified to profit and loss	63.5	(47.6)
Total items that will not be reclassified to profit and loss	**(190.4)**	**96.4**
Items that may be reclassified to profit and loss:		
Foreign currency translation (losses)/gains on foreign operations	(6.5)	5.6
Movement in deferred tax on foreign currency translation	(0.5)	(0.8)
Increase in the fair value of hedging derivatives	7.8	0.6
Movement in deferred tax on hedging derivatives	(1.6)	(0.1)
Total items that may be reclassified to profit and loss	**(0.8)**	**5.3**
Other comprehensive (expense)/income for the year, net of tax	**(191.2)**	**101.7**
Total comprehensive (expense)/income for the year	**(36.8)**	**191.7**
Total comprehensive (expense)/income is attributable to:		
Owners of the parent company	(36.8)	191.5
Non-controlling interests	-	0.2
Total comprehensive (expense)/income for the year	**(36.8)**	**191.7**

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

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 2022 – previously reported	**5.8**	**40.8**	**147.6**	**0.1**	**1.9**	**847.0**	**1,043.2**	**0.2**	**1,043.4**
Change in accounting policy^ (note 20)	-	-	-	-	-	(2.0)	(2.0)	-	(2.0)
At 1 April 2022 – restated^	**5.8**	**40.8**	**147.6**	**0.1**	**1.9**	**845.0**	**1,041.2**	**0.2**	**1,041.4**
Profit for the year	-	-	-	-	-	154.4	154.4	-	154.4
Other comprehensive income/(expense) for the year, net of tax	-	-	-	6.2	(7.0)	(190.4)	(191.2)	-	(191.2)
Purchase of own shares	-	-	-	-	-	(0.8)	(0.8)	-	(0.8)
Share-based payments	-	-	-	-	-	5.7	5.7	-	5.7
Deferred tax on share-based payments	-	-	-	-	-	0.7	0.7	-	0.7
Movements on business divestment	-	-	-	-	0.9	-	0.9	(0.2)	0.7
Dividends	-	-	-	-	-	(42.6)	(42.6)	-	(42.6)
At 31 March 2023	**5.8**	**40.8**	**147.6**	**6.3**	**(4.2)**	**772.0**	**968.3**	**-**	**968.3**

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)**	**693.8**	**884.6**	**0.3**	**884.9**
Change in accounting policy^ (note 20)	-	-	-	-	-	(2.0)	(2.0)	-	(2.0)
At 1 April 2021 – restated^	**5.7**	**40.8**	**147.6**	**(0.4)**	**(2.9)**	**691.8**	**882.6**	**0.3**	**882.9**
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	-	-	-	-	-	7.4	7.4	-	7.4
Deferred tax on share-based payments	-	-	-	-	-	(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**	**845.0**	**1,041.2**	**0.2**	**1,041.4**

^ Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 20 for details.

Consolidated balance sheet as at 31 March

All figures in £ million	Note	**31 March 2023**	31 March 2022^	31 March 2021^
Non-current assets				
Goodwill	14	409.0	149.4	145.5
Intangible assets		343.0	140.3	133.1
Property, plant and equipment		477.8	414.5	397.2
Other financial assets		6.2	0.5	0.8
Financial assets at fair value through profit or loss		-	-	0.9
Equity accounted investments		1.4	2.6	4.2
Net pension asset	15	119.8	362.2	214.3
Deferred tax asset		32.6	21.0	11.7
		1,389.8	**1,090.5**	**907.7**
Current assets				
Inventories		68.8	54.9	54.4
Other financial assets		5.7	0.6	0.9
Trade and other receivables		452.6	373.2	338.5
Current tax asset		4.0	1.4	0.7
Cash and cash equivalents		151.2	248.1	190.1
		682.3	**678.2**	**584.6**
Total assets		**2,072.1**	**1,768.7**	**1,492.3**
Current liabilities				
Trade and other payables		(575.2)	(474.7)	(424.3)
Current tax payable		(4.6)	(5.9)	(3.7)
Provisions		(19.7)	(21.1)	(4.2)
Other financial liabilities		(8.2)	(6.9)	(7.0)
		(607.7)	**(508.6)**	**(439.2)**
Non-current liabilities				
Deferred tax liability		(112.0)	(156.7)	(89.7)
Provisions		(7.1)	(6.0)	(7.8)
Borrowings and other financial liabilities		(361.8)	(17.2)	(20.7)
Other payables		(15.2)	(38.8)	(52.0)
		(496.1)	**(218.7)**	**(170.2)**
Total liabilities		**(1,103.8)**	**(727.3)**	**(609.4)**
Net assets		**968.3**	**1,041.4**	**882.9**
Equity				
Ordinary shares		5.8	5.8	5.7
Capital redemption reserve		40.8	40.8	40.8
Share premium account		147.6	147.6	147.6
Hedging reserve		6.3	0.1	(0.4)
Translation reserve		(4.2)	1.9	(2.9)
Retained earnings		772.0	845.0	691.8
Capital and reserves attributable to shareholders of the parent company		**968.3**	**1,041.2**	**882.6**
Non-controlling interest		-	0.2	0.3
Total equity		**968.3**	**1,041.4**	**882.9**

^ Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 20 for details.

Consolidated cash flow statement for year ended 31 March

All figures in £ million	Note	FY23	FY22^*
Underlying net cash inflow from operations	10	**270.1**	**220.7**
Less specific adjusting items:	10	(29.5)	(5.6)
Net cash inflow from operations	10	240.6	215.1
Tax paid		(30.2)	(25.4)
Interest received		5.5	0.5
Interest paid		(9.9)	(1.5)
Net cash inflow from operating activities		**206.0**	**188.7**
Purchases of intangible assets		(13.8)	(21.4)
Purchases of property, plant and equipment		(95.2)	(62.9)
Proceeds from sale of property		2.4	1.5
Proceeds from disposal of business		28.1	-
Dividends from joint venture and associates		-	2.0
Acquisition of businesses	5	(385.9)	(0.8)
Net cash outflow from investing activities		**(464.4)**	**(81.6)**
Purchase of own shares		(0.8)	(0.8)
Dividends paid to shareholders		(42.6)	(40.2)
Payment of bank facility arrangement fees		(2.7)	-
Capital element of lease payments		(7.4)	(6.2)
Drawdown of new borrowings		481.1	-
Repayment of borrowings		(140.0)	-
Repayment of acquired borrowings		(117.9)	-
Cash flow relating to intercompany loan hedges		(10.0)	(3.1)
Transaction with non-controlling interests		-	(0.1)
Net cash inflow/(outflow) from financing activities		**159.7**	**(50.4)**
(Decrease)/increase in cash and cash equivalents		**(98.7)**	**56.7**
Effect of foreign exchange changes on cash and cash equivalents		1.8	1.3
Cash and cash equivalents at beginning of year		248.1	190.1
Cash and cash equivalents at end of year		**151.2**	**248.1**

Reconciliation of movement in net (debt)/cash for the year ended 31 March

All figures in £ million	Note	FY23	FY22^
(Decrease)/increase in cash and cash equivalents in the year		**(98.7)**	**56.7**
Add back net cash flows not impacting net (debt)/cash		(331.0)	6.2
Movement in net (debt)/cash resulting from cash flows		(429.7)	62.9
Net increase in lease obligations		(15.3)	(1.3)
Net movement in derivative financial instruments		9.8	(1.3)
Other movements including foreign exchange		3.2	0.7
Movement in net (debt)/cash as defined by the Group		(432.0)	61.0
Net cash as defined by the Group at beginning of the year		225.1	164.1
Net (debt)/cash as defined by the Group at end of the year	11	**(206.9)**	**225.1**
Less: total net financial liabilities	11	358.1	23.0
Total cash and cash equivalents	11	**151.2**	**248.1**

^ Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 20 for details.
* To be consistent with FY23, the prior year has been re-presented in respect of the cash flow impact of intercompany loan hedging.

Notes to the financial statements

1. Revenue from contracts with customers and other income

Revenue by category

All figures in £ million	**FY23**	FY22
Service contracts with customers	1,481.4	1,234.4
Sale of goods contracts with customers	96.1	82.9
Royalties and licences	3.2	3.1
Total revenue	**1,580.7**	**1,320.4**
Less: adjust current year for acquired businesses^	(91.1)	-
Less: adjust prior year for disposed businesses^	-	(17.7)
Adjust to constant prior year exchange rates	(31.9)	-
Total revenue on an organic, constant currency basis*	**1,457.7**	**1,320.7**
*Organic revenue growth at constant currency**	*12%*	*5%*

^ 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.
* Alternative performance measures are used to supplement the statutory figures. See Glossary.

Other income

All figures in £ million	**FY23**	FY22^
Share of associates' and joint ventures' profit after tax	0.8	0.3
Research and development expenditure credits (RDEC)	17.4	6.2
Other income	9.8	9.5
Underlying other income	**28.0**	**16.0**
Specific adjusting item: gain on sale of property	2.0	0.7
Specific adjusting item: release of RDEC MOD appropriation liability	19.6	-
Total other income	**49.6**	**16.7**

^ Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 20 for details.

Revenue by customer geographical location

All figures in £ million	**FY23**	FY22
United Kingdom (UK)	1,045.7	961.9
United States of America (US)	301.0	153.0
Australia	124.1	98.2
Home countries	**1,470.8**	**1,213.1**
Europe	69.4	76.9
Rest of World	40.5	30.4
Total revenue	**1,580.7**	**1,320.4**
Home countries revenue %	*93%*	*92%*
International (non-UK) revenue %	*34%*	*27%*

Revenue by major customer type

All figures in £ million	**FY23**	FY22
UK government	969.4	881.7
US government	230.8	104.7
Other*	380.5	334.0
Total revenue	**1,580.7**	**1,320.4**

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

2. Segmental analysis

Operating segments

All figures in £ million	FY23		FY22^	
	Revenue from external customers	**Underlying operating profit***	Revenue from external customers	Underlying operating profit*
EMEA Services	1,179.3	137.1	1,059.2	135.6
Global Products	401.4	41.8	261.2	1.8
Operating profit from segments	**1,580.7**	**178.9**	**1,320.4**	**137.4**
Research and development expenditure credits (RDEC)		17.4		6.2
Underlying operating profit		**196.3**		**143.6**
*Operating profit margin from segments**		*11.3%*		*10.4%*

Reconciliation of segmental results to total profit

All figures in £ million	Note	**FY23**	FY22^
Operating profit from segments*		178.9	137.4
Research and development expenditure credits (RDEC)		17.4	6.2
Underlying operating profit*		**196.3**	**143.6**
Specific adjusting items loss	3	(23.5)	(19.9)
Operating profit		**172.8**	**123.7**
Gain/(loss) on business divestments		15.9	(0.9)
Net finance income		3.3	3.1
Profit before tax		**192.0**	**125.9**
Taxation expense		(37.6)	(35.9)
Profit for the year		**154.4**	**90.0**

* Definitions of the Group's 'Alternative Performance Measures' can be found in the glossary.
^ Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 20 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	**FY23**	FY22
Acquisition and disposal costs		(16.4)	(3.7)
Acquisition related remuneration costs		(0.3)	(1.3)
Acquisition integration costs		(2.0)	-
Pension past service cost		-	(2.4)
Digital investment		(5.8)	(1.9)
Restructuring costs		(5.0)	-
Release of RDEC MOD appropriation liability		19.6	-
Fair value adjustment in respect of contingent consideration		-	0.6
Gain on sale of property		2.0	0.7
Specific adjusting items loss before interest, tax, depreciation and amortisation		**(7.9)**	**(8.0)**
Impairment of property		-	(1.2)
Amortisation of intangible assets arising from acquisitions		(15.6)	(10.7)
Specific adjusting items operating loss		**(23.5)**	**(19.9)**
Gain/(loss) on business divestments	6	15.9	(0.9)
Defined benefit pension scheme net finance income		9.9	4.5
Specific adjusting items gain/(loss) before tax		**2.3**	**(16.3)**
Specific adjusting items – tax	8	3.8	4.1
Deferred tax impact of change in future UK corporation tax rate	8	(4.6)	(15.9)
Total specific adjusting items gain/(loss) after tax		**1.5**	**(28.1)**

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

All figures in £ million	**FY23**	FY22
Underlying profit after tax - total Group	152.9	118.1
Total specific adjusting items gain/(loss) after tax	1.5	(28.1)
Total profit for the year	**154.4**	**90.0**

4. Profit before tax

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

All figures in £ million	**FY23**	FY22
Cost of inventories expensed	55.2	47.1
Owned assets: depreciation	45.3	40.3
Leases assets: depreciation	6.2	5.9
Foreign exchange gain	(0.6)	(0.7)
Research and development expenditure - customer funded contracts	313.8	287.5
Research and development expenditure - Group funded	14.6	14.6

5. Business combinations

Acquisitions in the year to 31 March 2023

					Contribution post-acquisition	
All figures in £ million	**Date acquired**	**Total consideration**	**Goodwill**	**Fair value of net assets acquired**	**Revenue**	**Operating profit**
Avantus Federal LLC	23 November 2022	392.2	264.6	127.6	82.9	8.9
Air Affairs Australia	1 December 2022	12.6	3.1	9.5	8.2	0.5
Total		**404.8**	**267.7**	**137.1**	**91.1**	**9.4**
Less: deferred consideration		(4.0)				
Less: cash acquired		(14.9)				
Net cash outflow for the year		**385.9**				

Total acquisition costs of £16.4m relating to the two acquisitions, as well as an aborted disposal, are included within operating profit as a specific adjusting item (see note 3). A further £2.3m of integration costs and acquisition related remuneration costs, both relating to Avantus, are also included within operating profit as a specific adjusting item (see note 3).

Avantus Federal LLC

On 23 November 2022, the Group acquired 100% of the issued share capital of Avantus for an enterprise value of $590m, on a cash-free, debt-free valuation basis. Avantus is a leading provider of mission-focused cyber, data analytics and software development solutions to the US Department of Defense, Intelligence Community, Department of Homeland Security and other Federal civilian agencies. The Avantus acquisition will significantly enhance our US offering and provide a strong platform from which to further grow our US operations. Avantus has a track record of high growth at attractive margins and is well-positioned across priority areas for key defence and intelligence customers in the US.

Avantus forms part of QinetiQ's US Sector and is reported within the Global Products segment. If the acquisition had occurred on the first day of the financial year, Group revenue for the period would have been £1,740.6m and the Group profit before tax £209.7m.

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition, at fair value and in accordance with Group accounting policies. The fair values remain provisional, but will be finalised within 12 months of acquisition.

All figures in £ million	Note	Fair value at acquisition
Intangible assets		209.2
Property, plant and equipment		8.3
Trade and other receivables		39.0
Cash and cash equivalents		14.5
Trade and other payables		(34.3)
Lease liabilities		(7.2)
Borrowings		(104.9)
Deferred tax		6.0
Other assets and liabilities		(3.0)
Net assets acquired		**127.6**
Goodwill	14	264.6
Total consideration		**392.2**

The consideration of £392.2m was satisfied entirely in cash in the financial year, with no deferred consideration. The borrowings of £104.9m were repaid as part of the acquisition, which is presented separately in the cash flow statement. The fair value adjustments include £171.9m in relation to the step-up in value and recognition of acquired intangible assets. £163.1m relates to the step up in value of customer relationship assets, £2.2m relates to the recognition of existing technology assets and £6.6m relates to recognition of the Avantus trading name asset. These fair value adjustments will unwind as the assets themselves are amortised, over 16 years for the customer relationships and five years for the existing technology and trade name.

There has been no adjustment to the fair value of acquired receivables given the low credit risk of the customers. The gross contractual and net amounts of receivables acquired were the same and there was no allowance for credit loss recognised at acquisition.

Customer relationships have been valued based on an income approach using an excess earnings method. The key assumptions are the revenue and profit projections, customer contract retention/attrition assumptions, discount rate and contributory asset charges. Existing technology has been valued using a replacement cost approach and the trade name has been valued using a relief from royalty method.

The goodwill is attributable mainly to the skills, technical talent and security clearances of Avantus' work force and the synergies expected to be achieved from integrating the company into the existing US business. The goodwill recognised on acquisition is tax deductible over a 15 year period as the purchase is as an asset deal rather than a share purchase for tax purposes.

Air Affairs Australia PTY

On 1 December 2022, the Group acquired 100% of the issued share capital of the Air Affairs Australia group of companies for an enterprise value of A$53m, on a cash-free, debt-free valuation basis. Air Affairs is an Australian defence services company - a leader in air threat representation, Test and Evaluation, unmanned targets and mission rehearsal. Air Affairs provides targets and training services, and electronic warfare capabilities to the Australian Defence Force, as well as aerial surveillance and reconnaissance in support of government firefighting efforts. It owns and operates a fleet of special mission aircraft and maintains an advanced manufacturing and engineering facility providing design, manufacture and certification operations. Air Affairs employs c.180 people, headquartered in Nowra, New South Wales.

The acquisition of Air Affairs further establishes us as a long-term, strategic partner to the Australian Defence Force and underpins QinetiQ's strategic position as market leader in test & evaluation and air threat representation, now with a significant presence across the UK, Canada and Australia, and training and special operations in Germany.

Air Affairs forms part of QinetiQ's Australia business unit and is reported within the EMEA Services segment. If the acquisition had occurred on the first day of the financial year, Group revenue for the period would have been £1,599.3m and the Group profit before tax would have been £192.8m.

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition, at fair value and in accordance with Group accounting policies. The fair values remain provisional, but will be finalised within 12 months of acquisition.

All figures in £ million	Note	**Fair value at acquisition**
Intangible assets		2.4
Property, plant and equipment		29.8
Inventory		3.2
Trade and other receivables		5.1
Cash and cash equivalents		0.4
Trade and other payables		(8.8)
Lease liabilities		(7.9)
Borrowings		(13.0)
Current tax		(0.1)
Deferred tax		(1.6)
Net assets acquired		**9.5**
Goodwill	14	3.1
Total consideration		**12.6**

The consideration of £12.6m includes £8.6m which was satisfied by cash in the financial year, and £4.0m of deferred consideration which is expected to be settled within one year. The borrowings of £13.0m were repaid as part of the acquisition, which is presented separately in the cash flow statement. There has been no adjustment to the fair value of acquired receivables given the low credit risk of the customers. The gross contractual and net amounts of receivables acquired were the same and there was no allowance for credit loss recognised at acquisition.

The most significant asset on the opening balance sheet is the PPE (Property, Plant and Equipment). A fair value uplift of £5.5m has been applied to the aircraft, increasing the book value of £13.2m to £18.7m. The aircraft were valued based on a desktop exercise performed by professional specialists. The key assumption relates to the market value of the aircraft. The fair value adjustments to PPE also include a step-down to the value of leasehold improvements.

The fair value adjustments also include £2.4m in relation to the step-up in value and recognition of acquired intangible assets. £2.3m relates to the recognition of existing technology assets and £0.1m relates to recognition of the Air Affairs trading name asset. These fair value adjustments will unwind as the assets themselves are amortised. This is ten years for the existing technology and three years for the trade name. Deferred tax of £0.7m was recognised on the intangibles.

Existing technology has been valued using a replacement cost approach and the trade name has been valued using a relief from royalty method.

The goodwill is attributable mainly to the skills and technical talent of Air Affairs' work force and the synergies expected to be achieved from integrating the company into Australia sector and wider existing business. The goodwill recognised on acquisition is not tax deductible.

Acquisitions in the year to 31 March 2022

There were no acquisitions in the year to 31 March 2022. Deferred consideration of £0.8m was paid in the year to 31 March 2022 in respect of the acquisition of QinetiQ Training & Simulation Limited (formerly known as Newman & Spurr Consultancy Limited) in the year to 31 March 2021.

6. Gain/(loss) on business divestments

All figures in £ million	**FY23**	FY22
Space NV business	15.9	-
Commerce Decisions business	-	(0.9)
Gain/(loss) on business divestments	**15.9**	**(0.9)**

The gain on business divestments relates to the sale of the Space NV for disposal proceeds of £32.3m (€37.0m). The enterprise value was €32.0m. Proceeds received in the period, net of transaction costs of £1.2m and £3.0m of cash divested with the businesses, were £28.1m. All consideration is settled entirely in cash.

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	**FY23**	FY22
Receivable on bank deposits	6.8	0.5
Finance income before specific adjusting items	**6.8**	**0.5**
Amortisation of deferred financing costs	(0.8)	(0.4)
Bank interest and commitment fees	(10.6)	(0.5)
Lease expense	(1.1)	(1.0)
Unwinding of discount on financial liabilities	(0.1)	-
Other interest	(0.8)	-
Finance expense	**(13.4)**	**(1.9)**
Underlying net finance expense	**(6.6)**	**(1.4)**
Plus: specific adjusting items – defined benefit pension scheme net finance income	9.9	4.5
Net finance income	**3.3**	**3.1**

8. Taxation

All figures in £ million	**FY23**			FY22^		
	Underlying	**Specific adjusting items**	**Total**	Underlying	Specific adjusting items	Total
Profit/(loss) before tax	**189.7**	**2.3**	**192.0**	**142.2**	**(16.3)**	**125.9**
Taxation (expense)/income	(36.8)	(0.8)	(37.6)	(24.1)	(11.8)	(35.9)
Profit/(loss) for the year	**152.9**	**1.5**	**154.4**	**118.1**	**(28.1)**	**90.0**
Effective tax rate	19.4%		19.6%	16.9%		28.5%

^ Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 20 for details.

The total tax charge was £37.6m (FY22 restated: £35.9m). The underlying tax charge was £36.8m (FY22 restated: £24.1m), on a higher underlying profit before tax, with an underlying effective tax rate of 19.4% for the year ended 31 March 2023 (FY22 restated: 16.9%). The underlying effective tax rate is above the UK statutory rate, primarily as a result of higher tax rates in overseas jurisdictions.

Tax on specific adjusting items
The total specific adjusting items tax charge was £0.8m (FY22 charge: £11.8m). The tax charge arises on the UK statutory rate change to 25% from 1 April 2023 (£4.6m) and a taxable Research and Development Allowances clawback (£1.2m), offset by non-taxable profit on sale of Space NV (£3.0m) and overseas rate differences (£2.5m).

Factors affecting future tax charges
The effective tax rate is expected to remain above the UK statutory rate, subject to the impact of any tax legislation changes and the geographic mix of profits. 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 will engage with advisers to assess any potential future impact 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 was made in FY22 and a further adjustment has been made in FY23 of £4.6m to reflect that the revised UK deferred tax balances that are expected to unwind at the new rate of 25%.

Tax losses
At 31 March 2023 the Group had unused tax losses and US carried forward interest expense of £175.6m (31st March 2022: £128.1m) which are available for offset against future taxable profits. Deferred tax assets are recognised on the balance sheet of £22.7m in respect of £88.0m of US net operating losses, £5.4m in respect of £21.5m of Canadian net operating losses and £2.5m in respect of £8.3m of German trade losses. No deferred tax asset is recognised in respect of the £57.8m of US interest deductions due to uncertainty over the timing and extent of their utilisation. Full recognition of the US carried forward interest expense would increase the deferred tax asset by £15.6m. The Group has £32.4m of time-limited US net operating losses of which £22.9m will expire in 2035 and £9.5m in 2036. The Group made overseas losses in the period ended 31 March 2023 and recognition of deferred tax assets is dependent on future forecast taxable profits. 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 4-7 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.

		FY23	FY22
Weighted average number of shares	**Million**	**575.9**	**573.2**
Effect of dilutive securities	Million	6.4	6.4
Diluted number of shares	**Million**	**582.3**	**579.6**

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

		FY23	FY22
Profit attributable to the owners of the Company	£ million	154.4	90.0
Remove (profit)/loss after tax in respect of specific adjusting items	£ million	(1.5)	28.1
Underlying profit after taxation	**£ million**	**152.9**	**118.1**
Weighted average number of shares	Million	575.9	573.2
Underlying basic EPS	**Pence**	**26.5**	**20.6**
Diluted number of shares	Million	582.3	579.6
Underlying diluted EPS	**Pence**	**26.3**	**20.4**

Basic and diluted EPS

		FY23	FY22
Profit attributable to the owners of the Company	£ million	154.4	90.0
Weighted average number of shares	Million	575.9	573.2
Basic EPS – total Group	**Pence**	**26.8**	**15.7**
Diluted number of shares	Million	582.3	579.6
Diluted EPS – total Group	**Pence**	**26.5**	**15.5**

10. Cash flows from operations

All figures in £ million	**FY23**	FY22^
Profit after tax for the year	154.4	90.0
Adjustments for:		
Taxation expense	37.6	35.9
Net finance income	(3.3)	(3.1)
(Gain)/loss on disposal of businesses	(15.9)	0.9
Loss on disposal of plant and equipment	0.2	-
Gain on sale of property	(2.0)	(0.7)
Impairment of plant and equipment	-	0.5
Impairment of property	-	1.2
Amortisation of purchased or internally developed intangible assets	7.5	5.4
Amortisation of intangible assets arising from acquisitions	15.6	10.7
Depreciation of property, plant and equipment	51.5	46.2
Share of post-tax profit of equity accounted entities	(0.8)	(0.3)
Share-based payments charge	6.1	7.4
Retirement benefit contributions in excess of income statement expense	(1.6)	(1.8)
Pension past service cost	-	2.4
Fair value adjustment in respect of contingent consideration	-	(0.6)
Net movement in provisions	(1.0)	(1.0)
	248.3	193.1
(Increase)/decrease in inventories	(9.6)	1.4
Increase in receivables	(56.7)	(13.0)
Increase in payables	58.6	33.6
Changes in working capital	(7.7)	22.0
Net cash flow from operations	**240.6**	**215.1**

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

All figures in £ million	**FY23**	FY22^
Net cash flow from operations	240.6	215.1
Add back specific adjusting item: digital investment	5.8	1.9
Add back specific adjusting item: restructuring costs	5.0	-
Add back specific adjusting item: acquisition integration and remuneration costs	2.3	-
Add back specific adjusting item: acquisition transaction costs	16.4	3.7
Underlying net cash flow from operations	**270.1**	**220.7**
Less: tax and net interest payments	(34.6)	(26.4)
Less: purchases of intangible assets and property, plant and equipment	(109.0)	(84.3)
Free cash flow	**126.5**	**110.0**

Underlying cash conversion ratio

	FY23	FY22^
Underlying EBITDA - £ million	255.3	195.7
Underlying net cash flow from operations - £ million	270.1	220.7
Underlying cash conversion ratio - %	**106%**	**113%**

^ Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 20 for details.

11. Net (debt)/cash

All figures in £ million	**31 March 2023**	31 March 2022
Current financial assets/(liabilities)		
Deferred financing costs	1.3	0.4
Derivative financial assets	4.4	0.2
Lease liabilities	(7.6)	(5.5)
Derivative financial liabilities	(0.6)	(1.4)
Total current net financial liabilities	**(2.5)**	**(6.3)**
Non-current financial assets/(liabilities)		
Deferred financing costs	1.5	0.5
Derivative financial assets	4.7	-
Lease liabilities	(23.7)	(16.6)
Borrowings – Term loan	(337.6)	-
Derivative financial liabilities	(0.5)	(0.6)
Total non-current net financial liabilities	**(355.6)**	**(16.7)**
Total net financial liabilities	**(358.1)**	**(23.0)**
Total cash and cash equivalents	151.2	248.1
Total net (debt)/cash as defined by the Group	**(206.9)**	**225.1**

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 interest rate swaps which have been fair valued using interest rates that are quoted in an active market

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

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 March 2023:

All figures in £ million	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Current derivative financial instruments	-	4.4	-	4.4
Non-current derivative financial instruments	-	4.7	-	4.7
Liabilities:				
Current derivative financial instruments	-	(0.6)	-	(0.6)
Non-current derivative financial instruments	-	(0.5)	-	(0.5)
Total	**-**	**8.0**	**-**	**8.0**

The following table presents the Group's assets and liabilities that are measured at fair value at 31 March 2022:

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	-	-	-	-
Liabilities:				
Current derivative financial instruments	-	(1.4)	-	(1.4)
Non-current derivative financial instruments	-	(0.6)	-	(0.6)
Total	**-**	**(1.8)**	**-**	**(1.8)**

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 2023 and 31 March 2022 is provided below:

	Pence per share	**£m**	**Date paid/payable**
Interim 2023	2.4	13.8	Feb 2023*
Final 2023 (proposed)	5.3	30.6	Aug 2023
Total for the year ended 31 March 2023	**7.7**	**44.4**	
Interim 2022	2.3	13.2	Feb 2022
Final 2022	5.0	28.8	Aug 2022*
Total for the year ended 31 March 2022	**7.3**	**42.0**	

*Total cash paid in the year to 31 March 2023 was £42.6m (FY22: £40.2m).

The proposed final dividend in respect of the year ending 31 March 2023 will be paid on 24 August 2023. The ex-dividend date is 27 July 2023 and the record date is 28 July 2023.

14. Goodwill

All figures in £ million	**31 March 2023**	31 March 2022
Cost		
At 1 April	296.1	287.6
Acquisitions	267.7	-
Disposals	(5.6)	-
Foreign exchange	4.5	8.5
At 31 March	**562.7**	**296.1**
Accumulated impairment		
At 1 April	(146.7)	(142.1)
Foreign exchange	(7.0)	(4.6)
At 31 March	**(153.7)**	**(146.7)**
Net book value at 31 March	**409.0**	**149.4**

Goodwill analysed by cash-generating unit (CGU)

Goodwill is allocated across six cash generating units 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	31 March 2023	31 March 2022
US Technology Solutions	Global Products	44.1	41.5
US C5ISR	Global Products	36.8	34.6
Target Systems	Global Products	24.5	24.7
Space Products	Global Products	-	5.6
Avantus Federal LLC	Global Products	257.8	-
QinetiQ Germany	EMEA services	2.7	2.6
Inzpire	EMEA services	11.7	11.7
QinetiQ Training & Simulation	EMEA services	7.8	7.8
Naimuri	EMEA services	14.8	14.8
Australia	EMEA Services	5.8	6.1
Air Affairs Australia	EMEA Services	3.0	-
Net book value at 31 March		**409.0**	**149.4**

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 judgements, 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 and a critical sensitivity is discussed further below. For 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 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 discount rates used are calculated based on the weighted average cost of capital of a portfolio of comparable companies, adjusted for risks specific to the market characteristics of each CGU, on a pre-tax basis. This is considered an appropriate estimate of a market participant discount rate.

All figures % 31 March 2023: (2022)	US Technology Solutions	Target Systems	US Avantus	US C5ISR	Inzpire	Australia	Air Affairs Australia	QinetiQ Germany	QinetiQ Training & Simulation	Naimuri
Terminal growth rate	2.3 (2.3)	2.2 (2.1)	2.3 (n/a)	2.3 (2.3)	2.2 (2.1)	2.3 (2.3)	2.3 (n/a)	2.2 (1.6)	2.2 (2.1)	2.2 (2.1)
Pre-tax discount rate	11.1 (10.8)	10.9 (11.6)	11.2 (n/a)	11.2 (10.8)	12.0 (12.2)	12.9 (9.4)	12.9 (n/a)	8.9 (9.1)	10.9 (11.5)	11.8 (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 flows. Sensitivities are provided below for each of the CGUs.

Significant CGUs
US Technology Solutions
The carrying value of the goodwill for the US Technology Solutions CGU was £44.1m as at 31 March 2023 (2022: £41.5m). The recoverable amount of this CGU as at 31 March 2023, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £111.7m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. These cash flows include certain assumptions around growth of new product lines in development, with clear market opportunity, and winning identified future government contracts. US organic revenue grew by 25% compared to prior year, following a year of decline in FY22 which was impacted by the US defence budget being constrained by the extended Continuing Resolution.

Confidence remains in continued growth into FY24 having secured significant growth in order intake in H2 FY22 and FY23 which, coupled with the 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, all of which are reasonably possible changes, would not cause the net operating assets to exceed their recoverable amount.

US C5ISR
The carrying value of the goodwill for the US C5ISR CGU as at 31 March 2023 was £36.8m (2022: £34.6m). The recoverable amount of this CGU as at 31 March 2023, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £88.9m). 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, all of which are reasonably possible changes, 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 2023 was £24.5m (2022: £24.7m). The recoverable amount of this CGU as at 31 March 2023, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £88.6m). 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, all of which are reasonably possible changes, 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 2023 was £2.7m (2022: £2.6m). The current forecasts result in the recoverable amount based on the value in use calculations being £6.4m higher than the carrying value of assets. Confidence remains in the business prospects over the next five years, with a new leadership team on board and a healthy pipeline of opportunities.

The key sensitivity impacting on the value in use calculations is the terminal year cash flows. These cash flows include certain assumptions around utilisation of aircraft, renewal of existing contracts and successful winning of new business opportunities. A reduction in the terminal value year cash flows of €3m, which would be a reasonably possible change, would lead to an impairment of the £2.7m carrying value of goodwill together with an impairment charge against the carrying value of intangible assets of approximately £12.8m. An increase in the discount rate of 1% or a decrease in the terminal growth rate of 1%, both of which are also reasonably possible changes, would result in an impairment of £4.1m and £2.1m respectively.

Inzpire
The carrying value of the goodwill for the Inzpire CGU as at 31 March 2023 was £11.7m (2022: £11.7m). The recoverable amount of this CGU as at 31 March 2023, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £23.3m). 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 £1.0m, all of which are reasonably possible changes, 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 2023 was £14.8m (2022: £14.8m). The recoverable amount of this CGU as at 31 March 2023, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £25.3m). 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 £1.0m, all of which are reasonably possible changes, would not cause the net operating assets to exceed their recoverable amount.

Australia
The carrying value of the goodwill for the Australia CGU, as at 31 March 2023 was £5.8m (2022: £6.1m). The recoverable amount of this CGU as at 31 March 2023, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £10.8m). 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 A$2.0m, all of which are reasonably possible changes, would not cause the net operating assets to exceed their recoverable amount.

Avantus
The carrying value of the goodwill for the Avantus CGU, which was acquired during the year, as at 31 March 2023 was £257.8m. The recoverable amount of this CGU as at 31 March 2023, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £431.1m). 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, all of which are reasonably possible changes, would not cause the net operating assets to exceed their recoverable amount.

Air Affairs Australia
The carrying value of the goodwill for the Air Affairs Australia CGU, which was acquired during the year, as at 31 March 2023 was £3.0m. The recoverable amount of this CGU as at 31 March 2023, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £35.9m). 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 A$1.0m, all of which are reasonably possible changes, would not cause the net operating assets to exceed their recoverable amount.

QinetiQ Training and Simulation
The carrying value of the goodwill for the QinetiQ Training and Simulation CGU as at 31 March 2023 was £7.8m. The recoverable amount of this CGU as at 31 March 2023, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £14.1m). 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 £1.0m, all of which are reasonably possible changes, would not cause the net operating assets to exceed their recoverable amount.

15. Post-retirement benefits

In the UK the Group operates the QinetiQ 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	**FY23**	FY22
Total market value of assets – see following table for analysis by category of asset	1,355.2	2,065.7
Present value of Scheme liabilities	(1,235.4)	(1,703.5)
Net pension asset before deferred tax	**119.8**	**362.2**
Deferred tax liability	(35.4)	(96.4)
Net pension asset after deferred tax	**84.4**	**265.8**

The balance sheet net pension asset is a snapshot view which can be significantly influenced by short-term market factors. The calculation of the net asset depends 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.

The key driver for the decrease in the net pension asset since the March 2022 year end was the turmoil in financial markets following the Government's 'mini-budget' in September 2022, particularly a sharp increase in gilt yields (and reduced gilt prices). Prior to the 'mini-budget' the Scheme was 100% hedged on both interest rate and inflation risk, and significant levels of collateral were required to maintain such hedging levels. The spike in gilt yields in October 2022 eroded the collateral required to be held in the LDI portfolio to such an extent that the hedges needed to be reduced to a lower level, covering approximately 65% of the interest rate risk and 80% of the inflation rate risk. Subsequent falls in gilt yields meant that, as interest rate risk was then 35% unhedged, the Scheme suffered a loss in value. This reduced level of hedging was maintained through to 31 March 2023, as measured on the Trustees' gilt-funded basis. Over the course of the year, the fall in value of assets across the whole investment portfolio (primarily LDI-related collateral) was in excess of the reduction in Scheme liabilities (which also fell substantially, primarily due to an increase in the discount rate).

Total expense recognised in the income statement

All figures in £ million	**FY23**	FY22
Net finance income	9.9	4.5
Past service cost	-	(2.4)
Administrative expenses	(1.4)	(1.1)
Total net income recognised in the income statement (gross of deferred tax)	**8.5**	**1.0**

Movement in the net pension asset

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

All figures in £ million	**FY23**	FY22
Opening net pension asset	362.2	214.3
Net finance income	9.9	4.5
Net actuarial (loss)/gain	(253.9)	144.0
Administration expenses	(1.4)	(1.1)
Past service cost	-	(2.4)
Contributions by the employer	3.0	2.9
Closing net pension asset	**119.8**	**362.2**

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		**31 March 2023**			31 March 2022	
	Quoted	**Not quoted in an active market**	**Total**	Quoted	Not quoted in an active market	Total
Equities	177.4	32.9	210.3	176.1	44.7	220.8
Liability Driven Investment	227.2	-	227.2	291.8	-	291.8
Asset backed securities[1]	4.3	-	4.3	501.7	-	501.7
Alternative bonds[2]	-	256.4	256.4	-	208.6	208.6
Corporate bonds[3]	-	117.6	117.6	-	97.4	97.4
Property fund	-	-	-	-	29.5	29.5
Cash and cash equivalents	-	17.2	17.2	-	78.5	78.5
Derivatives	-	6.7	6.7	-	(8.5)	(8.5)
Insurance buy-in policies	-	515.5	515.5	-	645.9	645.9
Total market value of assets	**408.9**	**946.3**	**1,355.2**	**969.6**	**1,096.1**	**2,065.7**

[1]Asset backed securities are used as collateral for the LDI. As gilt yields spiked during the year, the LDI drew down on significant levels of security, causing the year on year drop shown above.
[2]Primarily private market debt investments.
[3]Unlisted corporate bonds with commercial property held as security.

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:

	31 March 2023		**31 March 2022**	
	Insured members	**Uninsured members**	**Insured members**	**Uninsured members**
Discount rate applied to Scheme liabilities	4.80%	4.65%	2.80%	2.70%
CPI inflation assumption	2.55%	2.70%	3.00%	2.90%
Net rate (discount rate less inflation)	2.25%	1.95%	(0.20%)	(0.20%)
Assumed life expectancies in years:				
At 60 for males currently aged 40	n/a	27.9	n/a	28.4
At 60 for females currently aged 40	n/a	30.3	n/a	30.7
At 60 for males currently aged 60	n/a	26.2	n/a	26.7
At 60 for females currently aged 60	n/a	28.2	n/a	28.6
At 65 for males currently aged 65	21.6	n/a	22.0	n/a
At 65 for females currently aged 65	23.3	n/a	23.7	n/a

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

Key assumptions	Indicative impact on Scheme assets	Indicative impact on Scheme liabilities	Indicative impact on net pension asset
Increase discount rate by 0.1%	Decrease by £7.0m	Decrease by £21.7m	Decrease by £14.7m
Increase rate of inflation by 0.1%	Increase by £5.5m	Increase by £20.6m	Increase by £15.1m
Increase life expectancy by one year	Increase by £14.3m	Increase by £34.0m	Decrease by £19.7m

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 portfolio hedged against approximately 95% of the interest rate and also 95% of the inflation rate risk, as measured on the Trustees' gilt-funded basis. During the current financial year, due to the increased volatility in gilt yields and reflecting increased liquidity requirements for Schemes running LDI portfolios, the hedges have been amended to cover approximately 65% of the interest rate risk and 80% of the inflation rate risk as at 31 March 2023, 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 asset (which will impact the value of the net pension surplus) the net pension asset 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 asset e.g. if equities fall by £10m then the net pension asset 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 £256.4m; the unquoted corporate bonds of £117.6m and the unquoted equities of £32.9m are the assets with most uncertainty as to valuation as at 31 March 2023.

The accounting assumptions noted are used to calculate the year 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.

Risks

Through its defined benefit pension plan, the Group is exposed to a number of risks in respect to the valuation of the Scheme, the most significant of which are detailed below:

Volatility in market conditions

Results under IAS 19 can change dramatically depending on market conditions. The present value of Scheme liabilities is linked to yields on corporate bonds, while many of the assets of the Scheme are invested in various forms of assets subject to fluctuating valuations. Changing markets in conjunction with discount rate volatility will lead to volatility in the net pension asset on the Group's balance sheet and in other comprehensive income. To a lesser extent this will also lead to volatility in the IAS 19 pension net finance income in the Group's income statement.

Choice of accounting assumptions

The calculation of the present value of Scheme liabilities involves projecting future cash flows from the Scheme many years into the future. This means that the assumptions used can have a material impact on the balance sheet position and profit and loss charge. In practice future experience within the Scheme may not be in line with the assumptions adopted. For example, members could live longer than foreseen or inflation could be higher or lower than allowed for in the calculation of the liabilities.

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 4,208,899 shares (FY22: 6,816,291 shares). In the year ended 31 March 2023 the Group granted/awarded 1.5m new share-based awards to employees (FY22: 1.3m).

17. Contingent liabilities and assets

Subsidiary undertakings within the Group have given unsecured guarantees of £33.6m at 31 March 2023 (31 March 2022: £37.2m) in the ordinary course of business, typically in respect of performance bonds and rental guarantees.

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 parties

During the year ended 31 March 2023 there were sales to associates and joint ventures of £0.4m (FY22: £5.2m). At the year end there were outstanding receivables from associates and joint ventures of £0.5m (FY22: £1.0m).

19. Capital commitments

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

All figures in £ million	**31 March 2023**	31 March 2022
Total contracted	43.4	34.7

Capital commitments at 31 March 2023 include £21.2m (2022: £24.5m) 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.

20. 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.

Statutory Consolidated Financial Statements for the Group for the year ended 31 March 2022, 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 the year ended 31 March 2023. This report is based on the accounts which are approved by the Board and will subsequently be filed with the Registrar of Companies in the United Kingdom.

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 'change in accounting policies', as those published by the Group within its Annual Report for the year ended 31 March 2022 which is available on the Group's website, www.QinetiQ.com.

The preliminary announcement was approved by the Board of Directors on 25 May 2023. 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 and disposals	✓		✓
Impairment of property and goodwill	✓		
Digital investment	✓	✓	✓
Costs of group-wide restructuring programmes	✓	✓	
The tax impact of the above	✓	✓	✓
Other significant non-recurring tax and RDEC 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).

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.

Changes in accounting policies

Following a routine Financial Reporting Council (“FRC”) review of the consolidated financial statements for the year ended 31 March 2022, the Group has changed its accounting policy relating to RDEC. The Group’s accounting policy has historically been to account for RDEC under IAS12 Income Tax, as a credit within the tax charge. Following engagement with the FRC, and a review of common market practice, the Group has now decided to account for RDEC as other operating income under IAS20 Government grants.

The impact of this change is to move £6.2m of RDEC income for the year ending 31 March 2022 from the tax charge into other operating income. The impact on the balance sheet and related notes is to reclassify a £12.0m receivable from current tax payable to other receivables as at 31 March 2022 (£11.8m as at 31 March 2021) as well as £12.0m (£12.6m as at 31 March 2021) from current tax to accrued expenses and other payables. There is an impact on net assets of £2.0m as at both 31 March 2022 and 31 March 2021 due to the deferred income impact of the updated income recognition under IAS12. There is nil impact on profit after tax for FY22.

The following tables show the adjustments recognised for each individual line item as at 31 March 2023, 31 March 2022 and 1 April 2021.

Impact on the balance sheet (extract) at 31 March 2023 and 31 March 2022

All figures in £ million	**31 March 2023** Previous policy	Change in policy	As presented	31 March 2022 As originally presented	Impact of restatement	Restated
Assets/(liabilities)						
Other receivables	27.9	15.4	43.3	26.8	12.0	38.8
Accrued expenses and other payables	(153.8)	(12.9)	(166.7)	(139.5)	(12.0)	(151.5)
Current tax payable	3.7	(8.3)	(4.6)	(3.9)	(2.0)	(5.9)
Deferred tax liability	(112.6)	0.6	(112.0)	(156.7)		(156.7)
Other net assets	1,208.3	-	1,208.3	1,316.7	-	1,316.7
Net assets	**973.5**	**(5.2)**	**968.3**	**1,043.4**	**(2.0)**	**1,041.4**

Impact on the balance sheet (extract) at 1 April 2021

All figures in £ million	1 April 2021 As originally presented	Impact of restatement	Restated
Assets/(liabilities)			
Other receivables	7.8	11.8	19.6
Accrued expenses and other payables	(133.4)	(12.6)	(146.0)
Current tax payable	(2.5)	(1.2)	(3.7)
Deferred tax liability	(89.7)	-	(89.7)
Other net assets	1,102.7	-	1,102.7
Net assets	**884.9**	**(2.0)**	**882.9**

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

All figures in £ million	**FY23** Previous policy	Change in policy	As presented	FY22 As originally presented	Impact of restatement	Restated
Operating profit	**135.8**	**37.0**	**172.8**	**117.5**	**6.2**	**123.7**
Gain/(loss) on business divestment	15.9	-	15.9	(0.9)	-	(0.9)
Finance income	16.7	-	16.7	5.0	-	5.0
Finance expense	(13.4)	-	(13.4)	(1.9)	-	(1.9)
Profit/(loss) before tax	**155.0**	**37.0**	**192.0**	**119.7**	**6.2**	**125.9**
Taxation expense	2.6	(40.2)	(37.6)	(29.7)	(6.2)	(35.9)
Profit/(loss) for the year attributable to equity shareholders	**157.6**	**(3.2)**	**154.4**	**90.0**	**-**	**90.0**
Impact on underlying measures of performance						
Operating profit from segments	178.9	-	178.9	137.4	-	137.4
Underlying operating profit	178.9	17.4	196.3	137.4	6.2	143.6

Glossary

CPI	Consumer Price Index
EBITDA	Earnings before interest, tax, depreciation and amortisation
EBITA	Earnings before interest, tax 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
Operating profit from segments	Total operating profit from segments which excludes 'specific adjusting items' and research and development expenditure credits ('RDEC')	Note 2
Operating profit margin from segments	Operating profit from segments expressed as a percentage of revenue	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 ratio of underlying net cash from operations to underlying EBITDA.	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; digital investment; tax impact of the preceding items and significant non-recurring tax and RDEC movements	Note 3
FY	The financial year ended 31 March	n/a