Preliminary Results

23 May 2024

Strong Group Performance

Results for the year ended 31 March 2024

Steve Wadey, Group Chief Executive Officer, said: *"I am pleased with our strong Group financial results for FY24, delivered against the background of difficult market conditions in the US. These results have been achieved through the outstanding skills of our people, delivering highly relevant services and products critical to enduring national defence and security priorities."*

"We enter this year with strong momentum and increasing spending in our major markets, which gives us confidence to increase our guidance for FY25 and underpins our FY27 outlook of c.£2.4bn organic revenue at c.12% margin. With a strengthened balance sheet and enhanced focus on disciplined capital allocation, we are well positioned and have a clear strategy with optionality for additional investment in sustainable growth and further shareholder returns."

Financial highlights

	Underlying* results		Statutory results	
	FY24	FY23	**FY24**	FY23
Revenue	£1,912.1m	£1,580.7m	£1,912.1m	£1,580.7m
Operating profit[1]	£215.2m	£178.9m	£192.5m	£172.8m
Profit after tax	£169.6m	£152.9m	£139.6m	£154.4m
Earnings per share	29.4p	26.5p	24.2p	26.8p
Full year dividend per share	8.25p	7.70p	8.25p	7.70p
Order intake	£1,740.4m	£1,724.1m		
Funded order backlog	£2,873.0m	£3,070.3m		
Net cash inflow from operations	£320.2m	£270.1m	£294.1m	£240.6m
Net debt	£151.2m	£206.9m	£151.2m	£206.9m

Strong overall Group operational and financial performance

– Revenue up 21% through good programme execution, up 14% on an organic basis
– Underlying operating profit up 20% with stable margin at 11.3%, up 16% on an organic basis
– Cash performance remains strong with high conversion at 104%, reducing leverage to 0.5x
– Record order intake at £1.74bn, with a book-to-bill of 1.1x[2] and order backlog of £2.9bn
– Continued strong earnings growth, with underlying EPS up 11% to 29.4p
– Progressive dividend growth up from 5% to 7%, with full year dividend of 8.25p
– £100m share buyback launched, on-track to complete by the end of FY25

Differentiated global company aligned to enduring needs of our AUKUS customers

– EMEA Services delivered excellent revenue growth at stable margin, driven by strong execution of prior year orders and consistent operational delivery on our long-term contracts
– Global Solutions continued to be impacted by difficult market conditions in the US resulting in lower revenue at stable margin, however, a strong order intake achieved a book-to-bill of 1.1x
– Within Global Solutions, Avantus won $977m[3] of awards aligned to national security priorities resulting in a funded book-to-bill of 1.2x and confidence in our platform for future growth

Expecting another strong year with clear strategy delivering sustainable growth

– Highly relevant services and products, aligned with increasing spending in our major markets
– Increasing guidance for FY25 with strong growth in EMEA Services and stable Global Solutions
– On-track to deliver FY27 outlook of c.£2.4bn organic revenue at c.12% margin
– Enhanced focus on capital allocation to deliver attractive returns and shareholder value

Preliminary results presentation:

* Definitions of the Group's 'Alternative Performance Measures' can be found in the glossary
[1] Underlying operating profit refers to operating profit from segments. See note 2 for details.
[2] B2B ratio is orders won divided by revenue recognised, excluding LTPA revenue of £266m (FY23: £225m)
[3] $331m of orders were recognised in FY24

Management will host a presentation at 09:30 hours BST on Thursday 23 May 2024 at the London Stock Exchange, 10 Paternoster Square, London, EC4M 7LS. 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/fy24-prelim-results

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 c.8,500 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.

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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 (FY24, FY23, 2024, 2023) 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 applicable 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. All subsequent written and oral forward-looking statements attributable to either QinetiQ Group plc or to persons acting on its behalf are expressly qualified in their entirety by the cautionary statements referred to in this disclaimer and contained elsewhere in this document.

QinetiQ Group plc and its directors accept no liability to third parties in respect of this document save as would arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with Schedule 10A of the Financial Services and Markets Act 2000. It should be noted that Schedule 10A and Section 463 of the Companies Act 2006 contain limits on the liability of the directors of QinetiQ Group plc so that their liability is solely to QinetiQ Group plc.

Group Chief Executive Officer's Review

Overview

We have delivered strong overall Group financial results, against the background of difficult market conditions in the US. These results have been achieved through the outstanding skills and capabilities of our people working in partnership with our customers and supply chain. The world is experiencing the highest and most rapidly evolving threat environment for a generation and our teams have continued to deliver our highly relevant services and products, critical to enduring national defence and security priorities.

Since launching our strategy in 2016 to build a disruptive and uniquely integrated global defence and security company, we have grown our revenue by more than 2.5x, doubled earnings, and now have more than 8,500 highly-skilled people across 60 sites globally. Our depth and breadth of expertise across the defence and security lifecycle helps our customers to rapidly create, test and use capability to stay ahead of the threat. Our cutting edge technology and innovation, allied with world leading expertise in science, technology and engineering, is critical to enabling our customers' mission.

Our strategy is structurally aligned and focused on enabling the shared security mission of our Australian, United Kingdom and United States (AUKUS) customers and their allies. Our six distinctive offerings[1] are highly relevant to the rapidly changing character of warfare and aligned to our customers' high-priority areas that are attracting increasing defence and security spending, most notably in Research & Development (R&D), Test & Evaluation (T&E), Training & Mission Rehearsal and Cyber & Intelligence.

For our people, we've made significant progress creating an environment where they can all thrive, with our highest ever level of employee engagement achieved this year. Having a highly skilled and engaged team, with an inclusive culture, enables us to deliver for our customers' mission with even greater agility and pace.

For our shareholders, we are focused on continuing disciplined execution of our strategy and are on-track to deliver our FY27 outlook of c.£2.4bn organic revenue at c.12% margin. With a strong balance sheet and enhanced focus on disciplined capital allocation, we are well positioned and have a clear strategy with optionality for investment in sustainable growth and further shareholder returns.

Performance in the year

We delivered another year of strong overall Group operational and financial performance. Revenue growth was 21%, or 14% on an organic constant currency basis and underlying operating profit grew by 20%, or 16% on an organic constant currency basis, with stable margin at 11.3%. We continued our track record of high cash generation with underlying cash conversion at 104%, contributing to the reduction of our leverage (net debt to EBITDA) from 0.8x to 0.5x. Order intake achieved a record high of £1.74bn, with a book-to-bill of 1.1x and an order backlog of £2.9bn. As part of our enhanced capital allocation policy, we launched a value accretive £100m share buyback programme and have increased the growth rate of our progressive dividend from 5% to 7%.

EMEA Services

EMEA Services delivered excellent growth, achieving 19% organic revenue growth with stable margin at 11.5%. This performance was driven by the strong execution of prior year orders and consistent operational delivery on our long-term contracts.

In the UK, service delivery partnerships remain the bedrock of our offering. Our large long-term Engineering Delivery Partner (EDP) contract has now delivered more than £1.5bn of orders since

[1] Our six distinctive offerings are: Experimentation and Technology, Robotics and Autonomous Systems, Engineering Services and Support, Test and Evaluation, Cyber and Information Advantage, Training and Mission Rehearsal

inception, enabling capability and sustainment of the majority of UK military systems; and we signed a Principles Agreement with UK MOD to extend the Long Term Partnering Agreement (LTPA) to 2033, where we test, trial, train and evaluate (T3E) national defence and security capabilities critical to mitigating global threats. Both of these contracts make a meaningful contribution to the sustainable performance and returns generated by EMEA Services. In addition, to accelerate the production of mission data for the Royal Air Force, the SOCIETAS transformation programme has achieved full operating capability three months early. Also in the UK we commenced support of the new AUKUS submarine programme through initial tasking as a capability partner. In Australia, as a leading provider within Team Nova, we secured a three year extension to our Managed Service Provider (MSP) contract to provide technical advisory services in support of the Australian Capability Acquisition and Sustainment Group; and we continue to successfully develop the high energy defensive laser system prototype in collaboration with the Defence Science and Technology Group. In Germany, we signed a significant, multi-year contract to provide aerial training and mission rehearsal services for their Armed Forces.

Strategic achievements include:

- **Formidable Shield for NATO** - Over three weeks in May 2023 at UK MOD Hebrides, we hosted Formidable Shield 23, one of the world's largest and most complex tests of naval and missile defences. The exercise saw over 20 ships, 35 aircraft, and nearly 4,000 allied military personnel from 13 NATO nations come together to test military platforms, missiles, and sensor systems against representative threat scenarios in realistic live-fire mission rehearsal exercises.
- **DragonFire for the UK** - In collaboration with the UK's Defence Science and Technology Laboratory (Dstl), MBDA and Leonardo, we demonstrated the capabilities of our world-leading beam combining technology with the UK's first high-power firing of a laser weapon against aerial targets. Subsequently, the MOD has recently announced that the cutting-edge DragonFire laser directed energy weapon system will be installed on Royal Navy warships for the first time from 2027, far sooner than previously envisaged.
- **Joint Adversarial Training and Testing Services (JATTS) for Australia** - The JATTS contract supports our ambition to double the size of the Australian business over the next four years through training support to the Australian Defence Force with 'enemy' force aircraft and aerial targets. In the year we achieved a 20% increase in aircraft flying hours and 90% more aerial target missions than originally planned. A notable highlight was providing our threat representation services into the Talisman Sabre training exercise involving 13 allied nations and involving 30,000 military personnel.

With strong visibility, and a pipeline of significant opportunities, our confidence remains high that EMEA Services will continue to support the sustainable growth of the Group.

<u>Global Solutions</u>

Global Solutions was impacted by difficult market conditions in the US, with recent headwinds including one of the longest periods of Continuing Resolution on record. Overall, revenue was up 23%, declining 3% on an organic basis, with margin remaining stable at 10.5%.

Avantus, delivered a high single digit revenue decline over the course of the year. However, the business achieved modest revenue growth in the second half, with double digit margin and cash conversion of c.100% over the full year. With the integration now complete, the benefits of Group synergies are now being realised with $977m of total contract awards during the year and a funded book-to-bill of 1.2x. We remain confident of Avantus delivering value for shareholders and expect mid-single digit growth in FY25 before returning to double digit growth in FY26. Notable contract awards include a $170m five year Tethered Aerostat Radar System (TARS) contract providing surveillance operations along the southern border of the US and its territories, a $126m five year contract to provide technical, professional, and support services to the Office of the Secretary of Defense Strategic Capabilities Office (SCO), and a $224m, five year, firm fixed price contract with the US

Space Development Agency (SDA) to provide systems engineering and technical assistance support needed to deliver the Proliferated Space Warfare Architecture.

Revenue in the rest of Global Solutions was broadly flat for the year, due to the loss of the Optionally Manned Fighting Vehicle (OMFV) opportunity. We also saw the planned production ramp down of the Common Robotic System – Individual (CRS-I) small ground robots in the US, offset by QinetiQ Target Systems (QTS) achieving its highest ever production levels within the year in the UK. A significant step forward in the year was the successful certification of our Banshee target by the US Threat Systems Management Office, enabling market entry and opening up growth opportunities in FY25 and beyond.

Strategic achievements include:

- **Tethered Aerostat Radar System (TARS)** - We were awarded a five year $170m TARS contract as a Prime System Integrator to the Department of Homeland Security providing persistent surveillance operations and sustainment along the southern border of the US and its territories. Upon award, we successfully transitioned eight operational sites in six weeks, hired 229 employees, negotiated union agreements, and the management of all critical services providers. We are on track to secure more than 10% on-contract growth in FY25 through expanded mission scope and capability enhancements, and have identified c.50% on-contract growth opportunities over the life of the programme.
- **Robotic Combat Vehicle Light (RCV-L)** - Working alongside Oshkosh Defence, we were one of four awardees for the RCV-L full scale prototype contract from the US Army, following successful operational trials. The RCV-L solution works directly with warfighters on the ground providing an intelligence and reconnaissance platform used for forward scouting with the ability to carry lethal payloads. The prototype contract positions us well to compete for our share of the future development and production phases worth up to $500m.
- **Next Generation Advanced Bomb Suits (NGABS**) - A five year, $83m contract for the testing and production of over 700 next generation advanced bomb suits for the US Army, demonstrating our ability to leverage our R&D into core capability.

With an attractively positioned portfolio of high priority capabilities, and the integration of Avantus complete, we are confident that Global Solutions is well placed to deliver a meaningful contribution to our FY27 organic revenue target of c.£2.4bn.

Aligned with high priority customer needs

Global tensions continue at elevated levels. In the Middle East, Houthi forces attempt to disrupt world supply lines and broaden the Yemeni civil war, whilst Iran has escalated the Israel-Hamas conflict, and Russian forces remain entrenched within Ukraine. China continues to provide a destabilising influence, notably in the Indo-Pacific, as does North Korea and transnational terrorist networks. As a result, Australia, the UK and the US, through the AUKUS security pact, and with their 5-Eyes and NATO allies, continue to review their evolving defence and security capabilities and investment priorities.

Given this heightened threat environment, levels of defence spending are expected to increase over the long-term. In the US, the Research, Development, Test and Evaluation (RDT&E) budget is the largest ever at $145bn[2]. Governments in the UK and Australia intend to increase defence spending to c.2.5% of GDP over the long-term, with the UK ring-fencing 5% of the defence budget for R&D and 2% for exploitation. In total, our addressable market is estimated to be greater than £30bn per annum[3]. More broadly, a record 18 member countries are now set to meet NATO's target of spending 2% of their economic output on defence and security this year, a marked increase from 11 out of the 31 members a year ago.

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[2] IN12209 (congress.gov)

[3] Sources: Jane's Market Budget Forecast March 2023, UK MOD and US DOD forecasts, Australia Defence publications, QinetiQ estimates

These investment priorities are driving increasing spending in high-priority areas such as, R&D, T&E, Training & Mission Rehearsal, and Cyber & Intelligence, to enable our customers to maintain and develop technological superiority in areas such as robotics, autonomy, directed energy, hypersonics, integrated sensing, cyber, advanced data analytics and artificial intelligence. We remain at the forefront of the adoption and integration of these new and emerging technologies with traditional defence capabilities, providing enhanced inter-operability between allied systems and enhancing our customers' operational effectiveness.

A combination of our global reach and alignment to these high-priority high-growth areas provides confidence in the Group's ability to deliver organic revenue growth at double the rate of growth of national defence budgets, as we have done consistently over the past five years.

Clear purpose and strategy delivering for our customers

At this time of heightened geopolitical uncertainty and conflict, our purpose has never been more relevant: protecting lives by serving the national security interests of our customers. With a unique customer value proposition to rapidly create, test and train effective use of capability, we enable our customers to respond to their national and global security needs and counter the increasing threat at pace.

With a clear purpose and strategy, the Group is well positioned to deliver sustainable shareholder value. Our strategy has three inter-related components:

1. Delivering six distinctive and mutually supportive offerings: We co-create high-value differentiated solutions for our customers in experimentation, test, training, information, engineering and autonomous systems;
2. Applying disruptive and innovative technology and business models: We invest in and apply disruptive business models, digitisation and advanced technologies to enable our customers' operational mission at pace; and,
3. Leveraging those capabilities across our global operations: We are developing an integrated global defence and security company that leverages our capability in the UK, the US, Australia, Canada and Germany.

The disciplined execution of our strategy is building a global platform and delivering sustainable growth, underpinning our FY27 outlook to deliver c.£2.4bn organic revenue at c.12% margin. Our focus on our customers' high-priority areas, specifically Research and Development (R&D), Test and Evaluation (T&E), Training & Mission Rehearsal, and Cyber & Intelligence, provides confidence in our high single digit revenue growth guidance and is why our growth outpaces headline defence spending. Our strategy is further underpinned by a record order intake of £1.74bn with a backlog of £2.9bn, and an exceptionally strong pipeline of future growth opportunities worth more than £11bn over the next five years.

Enhanced focus on disciplined capital allocation and execution

Our strategy to deliver long-term sustainable growth is underpinned by an enhanced focus on disciplined capital allocation and execution. Given the highly cash generative nature of the Group, as well as the strength of the balance sheet, we continually assess the best risk adjusted opportunities to deploy capital to support shareholder returns.

We are continuing to invest in value accretive organic growth, with a focus on our people, technology and capability. This will be complemented by value accretive bolt-on acquisitions in time, following strengthened delivery and performance of our US platform and growth of Avantus.

Reflecting our confidence in the future prospects of the business, we have increased the growth rate of our progressive dividend from 5% to 7% and are returning excess cash to shareholders through the £100m share buyback programme announced in January.

Our strengthened balance sheet provides optionality for investment in growth and further shareholders returns.

Sustainability

In delivering our strategy, the single biggest contributor will be our people. Their safety, wellbeing and motivation is essential for our success.

We measure employee engagement each quarter and I was delighted that at the end of this year we achieved our highest ever employee engagement measure since introducing this metric five years ago. Since its introduction we have improved employee engagement by 19% and the loyalty measure by 25%, a fantastic achievement and symbolic of the inclusive culture we are growing.

We were deeply saddened by the fatal crash involving two aircrew on-board one of our PC-9 aircraft in the Neuenstein area of Germany whilst on a customer training exercise in September 2023. Our thoughts remain with the families and close colleagues. Although the formal investigations into this accident are ongoing, we do not believe that there was any contributory fault by the company.

We continue to make good progress on our Net-Zero plan. Our Scope 1 and 2 emissions have now reduced by 33% against our re-baselined FY20 base year, including a c.8% reduction in FY24, whilst some elements of our Scope 3 emissions, such as business travel, have increased as we have grown globally. With our strong focus on our Environmental, Social and Governance (ESG) agenda, we are ranked as one of the top ESG companies in the defence and security sector by Sustainalytics and we have retained our AA rating from MSCI.

Leadership changes

At the start of April, we announced that Carol Borg, Group CFO, and the Board together agreed that Carol would step down from her role. The Board and I were delighted to announce the appointment of Martin Cooper as Group CFO. Martin is a qualified chartered accountant with more than 25 years' experience leading multi-disciplinary teams in senior finance roles and is expected to join QinetiQ no later than October. To enable a smooth transition prior to Martin joining, Heather Cashin, previously Group Financial Controller, has been appointed Interim Group CFO.

Also in April, I was delighted to announce the appointment of Iain Stevenson to the newly created role of Chief Operating Officer. As an experienced senior business leader having previously led large business divisions in the defence and construction sectors, his skills will strengthen the delivery of consistent operational performance across the Group as we continue to scale and grow.

Finally, I was extremely pleased to confirm the internal promotion of Will Blamey to Chief Executive UK Defence. Will has played a critical role leading the successful development and delivery of major programmes, such as the LTPA.

These appointments will add strength and depth to our leadership team and further enhance our capabilities to execute our plan for sustainable growth.

FY25 guidance increased and on-track to deliver FY27 outlook

We enter FY25 with strong momentum, a healthy order book and increased visibility, with 64% revenue under contract. We expect FY25 to deliver high single-digit organic revenue growth, compared to FY24, at a stable operating profit margin.

We are on-track to achieve c.£2.4bn organic revenue at c.12% margin by FY27. This will deliver an attractive return on capital employed at or above the upper end of the 15-20%+ range.

Cash conversion will remain high at 90%+ with capital expenditure within the £90m to £120m range. Our strengthened balance sheet provides optionality, through disciplined deployment of capital, for bolt-on acquisitions to compound growth at 11-12% margin and further shareholder returns.

Summary

I am pleased with the significant progress we have made in FY24, delivering another year of strong Group operational and financial performance with stronger growth in EMEA Services and stable performance in Global Solutions. The company is well positioned with a clear strategy, underpinning our confidence in delivering sustainable growth and attractive returns for our shareholders.

Our strategy and distinctive offerings are uniquely relevant to our customers' mission within the current heightened threat environment. Everything we do is about delivering on our purpose: protecting lives by serving the national security interests of our customers. Our purpose continues to connect us all, giving us a sense of focus, direction and pride. We look forward to continuing to deliver for the benefit of all our stakeholders in the coming years.

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; and the Israel-Hamas conflict increasing further tension in the Middle East and threatening wider escalation in the region. These conflicts and ongoing tensions come at a time when many countries are holding national elections and this could potentially compound global uncertainty.

In parallel, rapidly emerging and evolving technologies continue to disrupt traditional business and society with both positive and negative outcomes including the creation of unprecedented vulnerabilities.

To meet these increasing challenges, Australia, the UK, the US and their allies continue to review their evolving defence and security capabilities and are increasing spending in high-priority areas aligned with our strategy.

UK

A more contested and volatile international environment has reinforced the UK Government's commitment to increased defence spending. In April, the UK Government announced an incremental £75bn of defence spending over six years, with defence spending set to rise to 2.5% of GDP by the end of the decade - reaching £87bn a year in 2030. The Government states that "additional funding will be used to put the UK's defence industry on a war footing, deliver cutting-edge technology and back Ukraine against Russia"[4]. The new spending plan comes with a promise to spend at least 5% of the budget on R&D from next year, and another 2% to "support the exploitation of promising science and technology in military capability"[5].

As the UK seeks to develop and deploy next-generation capabilities faster than its adversaries, we are well positioned to support our customers in applying mission-led innovation to achieve this.

US

The US continues to address the comprehensive and serious challenge of the People's Republic of China, while tackling the acute threat of a highly aggressive Russia, and increasing vigilance against the persistent threats of North Korea, Iran and transnational terrorist networks.

To support these aims, the Department of Defense funding for 2024 is $841.4bn[6]. As part of this, the Research, Development, Test and Evaluation (RDT&E) budget is the largest ever at $145bn[7]. Investment in critical technology areas aimed at strengthening technological advantage include directed energy, hypersonics, integrated sensing and cyber.

We serve our US customers' mission in the areas of Intelligence, Surveillance and Reconnaissance (ISR), mission operations, advanced cyber, information advantage, multi-domain autonomous solutions and systems and engineering and innovation.

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[4] PM announces 'turning point' in European security as UK set to increase defence spending to 2.5% by 2030, 23 April 2024 (gov.uk)
[5] Defending Britain 23 April 2024 (gov.uk)
[6] FY24 NDAA Bill Report (senate.gov)
[7] IN12209 (congress.gov)

Australia

In 2024, the Australian Government released the inaugural National Defence Strategy and Integrated Investment Program complementing the 2023 Defence Strategic Review. Recognising that the current environment demands a new approach to defending its national interests, there is a commitment to invest in conventionally armed, nuclear-powered submarines through a partnership between Australia, the UK and the US (AUKUS), alongside deepening cooperation on a range of advanced security and defence capabilities. The Defence Industry Development Strategy (DIDS) now articulates the defence industrial base required with Test and Evaluation, Certification and Systems Assurance (TECSA) forming one of the seven Sovereign Defence Industrial Priorities.

The consolidated Defence and Australian Signals Directorate funding for FY24/25 is estimated at AUD $55.3bn[8]. In April 2024, the Australian Government announced that it will increase defence spending by $50.3bn over the next decade, hitting $100bn by 2033, or c.2.4% of GDP.

Broader international markets

During 2023 there has been a marked increase in global defence investment as many countries have re-evaluated their defence and security priorities as a consequence of the Russia-Ukraine war. The 2024 forecast for global defence spending stands at $2.47tn[9], which represents a 13% increase since 2022.

While priority and investment focus will be attached to the prosecution of our three home country strategies (Australia, UK and US), we continue to conduct business in the support of allied nations.

[8] Budget 2024-25 Budget Paper No. 1.4A, page 16
[9] Janes Defence Budgets, January 2024

Group Chief Financial Officer's Review

Overview of full year results

The Group has delivered strong growth and underlying performance across all metrics, reflecting continued disciplined execution of our strategy. Consistently strong cash generation contributed to net debt to EBITDA falling to 0.5x (FY23: 0.8x). We have increased the growth rate of our progressive dividend from 5% to 7%, growing the distribution to 8.25p per share (FY23: 7.70p).

The Group achieved record orders in the year, totalling £1,740.4m (FY23: £1,724.1m), a year-on-year 1% increase and a book-to-bill of 1.1x. This is on the back of a very strong prior-year comparator, which included the 10 year £260m Maritime Strategic Capability Agreement (MSCA) contract. Excluding the MSCA contract, orders were up 19%; orders declined 10% organically with MSCA included. We have secured major orders across both of our operating segments. Within EMEA Services we secured £1,193m of orders, including a £54m variation of price uplift to the LTPA, a £39m extension to our Battlefield and Tactical Communications & Information Systems (BATCIS) contract and a significant multi-year aerial training services contract in Germany.

Within Global Solutions, FY24 orders were £547m, a 56% increase on a reported basis and 7% organic. The drivers of this performance are an 18% increase in our QTS business to £68m, together with a significant increase in funded orders through the US business as a result of the Avantus acquisition in FY23.

In the US, the total value of contract awards was $1.3bn. Of this, $571m has been funded and is reported within the Global Solutions order intake. The remaining $729m represents unfunded orders, which are contract awards for which funding has not yet been appropriated or authorised.

Highlights include a $46m funded order for our Electromagnetic Aircraft Launch System (EMALS) and Advanced Arresting Gear (AAG) systems for the US Navy's CVN 81 aircraft carrier, and a five year contract worth $83m for the Next Generation Advanced Bomb Suit (NGABS) ($34m funded and $49m unfunded). We secured contract awards for a five year contract with the Secretary of Defense Strategic Capabilities Office (SCO) for $126m ($14m funded and $112m unfunded), a $223m contract award for Space Development Agency (SDA) support ($43m funded and $180m unfunded), and a five year Tethered Aerostat Radar System (TARS) Operations & Maintenance contract with a total contract value of $170m ($16m funded and $154m unfunded).

Funded order backlog remains strong at £2.9bn, or £3.7bn including unfunded orders, providing good visibility going forward:

- In EMEA Services the total funded order backlog was £2.6bn (FY23: 2.8bn). The reduction in the backlog is due to the delivery of non-tasking revenue (c.£266m per annum) within the Long-term Partnering Agreement (LTPA). This is a large multi-year contract that was booked in prior years and as we deliver this will naturally reduce the LTPA order backlog. Outside of the LTPA, backlog has remained broadly stable at £1.4bn (FY23: £1.5bn).
- In Global Solutions the total funded order backlog grew from £302m in FY23 to £321m in FY24. Our US unfunded order backlog grew from $245m to $974m driven by the contracts referenced above.

At the beginning of FY25 approximately £1.3bn of the Group's FY25 revenue was under contract, compared to £1.1bn (of the FY24 revenue) at the same point last year. In addition, it is anticipated that $150m of unfunded orders will be funded during FY25.

We delivered strong revenue growth of 21% to £1,912.1m (FY23: £1,580.7m), 14% on an organic basis, demonstrating increasing demand for our six distinctive offerings. We saw a 19% organic revenue increase in EMEA Services primarily due to good growth in the UK, underpinned by new work as part of the EDP framework (delivering 28% revenue growth within the framework) and a variation of price uplift on the LTPA. Global Solutions revenue decreased by 3% organically with

Avantus delivering high single digit revenue decline over the course of the year. Revenue in the rest of Global Solutions was broadly flat for the year, impacted by the loss of the Optionally Manned Fighting Vehicle (OMFV) opportunity. We also saw the planned production ramp down of the Common Robotic System – Individual (CRS-I) small ground robots in the US from $40.2m in FY23 to $13.8m in FY24, offset by the highest ever production levels in QinetiQ Target Systems (QTS) in the UK.

Operating profit from segments of £215.2m (FY23: £178.9m) was up 20%. This represents a stable 11.3% operating margin (FY23: 11.3%), consistent with our guidance range of 11-12%. The largest contributions to year-on-year growth were the full-year impact of the Avantus acquisition and organic revenue growth at stable operating margin in EMEA Services.

To ensure consistency and clarity on our headline profit figures, our headline profit figure remains as *operating profit from segments* and excludes any benefit arising from RDEC income (which was previously reported within the tax line prior to FY23). Statutory operating profit was £192.5m (FY23: £172.8m), including the impact of specific adjusting items and RDEC income. Underlying RDEC income increased to £27.2m (FY23: £17.4m) due to the increase in the applicable rate.

Underlying profit before tax increased 16% to £227.0m (FY23: £189.7m) in line with the increase in underlying operating profit, with underlying net finance expense at £15.4m (FY23: £6.6m). Underlying net finance expense increased due to the full-year impact of interest payable on the term loan drawn down to fund the Avantus acquisition.

Specific adjusting items

The total impact of specific adjusting items (which are excluded from underlying performance due to their distorting nature) on operating profit was a £49.9m cost (FY23: cost of £23.5m).

Acquisition and disposal costs of £2.7m (FY23: £16.4m) comprise costs associated with an aborted acquisition attempt during the year, as well as a number of ongoing disposal projects. Acquisition-related remuneration relates to specific post-deal retention arrangements relating to Avantus employees. Acquisition integration costs of £5.3m (FY23: £2.0m) comprises costs associated with the Avantus and Air Affairs acquisitions which were completed in H2 of FY23.

We continue to deliver on our discrete investment project to build our digital platform to enable our global growth strategy and our AUKUS customers' needs. The project runs for a further three years and we expect an additional c.£35m of non-recurring costs to 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 FY24 the non-recurring cost of the digital investment project was £16.9m (FY23: £5.8m).

FY23 included exceptional restructuring costs of £5.0m, as part of the significant Group-wide organisation redesign, and a £19.6m credit in respect of UK MOD appropriation for RDEC, following a determination by the Single Source Regulations Office on the interpretation of the Statutory Guidance for Allowable Costs regulations. The accounting judgement remains that RDEC on single-source contracts from 1 April 2019 onwards will not be paid on to the UK MOD, which was a change from the accounting judgement at the FY22 year end.

Also included within specific adjusting items are a gain on the sale of property of £2.1m (FY23: £2.0m), financing income from pensions of £5.6m (FY23: £9.9m), impairment of right-of-use lease assets in the US following space relocation of £0.7m, and amortisation of acquisition intangibles of £25.2m (FY23: £15.6m). Amortisation of acquisition intangibles has increased due to the amortisation of new intangible assets recognised on the FY23 acquisitions (primarily the Customer Relationships asset associated with Avantus). FY23 also included a gain on disposal of the Space NV business in Belgium of £15.9m.

Tax

The total tax charge was £43.1m (FY23: £37.6m). The underlying tax charge was £57.4m (FY23: £36.8m), on a higher underlying profit before tax, with an underlying effective tax rate of 25.3% for the year ending 31 March 2024 (FY23: 19.4%), increased from the prior year due to the change in UK statutory rate. The underlying effective tax rate is above the UK statutory rate of 25% (FY23:19%) primarily as a result of higher overseas tax rates and non-deductible overseas interest, offset by prior year adjustments to returns.

The underlying effective tax rate is expected to remain marginally above the UK statutory rate, subject to the impact of any tax legislation changes and the geographic mix of profits. The Group has engaged with advisers to assess any potential impact on the tax charge by the UK's enactment of the OECD's Global Anti-Base Erosion Model Rules (Pillar Two). The Group performed an assessment of the potential exposure to Pillar Two income taxes based on current period data. The Group understands it qualifies for one of the transitional safe harbours provided in the rules in all territories in which it operates. Therefore, the Group does not anticipate a material impact from Pillar Two legislation in the near future. The Group has applied the temporary exemption issued by the International Accounting Standards Board from the accounting for deferred taxes under IAS12 and neither recognises nor discloses information about deferred taxes related to Pillar Two income taxes. The Group does not anticipate a material quantitative impact from Pillar Two legislation, however, there are expected to be significant compliance obligations.

Cash management and capital allocation policy

Working capital management and overall cash performance has remained robust, with a particularly strong performance in the second half.

Underlying net cash flow from operations was £320.2m (FY23: £270.1m). Our cash conversion definition reflects our pre-capital expenditure cash flows as a proportion of EBITDA to demonstrate how we convert our profit (excluding interest, tax, depreciation and amortisation) into cash flow – under this definition we achieved consistent underlying cash conversion of 104%, (FY23: 106%).

As at 31 March 2024 the Group had £151.2m net debt, reduced from £206.9m as at 31 March 2023 due to the strong operating cash conversion during the year. During the year, we have successfully reduced leverage to 0.5x (31 March 2023: 0.8x).

Through FY24 we have demonstrated our capital allocation policy in action:

- Invest in our organic growth – net capital expenditure of £96.1m (FY23: £109.0m), focused on contractual commitments (39% relating to customer funded contracts including £37m into the LTPA), sustainment of the portfolio and investment to support future growth
- Complement with value accretive acquisitions – successful integration of Avantus and Air Affairs with focus on proving delivery performance and growth
- Provide a progressive dividend to shareholders – increase in the year-on-year growth rate from 5% to 7%
- Return of excess cash to shareholders – £100m share buyback programme, with £16m completed by the end of March

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

Committed facilities

The Group has a £340m Term Loan split into two tranches: GBP Term Loan £273m (Tranche A); and, USD Term Loan £67m (Tranche B), which will mature on 27 September 2026 and has a one year option to extend the final maturity to 27 September 2027. In line with Group policy, £270m (c.80%) of the floating rate debt has been fixed using SONIA interest rate swaps split over a three year and five year tenure at a weighted average rate of 3.29%. Including all fees and charges, the weighted average cost of debt is 5.21%.

At the year-end, the Group had a £275m bank revolving credit facility with an additional ‘accordion’ facility to increase the limit up to £400m. The facility was due to mature on 27 September 2025 and was undrawn at 31 March 2024. The facility was refinanced on 22 April 2024 and replaced with a new £290m facility, which will mature on 22 April 2027. It has two one year extension options to extend the final maturity date to 22 April 2029. It provides the Group with significant scope to execute its strategic growth plans.

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. The banks have been selected for their capabilities in our home countries to support our business.

Return on Capital Employed (ROCE)

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 underlying 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 FY24 Group ROCE was 21% (FY23: 23%), modestly lower due to the full-year impact of the increased capital employed with the acquisitions completed in the prior year. As we continue to invest in our business to support sustainable long-term growth, our ROCE is forecast to remain attractive, at or above the upper end of the 15-20%+ range, excluding the impact of any further acquisitions.

Earnings per share

Underlying basic earnings per share increased by 11% to 29.4p (FY23: 26.5p) driven by the higher underlying profit after tax. Basic earnings per share for the total Group (including specific adjusting items) reduced 11% to 24.2p (FY23: 26.8p), with the prior year including the gain on disposal of the Space NV business and the release of the liability for the MOD appropriation of RDEC.

The average number of shares in issue during the year, net of treasury shares and as used in the basic earnings per share calculations, was 577.0m (FY23: 575.9m). There were 573.5m shares in issue at 31 March 2024, reduced due to the ongoing share buyback.

Dividend

The Board proposes a final FY24 dividend per share of 5.65p (FY23: 5.30p) making the full-year dividend 8.25p (FY23: 7.70p). The full-year dividend represents an increase in the Group’s progressive dividend from 5% to 7%.

Subject to approval at the Annual General Meeting, the final FY24 dividend will be paid on 22nd August 2024 to shareholders on the register at 26th July 2024.

Pensions

The triennial valuation of the Scheme was undertaken as at 30 June 2023 and resulted in an actuarially assessed surplus.

The net pension asset under IAS 19, before adjusting for deferred tax, was £18.4m (31 March 2023: £119.8m). The key driver for the decrease in the net pension asset since the March 2023 year end was an actuarial adjustment following recalibration of demographic and financial assumptions to the recently completed 30 June 2023 triennial valuation.

The next triennial valuation will be performed as at 30 June 2026. Under the new schedule of contributions agreed, and reflecting the Scheme being in surplus, there are no deficit reduction employer contributions required.

During the year the pension fund took out a loan of £125m to facilitate an increase in the level of hedging in place. This has increased the hedges to cover approximately 80% of the interest rate risk and 85% of the inflation rate risk as at 31 March 2024, as measured on the Trustees' gilt-funded basis. The loan will be repaid in tranches by FY27 using proceeds from the realisation of investments.

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

Net finance income and expense

Net finance expense was £9.8m (FY23: income of £3.3m). The underlying net finance expense was £15.4m (FY23: £6.6m), increased due to a full year of interest payable on the Avantus funding borrowings, with additional income of £5.6m (FY23: £9.9m) in respect of the defined benefit pension net surplus reported within specific adjusting items.

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.

	FY24	**FY23**
£/US$ - opening	1.24	1.31
£/US$ - average	1.26	1.21
£/US$ - closing	1.26	1.24
£/A$ - opening	1.85	1.75
£/A$ - average	1.91	1.76
£/A$ - closing	1.94	1.85

Foreign exchange translation has provided a modest headwind to revenue and operating profit in the year. Most significantly, the US Dollar has strengthened with the average exchange rate to Sterling increasing from 1.21 to 1.26. In FY24, c.20% 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 decreased by £20.9m and operating profit decreased by £2.2m. For every 1% move in the USD FX rate this would impact Group revenue by c.£4m.

Operating Review

EMEA Services

	FY24 £m	FY23 £m
Orders	**1,193.1**	**1,372.2**
Revenue	**1,417.4**	**1,179.3**
Underlying operating profit	**163.4**	**137.1**
Underlying operating margin	**11.5%**	**11.6%**
Book-to-bill ratio[1]	**1.0x**	**1.4x**
Total funded order backlog	**2,551.7**	**2,768.8**

[1] Book-to-bill (B2B) ratio is orders won divided by revenue recognised, excluding the LTPA non-tasking services revenue of £266m (FY23: £225m)

Overview

EMEA (Europe, Middle East and Australasia) Services combines world-leading expertise with unique facilities to generate and assure capability. We do this through capability integration, threat representation and operational readiness, underpinned by long-term contracts that provide good revenue visibility and cash generation.

Financial performance

Orders increased 7% excluding the 10 year £260m MSCA order in FY23. Including MSCA in the strong FY23 comparator, orders decreased by 13% (organic and reported). The funded order backlog excluding LTPA ended the year at £1.4bn, with a book-to-bill ratio of 1.04x (FY23: 1.17x, excluding MSCA). There has been an increase in orders through the Engineering Delivery Partner (EDP) framework totalling £472m in FY24 (FY23: £404m), as well as an increase in the German business, which secured a significant, multi-year aerial training services contract, representing the single largest and longest contract award within our Threat Representation business.

Revenue increased by 20% to £1,417.4m (FY23: £1,179.3m), and grew by 19% on an organic basis, as a result of good growth in the UK, underpinned by new work as part of the EDP framework and a variation of price uplift on the LTPA.

At the beginning of FY25, we had £1.0bn of EMEA Services' FY25 revenue under contract, compared to £0.8bn (of the FY24 revenue) at the same point last year.

Underlying operating profit grew by 19% to £163.4m (FY23: £137.1m) in line with revenue growth. Operating margin remained stable at 11.5%.

Approximately 66% of EMEA Services revenue is derived from single-source contracts (FY23: approximately 64%). 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. The distinctive offerings across our customer base have delivered good revenue growth this year, whilst sustaining strong cash conversion and operating profit. Framework partnerships remain central to how we deliver customer value, with the EDP contract alone delivering over £1.5bn of orders in its first five years. Following a Principles Agreement with UK MOD for an extension option to jointly develop the LTPA test, trials, training and evaluation (T3E) capabilities beyond 2028, future prospects are well underpinned.

Over three weeks in May 2023 at MOD Hebrides, we hosted Formidable Shield 23, one of the world's largest and most complex multi-domain tests of naval and missile defences. Operated by QinetiQ, the exercise saw over 20 ships, 35 aircraft, and nearly 4,000 allied military personnel from 13 NATO nations come together to test missiles, systems, sensors and software against representative threat scenarios in realistic live-fire mission rehearsal exercises.

We have secured significant orders to increase environmental testing capacity in support of the UK's Weapons stockpile resilience effort, and for further work at our Hurn vehicle testing capability. We delivered a complex synthetic training demonstration from Portsdown Technology Park delivering collective training to three platforms docked at HM Naval Base in Portsmouth: HMS Queen Elizabeth, HMS Diamond and HMS Kent. This ability to train across multiple geographically dispersed units provides a step change in capability to the Navy.

Demand remains strong for engineering services across a broad range of programmes, primarily as the Engineering Delivery Partner for MOD. Key achievements this year include securing:

- An initial task as Capability Partner in support of the new AUKUS submarine programme, and a greater role supplying specialist design services;
- Supply of further technical support services to the DE&S Catalyst delivery team for the Future Combat Air System (FCAS) programme;
- The Defence Science and Technology Laboratory (Dstl) funded Modular Integrated Protection System programme developing a new pan-fleet active protection system architecture for British Army vehicles.

We have also been working closely with DE&S in support of the new acquisition reforms and investing in our enabling digital toolsets to deliver increased customer value from our engineering services.

In collaboration with Dstl, MBDA and Leonardo, we achieved the UK's first high-power firing of a Laser Directed Energy Weapon (LDEW) against aerial targets. This was an important step forward demonstrating the capabilities of QinetiQ's world-leading beam combining laser technology, and development of the enabling Test & Evaluation capability. The MOD has recently announced that the cutting-edge DragonFire laser directed energy weapon system will be installed on Royal Navy warships for the first time from 2027, far sooner than previously envisaged.

We also delivered the UK's first jet-to-jet crewed-uncrewed-teaming demonstration in March 2024 working in partnership with Dstl, the Royal Navy and the Air and Space Warfare Centre as part of the UK's Accelerating Air Autonomy Capability Experimentation programme. The trial showcased human machine teaming between a crewed aircraft and an autonomous drone; the UK's first jet-to-jet crewed-uncrewed-teaming demonstration.

During the 2023 NATO Robotic Experimentation Prototyping Augmented by Maritime Unmanned Systems (REPMUS) Exercise, we supported the Royal Navy leading a UK team delivering the experimental Command & Control exercises for the mission management of multiple uncrewed vehicles across a task group.

<u>UK Intelligence (31% of EMEA Services revenue)</u>

The UK Intelligence Sector utilises its unique domain knowledge across C5ISTAR (Command, Control, Communications, Computers, Cyber, Intelligence, Surveillance and Reconnaissance), allied to its research, innovation and applied engineering pedigree, to support UK Government in the development, assurance, integration and deployment of mission critical capabilities at pace. We are a key industry partner to the MOD, and continue to be well-placed to deliver critical digital change programmes over the coming years to Defence Digital (DD), Defence Intelligence (DI) and Defence Science and Technology Laboratory (Dstl). Within the year, highlights include:

- SOCIETAS – 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. SOCIETAS continues to perform beyond expectations with the Full Operating Capability declared three months early.
- The establishment of the Training and Simulation Centre of Excellence at Farnborough providing increased support to Land (Army Virtual Proving Ground), Maritime (Type 23 and Type 45 training simulation systems) and the RAF, Dstl and secure cyber domains. This business area is growing strongly, achieving 30% revenue growth on prior year.
- New Style of IT (Deployed) (NSOITD) - We have continued our strong and enduring relationship with Defence Digital's successful NSOITD programme for over five years to a value of £107m, and have now secured another 12 months of support. Our offering enables the agile delivery of the nodes across Design, Engineering, Test and Integration and through engineering support to the Live Services.

We continue to demonstrate our ability to leverage our acquisitions for future success. Fully acquired in 2020, Naimuri demonstrated strong year-on-year orders growth exceeding 80%, and headcount growth to c.200 employees in the same time frame. Naimuri's portfolio has significantly diversified beyond National Security into Homeland Security, and UK MOD. Amongst the new orders were two sizeable three year contracts in Homeland Security, delivering two strategic aims: i) diversification of Naimuri's customer base; and ii) increase to the longevity of contracts. 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 and growth as part of the Northern Powerhouse.

UK Intelligence continues to evolve to ensure we have the capabilities and expertise in emerging technologies e.g. quantum technology. This is an emerging and disruptive capability covering quantum sensing, navigation and computing. We are building the capability through a mixture of internal investment and customer projects, and ensuring alignment with the UK's National Quantum Technology Programme.

Finally, we remain committed to providing operational support to the UK Government including 24/7 support to operations and deployment throughout this difficult period in Eastern Europe, which has enabled UK platforms to support burden sharing with allies, assisting with military aid provision.

Australia Sector (10% of EMEA Services revenue)

Our Australia Sector comprises our specialist advisory and engineering business in Australia and also includes our threat representation business operating in the Australian, UK, German and Canadian markets.

During the year we established a new leadership team, implemented an integrated operating model, adapted to the new Australian defence policy and priorities, and completed the integration of Air Affairs. Tragically, we lost two of our experienced and long-serving German pilots in a fatal aircraft crash while delivering training for the German military.

The sector has performed well throughout the year. Order intake was impacted due to Australian customer delays arising from the Defence Strategic Review. However, we secured a number of strategic and long term orders, that position us well for the future.

- Our Advisory business obtained a significant, multi-year extension to deliver professional and technical services to major defence capability programmes in vehicles, maritime warfare, guided weapons, explosive ordnance, and aerospace surveillance and reconnaissance.

- Our German operation secured a significant, multi-year aerial training services contract, representing the single largest and longest contract award within our Threat Representation business.
- Our Canadian target systems operation entered an agreement with the Royal Canadian Navy and Defence Research and Development Canada (DRDC) to develop and supply a new Uncrewed Surface Vehicle. Joining the existing maritime target portfolio, this new multi-role boat will also feature remote autonomous operation with crewed and uncrewed functionality.

We continued to see demand for our technical engineering and advisory services in Australia, and global demand for our portfolio of aerial and maritime targets and mission rehearsal services. Notable operational highlights for the year include:

- Our UK target systems operation manufactured and delivered over 600 aerial targets, representing a 50% increase in volume.
- Our Engineering business invested in state-of-the-art facilities to support business growth. In Melbourne we established the QinetiQ Technology and Engineering Centre (QTEC), delivering a complex vehicle project for the Australian Army. In Adelaide we opened QLabs, providing critical capability in Directed Energy Weapons with the Department of Defence.
- Our MakerSpace programme added additional sites, helping the Australian Army create a culture of digital thinking and innovation.
- Substantial progress was made integrating the Air Affairs business acquired in December 2022. Now named QinetiQ Air Affairs (QAA), over the last year it was transformed from a local Australian specialist business into a key pillar of QinetiQ’s global threat representation offering. QAA’s achievements in FY24 have included participation in a number of international defence exercises and development of new training targets.

Global Solutions

	FY24 £m	FY23 £m
Orders	**547.3**	**351.9**
Revenue	**494.7**	**401.4**
Underlying operating profit	**51.8**	**41.8**
Underlying operating margin	**10.5%**	**10.4%**
Book-to-bill ratio[1]	**1.1x**	**0.9x**
Total funded order backlog	**321.3**	**301.5**

[1] Book-to-bill (B2B) ratio is orders won divided by revenue recognised

Overview

Global Solutions combines our world-leading technology-based products and services. Our strategy is to expand the portfolio of solutions to win larger, longer-term programmes providing good visibility of revenue and cash flows.

Financial performance

Orders increased by 56% to £547.3m (FY23: £351.9m), 7% organically. This was driven by a growing order intake in the targets business and good order intake in the Avantus business.

Revenue was up 23% on a reported basis at £494.7m (FY23: £401.4m) due to the full-year impact of the Avantus acquisition. There was a small organic decline of 3%, with Avantus delivering high single digit revenue decline over the course of the year, but achieving positive revenue growth in the second half.

Revenue in the rest of Global Solutions was broadly flat for the year, impacted by the loss of the Optionally Manned Fighting Vehicle (OMFV) opportunity. We also saw the planned production ramp down of the Common Robotic System – Individual (CRS-I) small ground robots in the US, offset by the highest ever production levels in QinetiQ Target Systems (QTS) in the UK.

At the beginning of FY25, we have 52% of Global Solutions' FY25 revenue under contract, compared to 44% (of the FY24 revenue) at the same point last year. In addition, we have a further $150m of US contract awards in FY24, which are expected to be funded during FY25. This would increase revenue cover to 75% in FY25.

Underlying operating profit increased to £51.8 (FY23: £41.8m) due to the full-year impact of the Avantus acquisition, with a stable underlying operating profit margin of 10.5% (FY23: 10.4%). Organically, operating profit increased by 6%, driven by improved margins in the US business.

Sector commentary

United States (82% of Global Solutions revenue)

Our US Sector provides design, development, rapid prototyping, systems engineering and integration and manufacture of speciality defence mission products and solutions related to robotics, autonomy, maritime and sensors. The integration of Avantus provided a complementary suite of services related to mission support, modernisation, enablement and operations, technical advisory, cyber, information advantage for US Defense, Federal, Homeland and National Security customers.

- The US Sector had $1.3bn of total contract awards during the year, including $977m from Avantus. We have completed the integration of Avantus into a single operating model for the Sector and expect to benefit from market and operational synergies.
- We won a $223m, five year, firm fixed price contract with the US Space Development Agency (SDA) to provide systems engineering and technical assistance support needed to deliver the

Proliferated Space Warfare Architecture, a threat-driven constellation of small satellites that deliver critical services to our warfighters from space. Services include tracking of advanced missile threats, low-latency data transport integrated with tactical data links, custody of time-critical land and maritime targets, and space-based battle management. During the autumn, our team supported SDA's successful demonstration of the first-ever Link 16 space to ground transmission.

- We won a $126m, five year, hybrid firm fixed price contract to provide technical, professional, and administrative support services to the Office of the Secretary of Defense Strategic Capabilities Office (SCO). This award builds upon our existing work within SCO and supports SCO's mission to analyse and accelerate the development, demonstration, and transition of capabilities to counter strategic adversaries and improve the United States security posture in peacetime, crisis, and conflict.
- We won a $170m, five year, firm fixed price Tethered Aerostat Radar System (TARS) Operations & Maintenance contract with the US Department of Homeland Security, Customs and Border Protection and Air and Marine Operations. The team provides persistent surveillance operations and sustainment services at eight sites along the southern border of the United States and territories, spanning from Arizona to Puerto Rico. Services include, air-surface radar operations, ground control and data networking systems monitoring, and data fusion and analysis as an integral part of the mission to detect, sort, intercept, track, and apprehend criminals in diverse environments at and beyond the US borders.
- We secured $2.7m of incremental funding on an existing contract to build and test the Electromechanical Actuator Power Conditioner and Controller (EPCC) for ten shipsets for the Virginia class submarine programme as an extension of our previous design and development effort. The EPCC is a rack of hardware and software designed to control precision actuators as part of the weapon stowage and handling system. In FY24, we have successfully delivered the first two shipsets.
- We won a five year indefinite delivery, indefinite quantity (IDIQ) contract for $83m to deliver the Program of Record Next Generation Advanced Bomb Suit (NGABS) for Product Manager Soldier Protective Equipment. QinetiQ's technology increases the situational awareness through advancement in its low/no light operation integrated capability provided by a Modular Sensor Suite and Heads Up Display.

<u>Other Products (18% of Global Solutions revenue)</u>

The portfolio of our other Global Solutions products provides research services and bespoke technological solutions derived from EMEA Services, and includes QinetiQ Target Systems (QTS).

- UK Intelligence continues to invest in and sees demand for its product portfolio. For example, this past year saw continued demand for our Position Navigation and Timing Product (Q20) from 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) later this year.
- QTS offerings include fixed-wing targets, remotely-operated surface vessels (e.g. fast attack and piracy threats), customised uncrewed special mission vehicles, command and control systems, and teams, scoring systems, and launchers.
- QTS is committed to optimising customers' operational capabilities through the creation of realistic scenarios, rigorous testing, and live exercises. Low-cost supersonic targets like the Rattler (launched from QinetiQ's jet Banshee aerial platform) represent the next generation of threats that customers can use to train against.
- Demand for QTS products led to the highest production levels ever during FY24, and a continuing trend of increasing demand. QTS will achieve the significant production milestone of 10,000 Banshee and 750 Hammerhead targets during FY25 and continues to innovate to meet the changing customer training needs and evolving threats. For example, in the last year we have delivered improvements to manoeuvrability and altitude performance to the market leading Jet80+ target, improving the realism of the threat representation provided.
- QTS continues to make positive progress with customers such as the US Department of Defence, recently providing Test & Evaluation capabilities utilising the Rattler supersonic

target to support the development of Laser Directed Energy Weapons (LDEW) in response to emerging and evolving threats.

- QTS has delivered multi-domain threat representation, utilising both uncrewed aerial and maritime surface targets to present a realistic threat scenario for warships on pre-deployment training.
- In Germany QTS, working in collaboration with QinetiQ Germany as part of the newly established Threat Representation business, has delivered target services in support of the training and deployment of anti-aircraft systems.

Principal risks

There are a number of risks which management continue to identify, assess and mitigate to minimise their potential impact on performance. An explanation of risks and their mitigations, together with details of our risk management framework can be found in the 2024 Annual Report and Accounts (on pages 56 to 61) which will be available for download at: https://www.qinetiq.com/investors.

Having considered recent geopolitical and macroeconomic events, the Group believes the principal risks for FY25 are included in the 2024 Annual Report and Accounts. The Group's principal risks at 31 March 2024 related to the following areas: competitive landscape, disruptive technologies, acquisition integration, climate change, organisational culture, cyber security, management of change, health, safety & wellbeing, information security, IT infrastructure, licence to operate, P3M capability and strategic capability planning.

Consolidated income statement for the year ended 31 March

		FY24			FY23		
All figures in £ million	Note	**Underlying***	**Specific adjusting items***	**Total**	Underlying*	Specific adjusting items*	Total
Revenue	1,2	**1,912.1**	**-**	**1,912.1**	**1,580.7**	**-**	**1,580.7**
Operating costs excluding depreciation and amortisation		(1,644.3)	(26.1)	(1,670.4)	(1,353.4)	(29.5)	(1,382.9)
Other income		40.1	2.1	42.2	28.0	21.6	49.6
EBITDA (earnings before interest, tax, depreciation and amortisation)		**307.9**	**(24.0)**	**283.9**	**255.3**	**(7.9)**	**247.4**
Depreciation and impairment of property, plant and equipment		(58.1)	(0.7)	(58.8)	(51.5)	-	(51.5)
Amortisation of intangible assets		(7.4)	(25.2)	(32.4)	(7.5)	(15.6)	(23.1)
Operating profit/(loss)	2	**242.4**	**(49.9)**	**192.5**	**196.3**	**(23.5)**	**172.8**
Gain on business divestments	6	-	-	-	-	15.9	15.9
Finance income	7	5.3	5.6	10.9	6.8	9.9	16.7
Finance expense	7	(20.7)	-	(20.7)	(13.4)	-	(13.4)
Profit/(loss) before tax		**227.0**	**(44.3)**	**182.7**	**189.7**	**2.3**	**192.0**
Taxation (charge)/credit	8	(57.4)	14.3	(43.1)	(36.8)	(0.8)	(37.6)
Profit/(loss) for the year		**169.6**	**(30.0)**	**139.6**	**152.9**	**1.5**	**154.4**

Earnings per share for profit attributable to the owners of the parent company		FY24		FY23	
All figures in pence	Note	**Underlying***	**Total**	Underlying*	Total
Basic	9	29.4	24.2	26.5	26.8
Diluted	9	29.0	23.8	26.3	26.5

* 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	**FY24**	FY23
Profit for the year	**139.6**	**154.4**
Items that will not be reclassified to profit and loss:		
Actuarial loss recognised in defined benefit pension schemes	(108.9)	(253.9)
Tax on items that will not be reclassified to profit and loss	27.2	63.5
Total items that will not be reclassified to profit and loss	**(81.7)**	**(190.4)**
Items that may be reclassified to profit and loss:		
Foreign currency translation losses on foreign operations	(12.6)	(6.5)
Movement in deferred tax on foreign currency translation	0.1	(0.5)
Increase in the fair value of hedging derivatives	0.1	7.8
Movement in deferred tax on hedging derivatives	-	(1.6)
Total items that may be reclassified to profit and loss	**(12.4)**	**(0.8)**
Other comprehensive expense for the year, net of tax	**(94.1)**	**(191.2)**
Total comprehensive income/(expense) for the year	**45.5**	**(36.8)**

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 1 April 2023	**5.8**	**40.8**	**147.6**	**6.3**	**(4.2)**	**772.0**	**968.3**	**-**	**968.3**
Total comprehensive income/(expense)									
Profit for the year	-	-	-	-	-	139.6	139.6	-	139.6
Other comprehensive income/(expense) for the year, net of tax	-	-	-	0.1	(12.5)	(81.7)	(94.1)	-	(94.1)
Total comprehensive income/(expense)	-	-	-	0.1	(12.5)	57.9	45.5	-	45.5
Purchase of own shares	(0.1)	-	-	-	-	(51.0)	(51.1)	-	(51.1)
Share-based payments	-	-	-	-	-	8.8	8.8	-	8.8
Deferred tax on share-based payments	-	-	-	-	-	0.2	0.2	-	0.2
Dividends	-	-	-	-	-	(45.6)	(45.6)	-	(45.6)
At 31 March 2024	**5.7**	**40.8**	**147.6**	**6.4**	**(16.7)**	**742.3**	**926.1**	**-**	**926.1**

At 1 April 2022	**5.8**	**40.8**	**147.6**	**0.1**	**1.9**	**845.0**	**1,041.2**	**0.2**	**1,041.4**
Total comprehensive income/(expense)									
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)
Total comprehensive income/(expense)	-	-	-	6.2	(7.0)	(36.0)	(36.8)	-	(36.8)
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**

Consolidated balance sheet as at 31 March

All figures in £ million	Note	**31 March 2024**	31 March 2023
Non-current assets			
Goodwill	14	401.4	409.0
Intangible assets		321.8	343.0
Property, plant and equipment		531.8	477.8
Other financial assets		4.9	6.2
Equity accounted investments		2.2	1.4
Net pension asset	15	18.4	119.8
Deferred tax asset		36.7	32.6
		1,317.2	**1,389.8**
Current assets			
Inventories		89.2	68.8
Other financial assets		6.2	5.7
Trade and other receivables		456.8	452.6
Current tax asset		5.8	4.0
Cash and cash equivalents		231.0	151.2
		789.0	**682.3**
Total assets		**2,106.2**	**2,072.1**
Current liabilities			
Trade and other payables		(654.7)	(575.2)
Current tax payable		(6.6)	(4.6)
Provisions		(15.3)	(19.7)
Other financial liabilities		(9.2)	(8.2)
		(685.8)	**(607.7)**
Non-current liabilities			
Deferred tax liability		(94.4)	(112.0)
Provisions		(4.2)	(7.1)
Borrowings and other financial liabilities		(384.1)	(361.8)
Other payables		(11.6)	(15.2)
		(494.3)	**(496.1)**
Total liabilities		**(1,180.1)**	**(1,103.8)**
Net assets		**926.1**	**968.3**
Equity			
Ordinary shares		5.7	5.8
Capital redemption reserve		40.8	40.8
Share premium account		147.6	147.6
Hedging reserve		6.4	6.3
Translation reserve		(16.7)	(4.2)
Retained earnings		742.3	772.0
Capital and reserves attributable to shareholders of the parent company		**926.1**	**968.3**

Consolidated cash flow statement for year ended 31 March

All figures in £ million	Note	FY24	FY23
Underlying net cash inflow from operations	10	**320.2**	**270.1**
Less: specific adjusting items:	10	(26.1)	(29.5)
Net cash inflow from operations	10	294.1	240.6
Tax paid		(36.9)	(30.2)
Interest received		5.3	5.5
Interest paid		(19.4)	(9.9)
Net cash inflow from operating activities		**243.1**	**206.0**
Purchases of intangible assets		(10.9)	(13.8)
Purchases of property, plant and equipment		(85.4)	(95.2)
Proceeds from sale of property		2.1	2.4
Proceeds from sale of plant and equipment		0.2	-
Proceeds from disposal of business		-	28.1
Acquisition of businesses	5	(5.1)	(385.9)
Net cash outflow from investing activities		**(99.1)**	**(464.4)**
Purchase of own shares		(17.1)	(0.8)
Dividends paid to shareholders		(45.6)	(42.6)
Payment of bank facility arrangement fees		(0.5)	(2.7)
Capital element of lease payments		(6.8)	(7.4)
Drawdown of new borrowings		-	481.1
Repayment of borrowings		-	(140.0)
Repayment of acquired borrowings		-	(117.9)
Cash flow relating to intercompany loan hedges		6.8	(10.0)
Net cash (outflow)/inflow from financing activities		**(63.2)**	**159.7**
Increase/(decrease) in cash and cash equivalents		**80.8**	**(98.7)**
Effect of foreign exchange changes on cash and cash equivalents		(1.0)	1.8
Cash and cash equivalents at beginning of year		151.2	248.1
Cash and cash equivalents at end of year		**231.0**	**151.2**

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

All figures in £ million	Note	FY24	FY23
Increase/(decrease) in cash and cash equivalents in the year		**80.8**	**(98.7)**
Add back net cash flows not impacting net (debt)/cash		7.3	(331.0)
Movement in net (debt)/cash resulting from cash flows		88.1	(429.7)
Net increase in lease obligations		(31.2)	(15.3)
Net movement in derivative financial instruments		(0.5)	9.8
Other movements including foreign exchange		(0.7)	3.2
Movement in net (debt)/cash as defined by the Group		55.7	(432.0)
Net (debt)/cash as defined by the Group at beginning of the year		(206.9)	225.1
Net debt as defined by the Group at end of the year	11	**(151.2)**	**(206.9)**
Less: borrowings	11	336.3	337.6
Less: total net derivative financial instruments, capitalised borrowing costs and lease liabilities		45.9	20.5
Total cash and cash equivalents	11	**231.0**	**151.2**

Notes to the financial statements

1. Revenue from contracts with customers and other income

Revenue by category

All figures in £ million	**FY24**	FY23
Service contracts with customers	1,811.2	1,481.4
Sale of goods contracts with customers	95.7	96.1
Royalties and licences	5.2	3.2
Total revenue	**1,912.1**	**1,580.7**
Less: adjust current year for acquired businesses[1]	(161.0)	-
Less: adjust prior year for disposed businesses[1]	-	(27.6)
Adjust to constant prior year exchange rates	20.9	-
Total revenue on an organic, constant currency basis[2]	**1,772.0**	**1,553.1**
Organic revenue growth at constant currency[2]	*14%*	*12%*

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

Other income

All figures in £ million	**FY24**	FY23
Share of associates' and joint ventures' profit after tax	0.8	0.8
Research and development expenditure credits (RDEC)	27.2	17.4
Other income	12.1	9.8
Underlying other income	**40.1**	**28.0**
Specific adjusting item: gain on sale of property (note 3)	2.1	2.0
Specific adjusting item: release of RDEC MOD appropriation liability (note 3)	-	19.6
Total other income	**42.2**	**49.6**

Revenue by customer geographical location

All figures in £ million	**FY24**	FY23
United Kingdom (UK)	1,265.8	1,045.7
United States of America (US)	401.9	301.0
Australia	130.6	124.1
Home countries	**1,798.3**	**1,470.8**
Europe	52.8	69.4
Rest of World	61.0	40.5
Total revenue	**1,912.1**	**1,580.7**
Home countries revenue %	*94%*	*93%*
International (non-UK) revenue %	*34%*	*34%*

Revenue by major customer type

All figures in £ million	**FY24**	FY23
UK government	1,184.9	969.4
US government	389.3	230.8
Other*	337.9	380.5
Total revenue	**1,912.1**	**1,580.7**

* '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	FY24		FY23	
	Revenue from external customers	**Underlying operating profit***	Revenue from external customers	Underlying operating profit*
EMEA Services	1,417.4	163.4	1,179.3	137.1
Global Solutions	494.7	51.8	401.4	41.8
Operating profit from segments	**1,912.1**	**215.2**	**1,580.7**	**178.9**
Research and development expenditure credits (RDEC)		27.2		17.4
Underlying operating profit		**242.4**		**196.3**
*Operating profit margin from segments**		*11.3%*		*11.3%*

Reconciliation of segmental results to total profit

All figures in £ million	Note	**FY24**	FY23
Operating profit from segments*		215.2	178.9
Research and development expenditure credits (RDEC)		27.2	17.4
Underlying operating profit*		**242.4**	**196.3**
Specific adjusting items loss	3	(49.9)	(23.5)
Operating profit		**192.5**	**172.8**
Gain on business divestments		-	15.9
Net finance income		(9.8)	3.3
Profit before tax		**182.7**	**192.0**
Taxation expense		(43.1)	(37.6)
Profit for the year		**139.6**	**154.4**

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

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	**FY24**	FY23
Acquisition and disposal costs		(2.7)	(16.4)
Acquisition integration costs		(5.3)	(2.0)
Acquisition related remuneration costs		(1.2)	(0.3)
One-off period of digital investment		(16.9)	(5.8)
Restructuring costs		-	(5.0)
Release of RDEC MOD appropriation liability		-	19.6
Gain on sale of property		2.1	2.0
Specific adjusting items loss before interest, tax, depreciation and amortisation		**(24.0)**	**(7.9)**
Impairment of property		(0.7)	-
Amortisation of intangible assets arising from acquisitions		(25.2)	(15.6)
Specific adjusting items operating loss		**(49.9)**	**(23.5)**
Gain on disposal of businesses	6	-	15.9
Defined benefit pension scheme net finance income		5.6	9.9
Specific adjusting items (loss)/gain before tax		**(44.3)**	**2.3**
Tax impact of the above specific adjusting items	8	14.3	3.8
Deferred tax impact of change in future UK corporation tax rate	8	-	(4.6)
Total specific adjusting items (loss)/gain after tax		**(30.0)**	**1.5**

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

All figures in £ million	**FY24**	FY23
Underlying profit after tax	169.6	152.9
Total specific adjusting items (loss)/gain after tax	(30.0)	1.5
Total profit for the year	**139.6**	**154.4**

4. Profit before tax

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

All figures in £ million	**FY24**	FY23
Cost of inventories expensed	59.4	55.2
Owned assets: depreciation	49.3	45.3
Leases assets: depreciation	8.8	6.2
Foreign exchange loss/(gain)	0.6	(0.6)
Research and development expenditure - customer funded contracts*	315.4	299.2
Research and development expenditure - Group funded	12.8	14.6

* The prior year number for research and development expenditure from customer funded contracts was incorrectly reported in the 2023 financial statements as £313.8m and has been restated to £299.2m.

5. Business combinations

Acquisitions in the year to 31 March 2024

There were no acquisitions in the year ended 31 March 2024. However, £5.1m of deferred consideration payments were made in respect of the Air Affairs acquisition and legacy acquisitions within Avantus. The specific adjusting items operating result for the year includes various acquisition related items as set out in note 3.

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, were 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, were 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.

Air Affairs Australia

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$53.0m, 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.

6. Gain/(loss) on business divestments

During the year 31 March 2024, there were no business divestments. The gain on business divestments of £15.9m in year ended 31 March 2023 related 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 was settled entirely in cash.

7. Finance income and expense

All figures in £ million	FY24	FY23
Bank interest receivable	5.3	6.8
Finance income before specific adjusting items	**5.3**	**6.8**
Amortisation of deferred financing costs	(1.2)	(0.8)
Bank interest and commitment fees	(16.6)	(10.6)
Lease expense	(2.8)	(1.1)
Unwinding of discount on financial liabilities	(0.1)	(0.1)
Other interest	-	(0.8)
Finance expense	**(20.7)**	**(13.4)**
Underlying net finance expense	**(15.4)**	**(6.6)**
Plus: specific adjusting items – defined benefit pension scheme net finance income	5.6	9.9
Net finance income	**(9.8)**	**3.3**

8. Taxation

All figures in £ million	FY24			FY23		
	Underlying	**Specific adjusting items**	**Total**	Underlying	Specific adjusting items	Total
Profit/(loss) before tax	**227.0**	**(44.3)**	**182.7**	**189.7**	**2.3**	**192.0**
Taxation (expense)/income	(57.4)	14.3	(43.1)	(36.8)	(0.8)	(37.6)
Profit/(loss) for the year	**169.6**	**(30.0)**	**139.6**	**152.9**	**1.5**	**154.4**
Effective tax rate	25.3%		23.6%	19.4%		19.6%

The total tax charge was £43.1m (FY23: £37.6m). The underlying tax charge was £57.4m (FY23: £36.8m), on a higher underlying profit before tax, with an underlying effective tax rate of 25.3% for the year ending 31 March 2024 (FY23: 19.4%). The underlying effective tax rate is above the UK statutory rate of 25% (FY23:19%) primarily as a result of higher overseas tax rates and non-deductible overseas interest offset by prior year adjustments to returns.

Tax on specific adjusting items
The total specific adjusting items tax credit £14.3m (FY23 charge: £0.8m). The tax credit primarily arises on intangible amortisation and tax deductible digital transformation, acquisition and integration costs.

Factors affecting future tax charges
The underlying effective tax rate is expected to remain marginally above the UK statutory rate, subject to the impact of any tax legislation changes and the geographic mix of profits. The Group has engaged with advisers to assess and manage any potential impact on the tax charge by the UK's enactment of the OECD's Global Anti-Base Erosion Model Rules (Pillar Two). The Group has applied the temporary exemption issued by the International Accounting Standards Board from the accounting for deferred taxes under IAS12 and neither recognises nor discloses information about deferred taxes related to Pillar Two income taxes. The Group does not anticipate a material quantitative impact from Pillar Two legislation, however, there are expected to be significant compliance obligations.

Tax losses
At 31 March 2024 the Group had unused tax losses and carried forward interest expense of £212.3m (31 March 2023: £175.6m) which are available for offset against future taxable profits. Deferred tax assets are recognised on the balance sheet of £29.0m in respect of £109.8m of US net operating losses, £4.9m in respect of £20.9m of Canadian net operating losses and £2.0m in respect of £6.8m of German trade losses. A deferred tax asset of £1.0m is recognised in respect of £3.3m of German excess interest. No deferred tax asset is recognised in respect of the £71.5m 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 £19.3m. 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 2024 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 9-11 years. A 10% change in the forecast profits would alter the utilisation period by 3 years.

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.

		FY24	FY23
Weighted average number of shares	**Million**	**577.0**	**575.9**
Effect of dilutive securities	Million	8.7	6.4
Diluted number of shares	**Million**	**585.7**	**582.3**

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

		FY24	FY23
Profit attributable to the owners of the Company	£ million	139.6	154.4
Remove (profit)/loss after tax in respect of specific adjusting items	£ million	30.0	(1.5)
Underlying profit after taxation	**£ million**	**169.6**	**152.9**
Weighted average number of shares	Million	577.0	575.9
Underlying basic EPS	**Pence**	**29.4**	**26.5**
Diluted number of shares	Million	585.7	582.3
Underlying diluted EPS	**Pence**	**29.0**	**26.3**

Basic and diluted EPS

		FY24	FY23
Profit attributable to the owners of the Company	£ million	139.6	154.4
Weighted average number of shares	Million	577.0	575.9
Basic EPS	**Pence**	**24.2**	**26.8**
Diluted number of shares	Million	585.7	582.3
Diluted EPS	**Pence**	**23.8**	**26.5**

10. Cash flows from operations

All figures in £ million	**FY24**	FY23
Profit after tax for the year	139.6	154.4
Adjustments for:		
Taxation expense	43.1	37.6
Net finance expense/(income)	9.8	(3.3)
Gain on disposal of businesses	-	(15.9)
Loss on disposal of plant and equipment	-	0.2
Loss on disposal of intangibles	0.9	-
Gain on sale of property	(2.1)	(2.0)
Impairment of property	0.7	-
Amortisation of purchased or internally developed intangible assets	7.4	7.5
Amortisation of intangible assets arising from acquisitions	25.2	15.6
Depreciation of property, plant and equipment	58.1	51.5
Share of post-tax profit of equity accounted entities	(0.8)	(0.8)
Share-based payments charge	9.4	6.1
Retirement benefit contributions in excess of income statement expense	(1.9)	(1.6)
Net movement in provisions	(5.1)	(1.0)
	284.3	248.3
Increase in inventories	(21.4)	(9.6)
Increase in receivables	(10.0)	(56.7)
Increase in payables	41.2	58.6
Changes in working capital	9.8	(7.7)
Net cash flow from operations	**294.1**	**240.6**

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

All figures in £ million	**FY24**	FY23
Net cash flow from operations	294.1	240.6
Add back specific adjusting item: digital investment	16.9	5.8
Add back specific adjusting item: restructuring costs	-	5.0
Add back specific adjusting item: acquisition integration and remuneration costs	6.5	2.3
Add back specific adjusting item: acquisition transaction costs	2.7	16.4
Total specific adjusting items	26.1	29.5
Underlying net cash flow from operations	**320.2**	**270.1**
Less: tax and net interest payments	(51.0)	(34.6)
Less: net purchases of intangible assets and property, plant and equipment	(96.1)	(109.0)
Free cash flow	**173.1**	**126.5**

Underlying cash conversion ratio

	FY24	FY23
Underlying EBITDA - £ million	307.9	255.3
Underlying net cash flow from operations - £ million	320.2	270.1
Underlying cash conversion ratio - %	**104%**	**106%**

11. Net debt

All figures in £ million	31 March 2024	31 March 2023
Current financial assets/(liabilities)		
Deferred financing costs	1.0	1.3
Derivative financial assets	5.2	4.4
Lease liabilities	(8.1)	(7.6)
Derivative financial liabilities	(1.1)	(0.6)
Total current net financial liabilities	**(3.0)**	**(2.5)**
Non-current financial assets/(liabilities)		
Deferred financing costs	1.1	1.5
Derivative financial assets	3.8	4.7
Lease liabilities	(47.4)	(23.7)
Borrowings – Term loan	(336.3)	(337.6)
Derivative financial liabilities	(0.4)	(0.5)
Total non-current net financial liabilities	**(379.2)**	**(355.6)**
Total net financial liabilities	**(382.2)**	**(358.1)**
Total cash and cash equivalents	231.0	151.2
Total net debt as defined by the Group	**(151.2)**	**(206.9)**

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 2024:

All figures in £ million	Level 1	Level 2	Level 3	Total
Assets:				
Current derivative financial instruments	-	5.2	-	5.2
Non-current derivative financial instruments	-	3.8	-	3.8
Liabilities:				
Current derivative financial instruments	-	(1.1)	-	(1.1)
Non-current derivative financial instruments	-	(0.4)	-	(0.4)
Total	**-**	**7.5**	**-**	**7.5**

The following table presents the Group's assets and liabilities that are measured at fair value 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**

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 2024 and 31 March 2023 is provided below:

	Pence per share	**£m**	**Date paid/payable**
Interim 2024	2.60	15.0	Feb 2024*
Final 2024 (proposed)	5.65	31.9	Aug 2024
Total for the year ended 31 March 2024	**8.25**	**46.9**	
Interim 2023	2.40	13.8	Feb 2023
Final 2023	5.30	30.6	Aug 2023*
Total for the year ended 31 March 2023	**7.70**	**44.4**	

* Total cash paid in the year to 31 March 2024 was £45.6m (FY23: £42.6m).

The proposed final dividend in respect of the year ending 31 March 2024 will be paid on 22 August 2024. The ex-dividend date is 25 July 2024 and the record date is 26 July 2024.

14. Goodwill

All figures in £ million	**31 March 2024**	31 March 2023
Cost		
At 1 April	562.7	296.1
Acquisitions	-	267.7
Disposals	-	(5.6)
Foreign exchange	(11.0)	4.5
At 31 March	**551.7**	**562.7**
Accumulated impairment		
At 1 April	(153.7)	(146.7)
Foreign exchange	3.4	(7.0)
At 31 March	**(150.3)**	**(153.7)**
Net book value at 31 March	**401.4**	**409.0**

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 Solutions segment. The full list of CGUs that have goodwill allocated to them is as follows:

All figures in £ million	Primary reporting segment	31 March 2024	31 March 2023
US Technology Solutions	Global Solutions	43.1	44.1
US C5ISR	Global Solutions	36.0	36.8
US Avantus Federal	Global Solutions	252.5	257.8
Target Systems	Global Solutions	24.4	24.5
Germany	EMEA services	2.7	2.7
Naimuri	EMEA services	14.8	14.8
Inzpire	EMEA services	11.7	11.7
QinetiQ Training & Simulation	EMEA services	7.8	7.8
Australia	EMEA Services	5.6	5.8
Air Affairs Australia	EMEA Services	2.8	3.0
Net book value at 31 March		**401.4**	**409.0**

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. There are no likely variations in the key assumptions used for any of the CGUs 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 generally 'bottom-up' forecasts based on detailed analysis by contract for the revenue under contract and by opportunity for the pipeline, or with growth rates assumed based on market benchmarks. 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 2024: (2023)	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 (2.2)	2.3 (2.3)	2.3 (2.3)	2.2 (2.2)	2.4 (2.3)	2.4 (2.3)	2.2 (2.2)	2.2 (2.2)	2.2 (2.2)
Pre-tax discount rate	10.7 (11.1)	11.1 (10.9)	10.6 (11.2)	10.7 (11.2)	11.1 (12.0)	13.0 (12.9)	12.8 (12.9)	8.8 (8.9)	11.1 (10.9)	11.0 (11.8)

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 £43.1m as at 31 March 2024 (2023: £44.1m). The recoverable amount of this CGU as at 31 March 2024, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £120.2m). 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.

US C5ISR
The carrying value of the goodwill for the US C5ISR CGU as at 31 March 2024 was £36.0m (2023: £36.8m). The recoverable amount of this CGU as at 31 March 2024, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £91.2m). 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.

Avantus
The carrying value of the goodwill for the Avantus CGU as at 31 March 2024 was £252.5m (2023: £257.8m). The recoverable amount of this CGU as at 31 March 2024, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of the net operating assets (of £411.7m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. The key assumption impacting those terminal year cash flows is the revenue growth rate applied over the period of the value in use calculation, which is based on market growth rates for the high growth segments in which the business operates in. A 400 basis point reduction in the compound annual revenue growth rate over the period, which is considered a reasonably possible change, would not cause the net operating assets to exceed their recoverable amount. 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 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 2024 was £24.4m (2023: £24.5m). The recoverable amount of this CGU as at 31 March 2024, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £92.0m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate of 1%, a decrease in the terminal growth rate of 1% or a decrease in the terminal year cash flows of £2.0m, 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 2024 was £2.7m (2023: £2.7m). The recoverable amount of this CGU as at 31 March 2024, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £52.6m). Confidence in the business prospects over the next five years has increased during the year, with a healthy pipeline of opportunities. The key sensitivity affecting 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. 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.

Naimuri
The carrying value of the goodwill for the Naimuri CGU as at 31 March 2024 was £14.8m (2023: £14.8m). The recoverable amount of this CGU as at 31 March 2024, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £23.6m). The key sensitivity affecting 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.

Inzpire
The carrying value of the goodwill for the Inzpire CGU as at 31 March 2024 was £11.7m (2023: £11.7m). The recoverable amount of this CGU as at 31 March 2024, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £20.8m). 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 £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 2024 was £7.8m (2023: £7.8m). The recoverable amount of this CGU as at 31 March 2024, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £11.6m). 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 £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 2024 was £5.6m (2023: £5.8m). The recoverable amount of this CGU as at 31 March 2024, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £15.5m). 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.

Air Affairs Australia
The carrying value of the goodwill for the Air Affairs Australia CGU as at 31 March 2024 was £2.8m (2023: £3.0m). The recoverable amount of this CGU as at 31 March 2024, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £36.0m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate of 1% or 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.

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	**FY24**	FY23
Total market value of assets – see following table for analysis by category of asset	1,316.2	1,355.2
Present value of Scheme liabilities	(1,297.8)	(1,235.4)
Net pension asset before deferred tax	**18.4**	**119.8**
Deferred tax liability	(9.6)	(35.4)
Net pension asset after deferred tax	**8.8**	**84.4**

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 2023 year end was an experience loss following recalibration to the recently completed 30 June 2023 triennial valuation.

Total expense recognised in the income statement

All figures in £ million	**FY24**	FY23
Net finance income	5.6	9.9
Administrative expenses	(1.5)	(1.4)
Total net income recognised in the income statement (gross of deferred tax)	**4.1**	**8.5**

Movement in the net pension asset

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

All figures in £ million	**FY24**	FY23
Opening net pension asset	119.8	362.2
Net finance income	5.6	9.9
Net actuarial loss	(108.9)	(253.9)
Administration expenses	(1.5)	(1.4)
Contributions by the employer	3.4	3.0
Closing net pension asset	**18.4**	**119.8**

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 2024			31 March 2023^		
	Quoted	**Not quoted in an active market**	**Total**	Quoted	Not quoted in an active market	Total
Equities	-	21.8	21.8	-	32.9	32.9
Liability Driven Investment	414.9	-	414.9	399.2	-	399.2
Asset backed securities	35.5	-	35.5	4.3	-	4.3
Alternative bonds[1]	-	253.8	253.8	-	256.4	256.4
Corporate bonds[2]	31.1	120.6	151.7	-	115.6	115.6
Cash and cash equivalents	-	36.5	36.5	-	17.2	17.2
Equity derivative financial instruments[3]	15.8	-	15.8	5.4	-	5.4
Corporate credit derivative financial instruments[4]	2.2	-	2.2	2.0	-	2.0
Other derivatives (forward FX contracts)[5]	1.6	-	1.6	6.7	-	6.7
Insurance buy-in policies	-	507.4	507.4	-	515.5	515.5
Borrowings	-	(125.0)	(125.0)	-	-	-
Total market value of assets	**501.1**	**815.1**	**1,316.2**	**417.6**	**937.6**	**1,355.2**

^ Restated to reclassify equity and corporate credit derivatives based on fair values
[1] Primarily private market debt investments.
[2] Includes unlisted corporate bonds with commercial property held as security.
[3] The fair value of equity derivative financial instruments is £15.8m. This reflects the marked to market valuation of all equity derivatives held by the Scheme. The exposure to equities is significantly greater than the fair value, with a notional value of the equity derivative financial instruments of £171.7m as at 31 March 2024, and a total economic exposure value of £187.5m.
[4] The fair value of corporate credit derivative financial instruments is £2.2m. This is in respect of various credit default swap financial instruments held by the Scheme. These provide significantly greater exposure to corporate bonds. The notional value of these financial instruments was £100.1m as at 31 March 2024, with a total economic exposure value of £102.3m.
[5] The fair value of other derivative financial instruments is £1.6m. This is in respect of various foreign exchange contracts held by the Scheme. The exposure to foreign exchange risk is significantly greater than the £1.6m marked to market value of the forward contracts. The notional value of these financial instruments was £210.0m as at 31 March 2024, with a total economic exposure value of £211.6m.

During the year the pension fund took out a loan of £125m to facilitate an increase in the level of hedging in place.

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 2024		31 March 2023	
	Insured members	**Uninsured members**	**Insured members**	**Uninsured members**
Discount rate applied to Scheme liabilities	4.80%	4.80%	4.80%	4.65%
CPI inflation assumption	2.55%	2.60%	2.55%	2.70%
Net rate (discount rate less inflation)	2.25%	2.20%	2.25%	1.95%
Assumed life expectancies in years:				
At 60 for males currently aged 40	n/a	28.3	n/a	27.9
At 60 for females currently aged 40	n/a	30.7	n/a	30.3
At 60 for males currently aged 60	n/a	26.7	n/a	26.2
At 60 for females currently aged 60	n/a	29.1	n/a	28.2
At 65 for males currently aged 65	22.3	n/a	21.6	n/a
At 65 for females currently aged 65	24.8	n/a	23.3	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
Decrease discount rate by 0.25%	Increase by £12.6m	Increase by £42.5m	Decrease by £29.9m
Increase rate of inflation by 0.25%	Increase by £12.3m	Increase by £41.6m	Decrease by £29.3m
Increase life expectancy by one year	Increase by £13.8m	Increase by £34.4m	Decrease by £20.6m

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 2023 this portfolio hedged against approximately 65% of the interest rate and also 80% of the inflation rate risk, as measured on the Trustees' gilt-funded basis. During the current financial year the hedges have been increased to cover approximately 80% of the interest rate risk and 85% of the inflation rate risk as at 31 March 2024, 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 reduces 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 £253.8m; the unquoted corporate bonds of £120.6m and the unquoted equities of £21.8m are the assets with most uncertainty as to valuation as at 31 March 2024.

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.

The most recent completed full actuarial valuation of the Scheme was undertaken as at 30 June 2023 and resulted in an actuarially assessed surplus of £11.4m (relative to the technical provisions i.e. the level of assets agreed by the Trustee and the Company as being appropriate to meet member benefits, assuming the Scheme continues as a going concern). The next triennial valuation will be performed as at 30 June 2026. Under the new schedule of contributions agreed at the conclusion of the recent triennial valuation, and reflecting the Scheme being in surplus, there are no employer contributions required. Separately to the schedule of contributions the Company does have a cash commitment to the Scheme in respect of an asset-backed funding arrangement established in 2012. The annual distribution in the year to 31 March 2025 will be £3.5m, which will increase thereafter, indexed by reference to CPI, until 2032.

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 2,767,125 shares (FY23: 4,208,899 shares). In the year ended 31 March 2024 the Group granted/awarded 8.1m new share-based awards to employees (FY23: 1.5m).

17. Contingent liabilities and assets

Subsidiary undertakings within the Group have given unsecured guarantees of £56.7m at 31 March 2024 (31 March 2023: £33.6m) 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 2024 there were sales to associates and joint ventures of £3.1m (FY23: £0.4m). At the year end there were outstanding receivables from associates and joint ventures of £2.8m (FY23: £0.5m).

19. Capital commitments

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

All figures in £ million	**31 March 2024**	31 March 2023
Total contracted	57.8	43.4

Capital commitments at 31 March 2024 include £49.7m (2023: £21.2m) 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 2023, 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 2024. 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 2023 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.

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. 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 businesses, property and investments	✓	✓	✓
Transaction, integration and on-off remuneration costs in respect of business acquisitions and disposals	✓		✓
Impairment of property and goodwill	✓		
One-off period of 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 Group enters the year with a 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.

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 (debt)/cash	Net (debt)/cash as defined by the Group combines cash and cash equivalents with borrowings, deferred financing costs, derivative financial instruments and lease liabilities. Net (debt)/cash does not include liabilities relating to irrevocable share buyback obligations.	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, integration and acquisition-related remuneration costs in respect of business acquisitions and disposals; digital investment; tax impact of the preceding items and significant non-recurring tax and RDEC movements	Note 3