Registration number: 03796233

QinetiQ Limited

Annual report and financial statements

for the year ended 31 March 2023

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QinetiQ Limited
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Year references (FY23, FY22, 2023, 2022) refer to the Company's financial year ended 31 March

QinetiQ Limited
Company information

Directors	Peter Montague-Fuller Caroline Borg Grant Minnican James Field Heather Cashin
Company secretary	James Field
Registered office	Cody Technology Park Ively Road Farnborough Hampshire GU14 0LX
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountant and Statutory Auditors Savannah House 3 Ocean Way Southampton SO14 3TJ

QinetiQ Limited
Strategic report for the year ended 31 March 2023

The Directors present their Strategic Report for the year ended 31 March 2023.

Principal activities

QinetiQ Limited's principal activities during the year were the supply of technical support, test and evaluation, training, technical solutions and high-technology products to customers in the global defence, aerospace and security markets.

Business review

QinetiQ Limited ('the Company') is a subsidiary of QinetiQ Group plc ('the Group'). The Company primarily forms the core of the Group's UK operations.

The Company operates through two customer-focused divisions: EMEA Services and Global Products. Details of the EMEA Services division (including businesses managed directly by other Group companies) can be found on pages 36 of the QinetiQ Group plc Annual Report and Accounts 2023. Details of the Global Products division (including businesses managed directly by other Group companies) can be found on pages 37 of the QinetiQ Group plc Annual Report and Accounts 2023.

Orders in the year totalled £1,219.6m (2022: £820.7m). This has been driven by multi-year framework contracts including a £260m, 10-year extension of the Maritime Strategic Capability Arrangement (MSCA) contract to deliver critical sovereign capabilities to the UK MoD, £404m of Engineering Delivery Partner (EDP) framework orders and £80m for SOCIETAS within EMEA Services.

The profit before taxation was £200.0m (2022 restated*: profit of £178.9m). This included a gain on sale of property £2.0m (2022: £0.7m), finance income of £9.9m (2022: £4.5m) related to the defined benefit pension net surplus and the accounting policy change in respect of Research and Development Expenditure Credits ("RDEC") in which the Company now presents RDEC income within other operating income, as opposed to the previous treatment of recognizing it within the taxation line. The impact of the accounting policy change to profit before taxation is additional income of £16.9m (2022 restated*: £25.8m), see note 28 for more detail. During the year the Company paid a dividend of £242.6m (2022: £40.2m) to its parent company, QinetiQ Holdings Limited, and received dividend income of £0.9m (2022: £3.8m) from subsidiary undertakings. Tax expense in the year of £32.6m (2022 restated: £44.6m).

The Company's key financial and other performance indicators during the year were as follows:

	Unit	2023	2022 restated*
Orders	£m	1,219.6	820.7
Revenue growth	%	7.9	12.7
Operating profit	£m	144.4	163.6
Profit after taxation	£m	167.4	134.3

	2023	2022
Net promoter score 1	44	31
Health and safety 2 (LTI)	1.2	2.5

1) The net promoter score (NPS) is an internationally recognised metric for customer satisfaction. The NPS score is calculated by deducting the percentage of customers who are detractors from the percentage who are promoters, and can therefore range from -100 to +100.

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

* Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 28 for details.

The key risks and uncertainties impacting on the Company relate to the following:

UK large contract renewals

Risk

A material element of the Group's revenue is derived from large UK Government contracts which are set to expire over the next five years to 2028. These include the 25-year Long Term Partnering Agreement (LTPA), the 10-year Engineering Delivery Partnership (EDP), the 10-year Maritime Strategic Capability Agreement (MSCA) and the 5-year Weapon Sector Research Framework.

The Company could be unsuccessful in its efforts to renew these contracts or secure a leading position in future versions of them.

Mitigation

Performance excellence against current contract deliverables, and a deep appreciation of why and how we have to evolve our offerings to deliver resonating customer value now and into the future. This is certainly the case across our two largest UK contracts, the LTPA and EDP.

We are investing significantly into the LTPA capabilities to ensure they remain relevant and modern. The investment portfolio is agile to changing customer needs and technological advances to ensure we remain at the cutting edge of Test, Trials, Training, and Evaluation (T3E).

Since transitioning to fully output-based delivery on the LTPA in 2019, we have demonstrated excellent financial performance on the contract. Maintaining this strong Cost Performance Index (CPI), through optimising efficient delivery in new and agile ways significantly reduces customer affordability challenges.

EDP continues to evolve, and following a successful 2* review of our performance at the year 4 anniversary, we have re-baselined the contract KPIs to better reflect the changing demands of our customers, and our ever-closer working relationship. We continue to focus our efforts on long-term, output-based contracting, maximising efficiencies, and increasing the potential for more innovative engineering delivery. Our relationship with the Aurora Partners remains strong, providing a stable foundation to support DE&S, Strategic Command and the Front Lines.

The digital and data programme

Risk

The Digital and Data Programme aims to position QinetiQ for further growth by globalising consistently around the customer to deliver excellence. In order to achieve this we must invest in our processes and systems to embed a robust QinetiQ Operating Model, supported by a Global Interoperable Infrastructure to enhance our collaboration, and a Digital Workspace that enables us to leverage our skills globally. This requires significant alignment and effort across the Company as well as cultural and behavioural changes.

There is a risk that the investment required to achieve the intended outcomes is greater than budgeted, that the programme benefits are not fully realised and our Company ambitions are constrained.

The key risks and uncertainties impacting on the Company relate to the following (continued):

The digital and data programme (continued)

Mitigation

QinetiQ Leadership Team work-stream sponsorship and Company-wide stakeholder engagement ensure robust requirement identification and focussed investment. This is supported by a CEO-led steering group and a Global Digital & Data Programme Board.

Budget and scope are managed through a robust governance model reporting to the QinetiQ Leadership Team and Board that gives sufficient flexibility to respond to changing customer needs but with the guide rails in place to identify and control potential cost overruns.

Benefits realisation is managed through a strong focus on change management to drive adoption and the required changes to behaviours. The Digital & Data Programme acts as an enabler for the overall transformation by providing the tools and ways of working to more rapidly address the cultural and behavioural changes required to make the programme a success.

Cyber

Risk

There is a greater than normal risk of cyber-attack due to QinetiQ's relative priority as a target for state offensive cyber actors and ongoing global geopolitical issues. An attack could impact QinetiQ, our customers and/or our suppliers globally, regardless of the immediate or intended location of the target.

Mitigation

As a key supplier in the multiple country National Security supply chains, we must ensure that the organisation's security meets governments' and other relevant requirements worldwide.

- The implementation of a Group Cyber Security Standard
- Targeted cyber security training for key IT staff, and mandatory awareness training for all staff and contractors
- Deployment and continual upgrade of cyber security detection and protective technologies
- Operational assurance exercising

This activity is supported by a wider digital investment programme implementing a mixture of culture and technological improvements across the Company. This activity will provide more consistency across the Company globally, along with a modern Enterprise Architecture.

Significant breach of relevant laws and regulations

Risk

We operate in highly regulated environments across many jurisdictions, at a time when there is a rising regulatory landscape for businesses to comply with. Non-compliance presents a risk to people, property and the environment, as well as having the potential to compromise our ability to conduct business.

Mitigation

The QinetiQ Operating Model defines responsibility through the organisation, and there is a cultural programme led by the QinetiQ Code of Conduct that helps drive attitudes and behaviours. In addition, there are policies and procedures, and a mandatory training programme applicable to all employees.

QinetiQ has adopted the Three Lines Model, structuring a compliance and assurance framework that enables a risk-focused approach to compliance, alongside an assurance programme that includes reporting regularly to the Board and internal senior management.

The key risks and uncertainties impacting on the Company relate to the following (continued):

Security

Risk

QinetiQ operates in a dynamic global threat environment with high-value assets, people and data, which could be desirable targets for criminals, competitors, pressure groups and state actors. A breach of physical, personnel or Information Security could lead to the loss of information or harm for our employees, customers and broader stakeholders.

Mitigation

As a key supplier in National Security supply chains and international Operational capabilities, we must ensure that organisational security meets government and other relevant requirements worldwide. The Company employ a holistic security threat approach through four interlocking pillars: Physical, Information, Cyber and Personnel Security. Our changing and increasingly sophisticated threat environment is continuously reviewed, using appropriate tools and techniques, as part of our over-arching Security Strategy such that new and emerging threats are removed or mitigated, ensuring our strategy appropriately balances the security, cost and flexibility required for any given solution.

Our programme of continuous security improvement is underpinned by annual strategic security reviews and aligned to key work streams for Transformation, Culture Development, Global Information Interoperability and then Digital Programme.

Project, Programme and Portfolio Management (P3M) capability

Risk

QinetiQ operates in a competitive and complex delivery environment. Scalable, adaptable and agile leadership of work is the norm. There is a risk that our Portfolio, Programme and Project Management (P3M) maturity fails to keep pace with our growth plans and evolving requirements. We must continually innovate and develop our competency frameworks, professionalism, processes, tools and training in order to ensure consistent excellence in winning business and delivering for our customers.

Mitigation

The Group Performance Excellence (GPE) function is responsible for the continuous improvement of our robust P3M framework in order to provide a scalable and consistent approach to delivering benefits on time, cost and quality. Work is ongoing to update and roll out the Global P3M Competency Framework and the P3M Delegations process, ensuring Project Manager skills and experience are matched to the project complexity.

Project Management Offices (PMOs) have been embedded in each business unit, and are actively implementing GPE outputs; including the Global Competency Framework and the P3M Delegations process.

The key risks and uncertainties impacting on the Company relate to the following (continued):

Climate change resilience and Net-Zero

Risk

QinetiQ Limited must reduce GHG emissions and ensure the risks and opportunities resulting from the changing climate and decarbonising economy are understood. Failure to embed climate change into our strategy and processes will result in the Company not being resilient to supply chain challenges or legislative requirements and will leave our operations exposed.

We may also not be able to meet customer requirements or optimise our position in a decarbonised future.

Mitigation

We have a strong track record of environmental stewardship and have published our Net-Zero plan but recognise that there is more we can do.

We have developed a Net-Zero plan and are committed to science based targets (approved by SBTi) to drive our emissions to Net-Zero by 2050 or sooner. We have in place initiatives across the Company to ensure that we are embedding our Net-Zero transition plan:

- Investment in energy efficiency projects to deliver Net-Zero operations to reduce our Scope 1 and Scope 2 emissions.
- Development of programmes to deliver reductions in Scope 3 emissions.
- Delivery of critical internal and industry-wide enabling activities (e.g. cost of carbon, and remuneration incentives).
- Working with our customers to develop sustainable solutions and protecting biodiversity.

We have undertaken a comprehensive review of the risk of climate change to our business.

This includes embedding climate change into business as usual, integrating opportunities into our strategy and ensuring efficacy through leadership oversight with supporting tracking metrics. We continue to improve this approach.

Health and safety

Risk

Due to the variety, complexity and hazards associated with QinetiQ's operations, there is a risk of an unplanned and uncontrolled event occurring on a QinetiQ site, resulting in serious injury or fatality to employees, contractors, visitors and members of the public or other third parties.

Mitigation

A global safety improvement programme will enable QinetiQ to increase its safety culture maturity and deliver sustainable safety improvements, including:

- Improving the effectiveness of global safety processes to achieve overall risk reduction
- An aligned and globally integrated three lines of safety assurance approach
- Enhanced safety performance measurements providing insights on incidents and other metrics
- Enhancing competence and upskilling employees to become better safety leaders and role models
- Reviewing technology as an enabler for safety

We are working to embed the new QinetiQ Operating Model (QOM) into the safety organisation, management system and our Operating Sectors.

Use Global Roadshows and Q-Talks to clarify upcoming safety improvements and how these will both impact our people and enable our organisation to improve its safety culture maturity.

The key risks and uncertainties impacting on the Company relate to the following (continued):

Strategic workforce planning

Risk

There is a risk that we fail to grow and adapt our planning, development and employee value proposition for the right capability to deliver excellence from our customers in the longer term.

Mitigation

Our people are a core consideration in all of our strategic and operational planning.

We are enhancing our Strategic Workforce Planning (SWP), the Early Careers Programme, Diversity and Inclusion (D&I) Plans, and career management approach through the release of the Personal Development Fund and Talent Management Systems. The People function is developing a global methodology for harnessing future capability requirements, assimilating better understanding of the skills gaps and identifying strategic solutions to mitigate these.

A high-performance culture is central to our People strategy, supported by engagement, talent review and reward strategies. This is further enabled through our Adaptive Working principles which have capitalised on the diverse ways that our people work.

Culture

Risk

Developing an inclusive, high-performing culture where our people can thrive will maximise our potential. We operate in a rapidly changing and disruptive landscape and there is a risk that we do not develop global, agile and integrated ways of working to ensure successful delivery for our customers and achievement of our strategic goals.

Mitigation

We have implemented our QinetiQ operating model and we are investing in developing our culture to ensure our people can thrive and be at their best. We are focusing on leading and engaging our people through strong leadership, embedding our approach to inclusion, diversity and belonging, people management and development supported by aligned rewards, systems, tools and processes that enable performance and help us embed our new ways of working.

Macroeconomic volatility

Risk

Failure to anticipate and plan for a volatile macroeconomic environment.

Specifically failure to understand the impact on the QinetiQ Group of:
- Inflation changes
- Interest rate movements
- Foreign currency

Mitigation

We seek to manage the risk in various ways:

- Existing contract understanding of inflation impacts
- Analysis of target customer base in the event of macroeconomic shocks
- New terms and conditions appropriate for uncertainty around inflation
- Deployment of our Treasury policy that avoids speculation on foreign exchange and interest rate risks (i.e. hedging, % of fixed v floating rates)

As part of the strategic planning process, we model the resilience of our financial position against different macro-economic scenarios.

Section 172 (1) statement

The Directors welcome their responsibilities to promote the success of the Company in accordance with section 172 of the 2006 Companies Act.

The Board of QinetiQ Limited confirm that during the year under review, it has acted to promote the long term success of the Company for the benefit of the shareholders and ensures that all decisions are taken for the long term, and collectively and individually aims to always uphold the highest standard of conduct. Similarly, the Directors acknowledge that the business can only grow and prosper over the long term if they understand and respect the views and needs of the Company's investors, customers, employees, suppliers and other stakeholders to whom the Company is accountable, as well as the environment the Company operates within.

Typically, in large and complex companies such as QinetiQ Limited, the Directors fulfil their duties through a Group wide governance framework that delegates day-to-day decision making, which is part of the wider QinetiQ Group (the 'Group') to the employees of the QinetiQ Group companies. The Board recognises that such delegation needs to be part of a robust governance structure, which covers the Group's values, how the Group engages with its stakeholders, and how the Board of Directors of QinetiQ Limited assures itself that the governance structure and systems of controls continue to be robust. Although QinetiQ Limited is used for trading and employment purposes within the wider QinetiQ Group, the majority of decisions concerning employee engagement and stakeholder relationships are made by the Board of QinetiQ Group plc, the Company's ultimate parent company.

By way of example, the Group operates a Group Delegation Matrix which ensures that:

- Decisions put before the Directors are within approved budgets and previously approved management/project plans, and operate in conjunction with our Operating Framework processes.
- Contentious issues (in particular any proposed contracting: (i) in new markets; or (ii) with non-traditional customers; or (iii) with non-familiar technologies; or (iv) where the sale of a technology or capability to a particular customer or for a particular use could give rise to adverse publicity through ethical or reputational risks; or (v) which could give rise to competition issues; or (vi) which has the potential to cause business disruption; or (vii) which involves regulatory issues that are not usual course of business; or (viii) in geographical territories recognised to be higher risk to operate in; or (ix) where the contract could give rise to a situation which would have a material negative impact on a group company's overall profit margin; or (x) involving any other factor that could introduce unfamiliar and/or difficult to mitigate risks) are always referred to the ultimate parent company, QinetiQ Group plc.
- Managers are able to delegate authority provided to them in the Group Delegations Matrix. However, they remain responsible for any resulting approval of decisions and are therefore not able to delegate accountability or responsibility.
- Authorising managers must obtain and follow appropriate professional advice (eg: technical, commercial, procurement, HR, legal, financial, treasury, tax and trade controls).

Information about how the Directors of QinetiQ Group plc have fulfilled their duties under section 172 of the 2006 Companies Act is provided on pages 86 and 87 of the QinetiQ Group plc Annual Report and Accounts 2023.

Board training and support on section 172 duties

The Directors are supported in the discharge of their duties by the Company Secretary of QinetiQ Group plc, who is also a Director and the Secretary of QinetiQ Limited. All Directors have received guidance on their statutory duties, including those under section 172 and those under the reporting requirements introduced by the Companies (Miscellaneous Reporting) Regulations 2018.

Environment, Social and Governance (ESG)

Our ESG approach underpins our business strategy and is designed to meet stakeholder expectations across environmental, social and governance themes. The ESG landscape continues to evolve rapidly so we regularly review our ESG priorities by considering our business strategy and purpose, the views of our stakeholders, the landscape and best practice. This approach ensures we are confident that ESG issues are integral to our business strategy and we are meeting the expectations of our stakeholders. Regular papers and briefings are provided to the Group Board by the Group Director ESG on all material ESG issues (including ESG strategy, stakeholder engagement and reporting, ethics, Speak Up, Climate change, D&I and community). In addition progress and plans are reviewed at the ESG Steering committee, chaired by the Group CEO.

Environment

Information on environmental issues including greenhouse gas emissions (GHG), our Net-Zero plan, environmental management, waste management, our contribution to biodiversity and our sustainable solutions for customers is provided on pages 54-60 of the QinetiQ Group plc Annual Report and Accounts 2023.

In FY22 , the Group set new targets of reaching Net-Zero by 2050 or sooner (aligned with the Science Base Targets Initiative), details are provide in our new Net-Zero GHG emission plan on our website: www.qinetiq.com/en/our-company/sustainability/climate-change/net-zero. Our Scope 1 and Scope 2 emissions and intensity ratio are published on page 56 of the QinetiQ Plc Annual Report 2023. Group Scope 3 emissions have been published (see page 55 of the QinetiQ Plc Annual Report 2023) and we have also completed our disclosures in line with the Taskforce on Climate Related Financial Disclosures (TCFD) (see page 61 of the QinetiQ Plc Annual Report 2023). Environmental matters are now overseen by a new Environment Council.

Streamlined Energy and Carbon Reporting (SECR)

To meet the Streamlined Energy and Carbon Reporting (SECR) requirements, the Group also presents its energy performance on page 56 of the QinetiQ Plc Annual Report 2023 identifying the proportion that is for the UK and the following are examples of energy reduction projects in FY23:

- LED lighting has been installed in our Haslar, Malvern and Portsdown Technology Park sites and planning is underway for further sites.
- Reviewing our data has allowed us to identify and address anomalies. For example at the MOD Loch Goil site an unexpected increase in consumption was attributed to an incorrectly controlled heating unit.
- Preparation for installation of new Photovoltaic (PV) power solutions across UK sites, to enable greater self-generation of renewable energy.
- Installation of Telematics systems in UK corporate fleet vehicles, to identify usage patterns and opportunities to rationalise our corporate fleet, supporting a transition to low-emission vehicles.
- Changes to air-traffic control procedures, with the introduction of performance-based navigation approaches and revised continuation training for pilots to reduce requirements for flying time and so reduce consumption of jet fuel.
- Procurement of new electric aircraft tugs to replace diesel units, and procurement of lower-emission diesel ground power units and a new low-emission diesel runway sweeper vehicle.

A more comprehensive list of the activities that have been delivered in FY23, and planned activities for FY24 and beyond, can be found in the table on pages 58 and 59 of the QinetiQ Plc Annual Report 2023. These directly support the Group's Net-Zero plan.

Social

Information in respect of employee safety and wellbeing, employee engagement, learning and development, Early Careers, community investment reward and recognition is provided on pages 66-72 of the QinetiQ Plc Annual Report 2023.

Employee engagement

During the year the Directors ensured themselves that the QinetiQ Group, and hence the Company, operates an intensive employee engagement programme, which includes the following:

The Group's Adaptive Working approach and global operating model means that we need to communicate with a geographically and temporally dispersed workforce. Two-way communication channels, including our Global Portal intranet, monthly live events through Q-Talk, and virtual communities, encourage our people to share their thoughts, feedback and experience. To further our commitment of listening to employees we have a global Site Champion network, who focus on creating a sense of community, and our Speak Up programme provides our people with a number of ways to seek advice or raise any concerns they may have.

Critical to all of our people is feeling valued and engaged, ensuring that the employee voice is considered. Views are represented by the Global Employee Voice (GEV), a group of employees who work alongside leaders to help shape ideas and initiatives that make QinetiQ a great place to work. The GEV representatives meet regularly with the Group CEO and Chief People Officer and have also met with the Group Chair and members of QinetiQ Plc Board during the year (see page 106 of the QinetiQ Group Plc Annual Report 2023). In FY23 the GEV demonstrated that feedback has been listened to and is helping to shape our actions through supporting a number of changes, including the significant investment into our employee offering, support for cost of living, the introduction of financial wellbeing webinars, and the implementation of the QinetiQ Hardship Fund.

More information regarding employee engagement is provided on page 69 of the QinetiQ Group Plc Annual Report and Accounts 2023.

Reward & Recognition is key to our people strategy and an important part of our global employee offering. Our approach is designed to enhance our employees' wellbeing and incentivise both collective performance and individual contribution; enabling us to make choices about what works best for ourselves and for our families. Through our Rewarding for Performance framework, our people have been able to collectively share in our success such as our All Employee Incentive Scheme (AEIS) for contribution in FY23 paid £1,250 to each employee.

We continue to invest in Pay & Progression, addressing market anomalies and managing in-year role and grade progression, with an investment of £1.8m in FY23. Through Thank Q, our global recognition scheme, we celebrated 3,386 individual people and 1,140 teams, with 5,152 awards

We also made market improvements for our Global Grade 13 and 14 population (mid-level managers), by extending our Leadership Incentive Scheme. In June 2022 we once again celebrated the contribution of our people at our Global Recognition Gala. Bringing together colleagues at live events in Australia, the UK, and the US, as well as virtually from Germany and Canada, we recognised 145 people, via 47 awards in eight categories. In addition, the Project Vampire team were recognised with the Outstanding Achievement award for their work in facilitating the launch of a Banshee Jet 80+ from the deck of the Royal Navy's HMS Prince of Wales aircraft carrier for the first time, off UK waters.

More information regarding pay and progression is provided on page 71 of the QinetiQ Group Plc Annual Report and Accounts 2023.

In addition, we hold Global Employee Roadshows twice a year, providing an opportunity for our people to hear from the QinetiQ Group Leadership Team about our growth strategy and important topics from across the global business, and to enable them to ask questions of leaders.

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

Safety, Health and wellbeing of employees
We are creating a safe and secure environment for us all to thrive, sharing expertise and knowledge across our whole Group and strengthening the positive impact we have on health and safety. Across the Company, we have seen a steady decrease of our Lost Time Incident (LTI) rate from 2.05 in FY22 to 1.20 in FY23. Our wellbeing strategy focuses on the five pillars of physical health, mental health, personal growth, working environment and financial wellbeing. We have been gaining insights from employee focus Group events in the UK, the US and Australia which will allow us to develop meaningful and impactful learning interventions for leaders, managers and our people in respect of psychological safety. Last year we continued to develop our global wellbeing offering.

More information is provided on page 67 of the QinetiQ Plc Group Annual Report and Accounts 2023.

Diversity and Inclusion
Advancing Diversity & Inclusion (D&I) is both a business and a social imperative. Our commitment centres on the success of our people and our ability to attract and retain the best talent in order to deliver for our customers. We aim to build a workplace that is inclusive, where our differences are not only embraced but make us stronger. Our focus in FY23 has been across three key themes: awareness of the importance of inclusion and diversity, inclusive leadership, and employee inclusion and belonging.

In FY23 we have expanded the range of our gender pay gap from just QinetiQ Limited, and our latest report now includes key UK subsidiaries. QinetiQ Limited reported a reduction in its gender pay gap from 12.6% in 2021 to 11.3% in 2022.

Our gender diversity breakdown for QinetiQ Group is provided on page 68 of the QinetiQ Group Annual report FY23.

Governance and business ethics
The Group's approach to governance is described in detail from page 73 of the QinetiQ Group Plc Annual Report and Accounts 2023. This includes business ethics, anti-bribery and corruption, human rights and modern slavery.

Business ethics
The Group's Code of Conduct defines our ethical standards, providing clear direction and guidance on how we do business. It contains information on ethical decision-making and also how to seek help and advice. We review the Code annually to reflect the evolving needs of our business, the regulatory environment and best practice.

We published the 2023 version of the Code, which is available on our website.
www.qinetiq.com/en/our-company/sustainability/business-ethics

Annual business ethics training is mandatory across the Group and supports our people in understanding and using the Group's Code of Conduct. The training is undertaken by all Group employees and is also available to our suppliers and customers. We provide a number of challenging scenarios to help our people know what to do if they were to come across issues such as bribery, fraud, harassment, conflict of interest and modern slavery.

We strive to create an environment where our people feel confident to speak up and we provide a number of different ways for them to seek help or raise concerns. Group employees can talk to a manager, use our ethics email advice services, our global network of Ethics Champions and our independently run, 24/7, confidential reporting line. These are also available to third parties via the Group's Code of Conduct and Group's Supplier Code of Conduct, both published on our website (see above).

Business ethics (continued)

Throughout the year, we have promoted the importance of speaking up and the various different contact routes, via awareness campaigns, in the Group Code of Conduct and in our mandatory ethics training. We have improved how employees can find and access Speak Up contact details, launching a new highly visible button on the homepage of the Global Portal (our Group Intranet). We promoted our Speak Up Guide for Managers, supporting them in creating an open and inclusive environment, where our people feel confident to raise concerns, and managers know how to listen to and support anyone who may come to them with an issue. For third parties, we have promoted our Speak up contacts via our website and in our supplier Code of Conduct. We have responded to all queries received via our ethics email advice services and confidential reporting line. Our Group Audit Committee oversees our approach to confidential reporting (see page 108 of the QinetiQ Group Plc Annual Report 2023). Our Business Ethics Committee, chaired by the Group Chief Ethics Officer (the Company Secretary), oversees our ethics programme. We are members of our trade association, ADS, Business Ethics Network where members can share best practice on ethics, human rights and anti-bribery. Our focus in FY24 will be to continue to promote and raise awareness on Speak Up.

Anti-bribery and corruption (ABC)

The Group's anti-bribery and corruption (ABC) programme is designed to support our people and business partners to demonstrate the highest standards of ethical conduct within all jurisdictions in which we operate. Our zero tolerance approach to bribery and corruption in any form is explicitly stated in our Group Code of Conduct, which provides a decision tool to support ethical decision making, helping us to operate our business responsibly and maintain the trust of our stakeholders. This is supported by the provision of practical guidance through our ABC training, which includes challenging scenarios to help our people know what to do if they were to come across issues such as bribery and fraud. Our Group-wide ABC procedures include measures and guidance for our people to assess risks, understand relevant laws and speak up about concerns. We identify and assess any exposure to bribery and corruption risk when engaging third parties, and these risks are subject to on-going monitoring and periodic updating. We have enhanced ABC procedures for the appointment of Commercial Intermediaries, including the use of external third-party due diligence, with all appointments and renewals subject to Group CEO approval, with increased reporting requirements for all payments made to Commercial Intermediaries overseen by the Group Board. We take a continuous improvement approach to enhancing our ABC programme, acting upon findings from our internal assurance programmes, engaging with industry peers and seeking feedback from our people

Human rights and modern slavery

As part of our ongoing programme to address modern slavery, we operate and manage an action plan across the Group. We continue to provide in-depth training to those in key roles (we have moved from e-learning to live training), and develop new supporting resources for all employees and suppliers, including industry engagement events such as our Collaborate programme. We regularly review our policies and our approach to risk in the supply chain. Our updated supplier Code of Conduct helps to ensure our suppliers have clarity of their responsibilities on human rights, modern slavery and speaking up.

Our annual modern slavery and human trafficking statement is published on the homepage of our website. We seek to anticipate, prevent and mitigate potential negative human rights impacts through our policy and processes, which underpin our commitment to responsible business practices. For example, we address salient human rights issues through our Code of Conduct, our ethical trading policy, international business risk management process, grievance mechanisms, due diligence and export controls process. The Group's third-party confidential reporting mechanism provides routes for third parties to raise concerns. We monitor the application of these policies and procedures through our business and supplier assurance processes and regular self-assessment, with oversight by the Group's Business Ethics Committee (see page 89 of the QinetiQ Plc Annual Report 2023). We believe that this integrated approach is effective in ensuring our business acts responsibly and respects all human rights. More information, including all our annual modern slavery statements, can be found on our website: www.qinetiq.com/en/ our-company/sustainability/business-ethics. In FY24 we will continue to make progress against our modern slavery action plan and we will be reviewing and updating policy to support our approach to human rights.

Fostering relationships with partners, suppliers, customers and others

Customers are at the heart of everything that the QinetiQ Group does. During the year, the Directors closely monitored how the Group worked with its customers and how it addressed key customer issues. Every QinetiQ customer has a delivery team continually engaging with it and adapting its approach to the customer, ensuring, that the customer's objectives are achieved.

The Directors take a keen interest in ensuring a collaborative environment where all partners and suppliers can contribute and add value and be treated fairly regardless of their respective size. In addition to the day to day engagement through normal business activity, the Directors actively engage with key partners through a series of meetings between our executive team and their counterparts at key industry partners.

The Group's approach to stakeholder engagement is summarised in the QinetiQ Group Plc Annual Report and Accounts 2023 on page 105.

Approved by the Board on 20 July 2023 and signed on its behalf by:

.....

Heather Cashin
Director
Cody Technology Park
Ively Road
Farnborough
Hampshire
GU14 0LX

QinetiQ Limited
Directors' report for the year ended 31 March 2023

The Directors present their report and the audited financial statements for the year ended 31 March 2023.

The Company is a private company limited by shares and is incorporated, registered and domiciled in the United Kingdom, and the registered number is 03796233. The address of the registered office is Cody Technology Park, Ively Road, Farnborough, Hampshire, GU14 0LX.

Directors of the company

The Directors who held office during the year and up to the date of signing the financial statements were:
Jon Messent - Company Secretary and Director (resigned 28 July 2022)
Malcolm Coffin (resigned 11 August 2022)
Peter Montague-Fuller
Caroline Borg
Grant Minnican (appointed 6 September 2022)
James Field - Company Secretary and Director (appointed 28 July 2022)
Heather Cashin (appointed 6 September 2022)

Future developments

The Company expects to continue operating with its principal activity as outlined in the Strategic Report for the foreseeable future.

General MOD compliance system

The Company operates a generic compliance system. This is integral to the work of QinetiQ Group plc and its subsidiaries ('QinetiQ') in its relationship with the UK Government. The generic compliance system is designed to give the MOD customer confidence that QinetiQ is able to provide impartial advice during any competitive evaluation of a procurement opportunity where the Company wishes to operate on both the 'buy' and 'supply' sides. The aim is to achieve a balance between meeting the needs of the procurement customers in the MOD (principally Defence Equipment & Supply) and the need to allow QinetiQ the flexibility to commercialise research into the supply chain and pursue its planned commercial activities, without compromising the defence or security interests of the UK.

The Group's Board nominates two senior executives to act as Compliance Implementation Director ('CID') and Compliance Audit Director ('CAD').

Oversight of the operation of the compliance system is provided by the Group's Risk & Security Committee ('Risk & Security Committee'). During the year under review, the Risk & Security Committee received an annual report from the Group Director, Safety and Governance and the internal audit function on the compliance areas that it monitored. A typical report includes a summary of the scope and an executive summary of the findings with an audit opinion, with agreed associated time-bound action plans. The Risk & Security Committee addresses any issues that would arise if QinetiQ were to fail to comply with the requirements of the generic compliance system. No breaches were noted during the year.

As well as monitoring adherence to the generic compliance system, the Risk & Security Committee has two other primary functions:

- To oversee the sound operation of the Company's risk management systems;
- To monitor non-financial risk exposures, including security, trade controls, ethics, corporate responsibility and health, safety and environment.

Financial risk management

The Company is exposed to a variety of financial risks as a result of its operations that include the effects of changes in foreign exchange rates, interest rates, credit risks and liquidity risks. Treasury and risk management policies, which are set by the Group's Board, specify guidelines on financial risks and the use of financial instruments to manage risk. The instruments and techniques used to manage exposures include foreign currency derivatives. Group Treasury monitors financial risks and compliance with risk management policies during the year. There have been no changes in any risk management policies during the year or since the year end.

Foreign exchange risk

The majority of the Company's income and expenditure is settled in sterling. The Company's policy is to use financial instruments to hedge all material transaction exposure at the point of commitment to the underlying transaction. The Company does not typically hedge uncommitted future transactions, although transaction risks are fully considered and appropriately mitigated when bidding for new work.

Interest rate risk

The Company has interest bearing inter-company balances which earn or accrue interest at Relevant Reference Rate plus a margin. The Company does not use derivative financial instruments to manage interest rate costs.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer fails to meet its contractual obligations. To mitigate this risk the Company performs credit checks as appropriate and only contracts with customers who meet certain creditworthiness requirements.

Liquidity risk

The Company retains sufficient cash to ensure it has available funds for its operations.

The Directors will revisit the appropriateness of this approach to risk management should the Company's operations change in size or nature.

Dividends

The Company paid an interim dividend of £242.6m (2022: £40.2m) during the year to its parent company, QinetiQ Holdings Limited, and received interim dividends of £0.9m (2022: £3.8m) from subsidiary undertakings.

The Directors have not recommended payment of a final dividend for the year ended 31 March 2023 (2022: nil).

Research and development

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

In the financial year the Company recorded £270.6m (2022: £277.3m) of total R&D related expenditure, of which £257.8m (2022: £267.4m) was customer funded work and £12.8m (2022: £9.9m) was internally funded. Additionally, £2.2m (2022: £1.4m) of capitalised development costs were amortised in the year.

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

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

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

Employee engagement
Employee engagement is a strategic priority. The Global Employee Voice ('GEV') is a global forum that acts as the voice of all QinetiQ employees. See page 11 of the Strategic report for further details.

Indemnities
QinetiQ Group plc maintains directors' and officers' liability insurance in respect of its Directors and those Directors of its subsidiary companies. During the year under review, and at the date of this report, two Directors had the benefit of an indemnity deed granted by QinetiQ Group plc containing qualifying indemnity provisions, as defined in Section 234 of the Companies Act 2006, relating to certain liabilities, which may be attached to them as Directors or as former Directors of the Company.

Statement of corporate governance arrangements
Under the Companies (Miscellaneous Reporting) Regulations 2018, the Company is required to include a statement of corporate governance arrangements in its annual report for years beginning on or after 1 January 2019.

The Company is part of a wider Group of Companies, ultimately controlled by QinetiQ Group plc, a UK listed Company, which, due to its listed status, complies with the UK Corporate Governance Code 2018.

The Directors of the Company fulfil their duties through a Group wide governance framework that delegates day-to-day decision making to the employees of the Group companies. The Board recognises that such delegation needs to be part of a robust governance structure, which covers the Group's values, how the Group engages with its stakeholders, and how the Board of Directors of QinetiQ Limited assures itself that the governance structure and systems of controls continue to be robust.

Although QinetiQ Limited is used for trading and employment purposes within the wider QinetiQ Group, the majority of decisions concerning employee engagement and stakeholder relationships are made by the Board of QinetiQ Group plc, the Company's ultimate parent company. The Company has therefore decided not to formally adopt a Code of Corporate Governance, but to adhere to the decisions and directions made by QinetiQ Group plc.

Independent Auditors
Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

Statement of Directors' Responsibilities in respect of the financial statements
The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

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

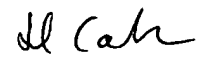
- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

Directors' confirmations
In the case of each director in office at the date the Directors' Report is approved:
- so far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Approved by the Board on 20 July 2023 and signed on its behalf by:



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Heather Cashin
Director
Cody Technology Park
Ively Road
Farnborough
Hampshire
GU14 0LX

Independent auditors' report to the members of QinetiQ Limited

Report on the audit of the financial statements

Opinion
In our opinion, QinetiQ Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Balance sheet as at 31 March 2023; the profit and loss account, the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Independence
We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern
Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- We obtained management's FY24 budget and forecast beyond that date. We have held discussions with management to understand the budgeting process and the key assumptions made in the forecasting process;
- Using our own knowledge from the audit and assessment of previous forecasting accuracy, we calculated sensitivities to apply to management's cash flow forecasts. These procedures confirmed significant head-room in management's forecasts; and
- We assessed the adequacy of disclosures in the Annual report and financial statements and found these appropriately reflect our understanding of the conclusions reached.

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

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

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

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

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Director's Report for the year ended 31 March 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

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

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

Responsibilities for the financial statements and the audit (continued)

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

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

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

- Discussions with management at multiple levels across the Company and wider group, including the Group's Internal Audit function and legal counsel throughout the year, as well as at year end. These discussions have included consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Evaluation of managements controls designed to prevent and detect irregularities, in particular their anti-bribery controls;
- Assessment of matters reported on the Company's whistleblowing hotline and the results of management's investigation of such matters;
- Review correspondence with and reports to relevant regulatory authrorities;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to long-term contract accounting;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management; and
- Incorporating elements of unpredictability into the audit procedures performed.

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

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

Responsibilities for the financial statements and the audit (continued)

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

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

John Ellis (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP,
Chartered Accountant and Statutory Auditors
Southampton

Date: 20 July 2023..

QinetiQ Limited
Profit and loss account for the year ended 31 March

	Note	2023 £ m	2022 restated* £ m
Revenue	**2**	**1,029.1**	**953.9**
Operating costs		(913.4)	(826.3)
Other operating income	3	28.7	36.0
Operating profit	**4**	**144.4**	**163.6**
Gain on sale of investments	6	29.9	-
Profit before net finance income and income from shares in Group undertakings and taxation		**174.3**	**163.6**
Finance income	7	31.7	13.8
Finance expense	7	(6.9)	(2.3)
Net finance income	**7**	**24.8**	**11.5**
Income from shares in Group undertakings		0.9	3.8
Profit before taxation		**200.0**	**178.9**
Tax on profit	9	(32.6)	(44.6)
Profit for the financial year		**167.4**	**134.3**

* Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 28 for details.

All amounts derive from continuing operations.

The notes on pages 27 to 66 form an integral part of these financial statements.

QinetiQ Limited
Statement of comprehensive income for the year ended 31 March

	Note	2023 £ m	2022 restated* £ m
Profit for the financial year		167.4	134.3
Items that will not be reclassified subsequently to profit or loss			
Actuarial (loss)/gain on pension scheme	22	(253.9)	144.0
Deferred tax relating to actuarial loss/gain on pension scheme	18	63.5	(47.6)
		(190.4)	96.4
Items that may be reclassified subsequently to profit or loss			
(Decrease)/increase in fair value of hedging derivatives		(0.1)	0.6
Deferred tax relating to hedging derivatives		(0.2)	(0.1)
		(0.3)	0.5
Other comprehensive (expense)/income for the year, net of tax		**(190.7)**	**96.9**
Total comprehensive (expense)/income for the financial year		**(23.3)**	**231.2**

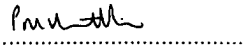
* Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 28 for details.

QinetiQ Limited
Balance sheet as at 31 March

	Note	2023 £ m	2022 restated* £ m
Fixed assets			
Intangible assets	10	31.3	21.7
Property, plant and equipment	11	389.9	367.6
Investments	12	5.1	5.1
Other financial assets	17	0.2	0.5
		426.5	**394.9**
Current assets			
Inventories	13	13.7	8.9
Trade and other receivables	14	681.2	617.6
Other financial assets	17	1.3	0.6
Cash and cash equivalents		91.3	199.6
		787.5	**826.7**
Current liabilities			
Creditors: amounts falling due within one year	15	(473.6)	(406.0)
Provisions for liabilities	19	(19.2)	(20.6)
Other financial liabilities	17	(0.6)	(1.4)
		(493.4)	**(428.0)**
Net current assets		**294.1**	**398.7**
Total assets less current liabilities		**720.6**	**793.6**
Non-current liabilities			
Creditors: amounts falling due after more than one year	16	(38.1)	(39.9)
Provisions for liabilities	19	(3.4)	(4.5)
Other financial liabilities	17	(0.3)	(0.6)
Deferred tax liabilities	18	(91.4)	(143.0)
Net assets excluding net pension asset		**587.4**	**605.6**
Net pension asset	22	119.8	362.2
Net assets		**707.2**	**967.8**
Capital and reserves			
Called up share capital	20	100.0	100.0
Hedging reserve		(0.2)	0.1
Retained earnings		607.4	867.7
Total shareholders' funds		**707.2**	**967.8**

* Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 28 for details.

The financial statements of QinetiQ Limited (company number 03796233) on pages 23 to 66 were approved by the Board on 20 July 2023 and signed on its behalf by:



Peter Montague-Fuller
Director

The notes on pages 27 to 66 form an integral part of these financial statements.

QinetiQ Limited
Statement of changes in equity for the year ended 31 March

	Share capital £ m	Hedging reserve £ m	Retained earnings £ m	Total shareholders' funds £ m
At 31 March 2021 - previously reported	100.0	(0.4)	672.6	772.2
Restatement in respect of RDEC accounting policy change*	-	-	(2.0)	(2.0)
31 March 2021 restated*	100.0	(0.4)	670.6	770.2
Profit for the financial year	-	-	134.3	134.3
Other comprehensive income	-	0.5	96.4	96.9
Dividends	-	-	(40.2)	(40.2)
Capital contribution relating to share based payments	-	-	6.9	6.9
Deferred tax on share based payments	-	-	(0.3)	(0.3)
At 31 March 2022 restated*	**100.0**	**0.1**	**867.7**	**967.8**

	Share capital £ m	Hedging reserve £ m	Retained earnings £ m	Total shareholders' funds £ m
At 31 March 2022 - previously reported	100.0	0.1	872.4	972.5
Restatement in respect of RDEC accounting policy change*	-	-	(4.7)	(4.7)
At 31 March 2022 restated*	100.0	0.1	867.7	967.8
Profit for the financial year	-	-	167.4	167.4
Other comprehensive expense	-	(0.3)	(190.4)	(190.7)
Dividends	-	-	(242.6)	(242.6)
Capital contribution relating to share based payments	-	-	4.6	4.6
Deferred tax on share based payments	-	-	0.7	0.7
At 31 March 2023	**100.0**	**(0.2)**	**607.4**	**707.2**

* Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 28 for details.

The notes on pages 27 to 66 form an integral part of these financial statements.

1 Basis of preparation and accounting policies

The following accounting policies have been applied consistently to all periods presented in dealing with items which are considered material in relation to the financial statements.

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'). The financial statements have been prepared under the historical cost convention, as modified by the financial assets and liabilities held at fair value through profit and loss and have been prepared in accordance with the Companies Act 2006 as applicable to companies using FRS 101.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a cash flow statement and related notes;
- disclosures in respect of transactions with wholly owned subsidiaries;
- disclosures in respect of capital management;
- disclosures in respect of share based payments;
- disclosures in respect of the compensation of key management personnel;
- disclosures in respect of providing an explanation of the significant changes in the contract asset and the contract liability balances;
- IAS 24 in respect of related party transactions entered into between two or more members of a group; and
- the effects of new but not yet effective IFRSs.

As the consolidated financial statements of QinetiQ Group plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following:

- the disclosures required by IFRS 7 and IFRS 13 regarding financial instrument disclosures have not been provided apart from those which are relevant for the financial instruments which are held at fair value and are not either held as part of trading portfolio or derivatives.

The Company has taken the exemption under s400 of the Companies Act 2006 from the requirement to prepare group financial statements on the grounds that the ultimate parent undertaking includes the Company in its own published consolidated financial statements. Accordingly, these financial statements present information about the Company as an individual undertaking and not as a group.

Going concern

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

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

1 Basis of preparation and accounting policies (continued)

Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognises revenue when it transfers control of a product or service to a customer. The Company's revenue contracts are accounted for under IFRS 15 'Revenue from Contracts with Customers' taking into account the requirement to distinguish between the various performance obligations within a contract and treating these separately. The Company's methodology applies IFRS 15 on a contract-by-contract basis which includes considerations for contract modifications, variable consideration, the determination of distinct performance obligations, determination of agency and principal relationships and licences.

Service contracts

Service contracts are transferred to the customer over a period of time as the Company fulfils its performance obligation. At contract inception the Company undertakes an assessment to determine how many distinct performance obligations exists within a contract. As part of the assessment the Company obtains an understanding of the overall deliverable to the customer through discussions with business units and project leads. Each individual deliverable in the contract is then assessed to determine if it is an input into the overall deliverable, and therefore part of a single performance obligation, or if it is a stand-alone separable deliverable with its own transaction price and therefore a distinct performance obligation in its own right. Each distinct performance obligation identified within a contract is accounted for separately.

Certain service contracts have a similar pattern of transfer of control to the customer where each year is effectively the same from a performance obligation perspective. The Company has applied the series guidance as permitted within the Standard to these contracts and accounts for these as a series of distinct service performance obligations satisfied annually over the contract term. The transaction price for a contract is determined at contract inception based on a fixed-margin applied to the total forecast costs to complete the deliverable. Some long-term contracts include an excess profit clause which is a variable consideration factor that could impact the transaction price. Excess profits are estimated at contract inception and at the end of each reporting period to ensure that the transaction price is not under or over stated. Any required adjustment will be made against the transaction price in the period in which it occurred. The Company does not offer any right of return or refunds which could impact transaction price at inception. Certain contracts attract bonuses and/or penalties which are variable and will have an impact on transaction price at contract inception. The Company assesses variable consideration in relation to bonuses and penalties at contract inception using the most-likely method and this forms part of the transaction price and recognised over time as costs are incurred. The Company only includes bonuses and penalties into the transaction price to the extent that it is highly probable that a significant reversal of revenue will not occur in future periods. Historical evidence and experience shows that even where a reduction has been required, that reduction has been immaterial to the Company.

The transaction price is allocated between each distinct performance obligation identified in a contract based on the stand-alone selling price of each performance obligation. Each performance obligation will be costed and the transaction price will be cost plus margin. This amount would be the stand-alone selling price of each performance obligation if contracted with a customer separately.

Long-term service contracts allow for modifications to the original order. If a contract modification is determined to be distinct and the price of the contract increases by an amount of consideration that reflects the Company's stand-alone selling prices for the additional promised goods or services, the Company accounts for this as a separate contract. If a contract modification is not distinct, the Company accounts for this as if it were part of the existing contract. A cumulative catch-up adjustment to revenue is then recognised to disclose the effect that the contract modification has on the transaction price and the Company's measure of progress towards complete satisfaction of the performance obligation.

1 Basis of preparation and accounting policies (continued)

Revenue from contracts with customers (continued)

Long-term service contracts also sometimes allow for extensions to the original order. A contract extension is determined to include either additional goods or services or no additional goods or service. If a contract extension with additional goods or services is determined to be distinct and the price of the contract increases by an amount of consideration that reflects the entity's stand-alone selling prices for the additional promised goods or services, the Company accounts for this as a separate performance obligation. If a contract extension with additional goods or services is not distinct, the Company accounts for this as if it were part of the existing contract. A cumulative catch-up adjustment to revenue is then recognised to disclose the effect that the contract extension has on the transaction price and the Company's measure of progress towards complete satisfaction of the performance obligation.

When the outcome of a distinct performance obligation in delivering services can be reliably estimated, revenue associated with the performance obligation is recognised over time using the input method. The input method recognises revenue over time on the basis of costs incurred to date to the satisfaction of a performance obligation relative to the total forecast costs to complete the performance obligation. The Company has determined the input method to be appropriate as it best depicts the Company's performance in transferring control of the service to the customer as it incurs costs on a particular contract.

No profit is recognised on contracts until the outcome of the contract can be reliably estimated. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately as an expense.

Goods sold
The Company recognises revenue on the sale of products at a point in time once control has been transferred to the customer. Control is generally transferred to customers on delivery of products or when the customer has the significant risks and rewards of ownership of the product. Payment is typically due within 30 days of invoice (within the UK) and customers typically do not have a right of return or refund. The transaction price for sale of products is agreed at contract inception. When the Company develops a bespoke product for a customer with no alternative use to the Company, revenue is recognised over time using the input method.

Licence revenue
Licence revenue is attributed to either 'right to use' or 'right to access' licences. 'Right to use' licence revenue is recognised at a point in time when the Company sells a licence to a customer and does not undertake significant further activities or involvement in developing the licence after the sale. 'Right to access' licence revenue is recognised over time when the Company maintains a significant level of involvement in developing and enhancing the licence after the sale. The level of involvement goes beyond general support, bug-fixing and upgrades which generally only maintain the current operating level. The transaction price for intellectual property is agreed at contract inception.

Contract assets
Contract assets effectively represents amounts recoverable under contracts as previously reported. Contract assets represent revenue recognised in excess of amounts invoiced. Revenue is recognised on service contracts by using a 'percentage complete' method, applying the proportion of contract costs incurred for work performed to date relative to the estimated total contract cost, after making suitable allowances for technical and other risks related to performance milestones yet to be achieved, and applying that proportion to total contract price. Payment for service contracts are not always due from the customer until certain milestones have been reached and, therefore, a contract asset is recognised over the period in which the services are performed representing the Company's right to consideration for services performed to date, to the extent that the customer has not yet been invoiced for those services.

1 **Basis of preparation and accounting policies (continued)**

Revenue from contracts with customers (continued)

Contract liabilities

Contract liabilities effectively represents deferred income as previously reported. The Company, on occasion, bills customers in advance of performing certain types of work which results in the Company recognising contract liabilities. Once the work has been performed these amounts will be reduced and recognised as revenue. For sale of goods, revenue is recognised in the profit and loss account when control of the goods has been transferred to the customer; being at the point when the goods are delivered. Any transaction price received by the Company prior to that point is recognised as a contract liability.

Principal-agent arrangements

The Company enters into certain arrangements which involve a consortium of service providers. The Company acts as a 'Prime' contractor in certain contracts with customers and utilises sub-contractors to undertake the work. Under these contracts the Company is considered to be primarily responsible for fulfilling the service to the customer. The Company performs a technical assessment of the work before it is delivered to the customer and is responsible for quality and performance of the sub-contractor. As such the Company is considered to be the principal to the arrangement with the customer and includes sub-contractor costs within revenue. However, where the Company is merely acting as an agent of a sub-contractor then no revenue is recognised in respect of sub-contractor costs. All consortium arrangements are assessed by the Company to determine if it is the principal or agent.

Contract bidding costs

The Company recognises the 'incremental costs of obtaining a contract' with a customer as an asset if the Company expects to recover those costs. The 'incremental costs of obtaining a contract' are those costs that the Company incurs to obtain a contract with a customer that it would not have incurred if the contract had not been won. Costs to obtain a contract that would have been incurred regardless of whether the contract was won or lost shall be recognised as an expense when incurred, unless those costs are explicitly chargeable to the customer.

Research and development expenditure

Research and development ('R&D') costs incurred in respect of specific contracts placed by customers are recognised within operating costs and revenue is recognised in respect of the R&D services performed. Internally funded development expenditure is capitalised in the balance sheet where there is a clearly defined project, the expenditures are separately identifiable, the project is technically and commercially feasible, all costs are recoverable by future revenue and the resources are committed to complete the project. Such capitalised costs are amortised over the forecast period of sales resulting from the development. All other R&D costs are expensed to the profit and loss account in the period in which they are incurred. If the research phase cannot be clearly distinguished from the development phase, the respective project-related costs are treated as if they were incurred in the research phase only and expensed.

Financing

QinetiQ Limited holds no external borrowings but does have access to a revolving credit facility, fees for which are reported within finance costs. Costs of letters of credit are also charged to finance expense. Income earned on funds invested is reported within finance income. Exchange differences on financial assets and liabilities and the income or expense from interest hedging instruments that are recognised in the profit and loss account are included within finance income and finance expense. Financing also includes the net finance income in respect of defined benefit pension schemes. The Company pays in advance finance costs in relation to the multi-currency facility which are recognised as a deferred finance cost asset.

1 **Basis of preparation and accounting policies (continued)**

Taxation

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period where the Company operates and generates taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Company measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

Research and Development Expenditure Credits (RDEC) are now recognised within other operating income following a change in accounting policy

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future. Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Dividend income

Dividends received are shown on the face of the profit and loss account as income from shares in Group undertakings. Dividend income is recognised when the right to receive payment is established.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Directors and are shown as a movement in reserves.

1 **Basis of preparation and accounting policies (continued)**

Intangible assets
Internally generated intangible assets and SaaS-based capitalised intangible assets are recorded at cost, including labour, directly attributable costs and any third party expenses. Purchased intangible assets are recognised at cost less amortisation. Intangible assets are amortised over their respective useful lives on a straight line basis as follows:

Intellectual property rights	2 - 10 years
Development costs	1 - 5 years
Other	1 - 14 years

Property, plant and equipment
Property, plant and equipment are stated at cost less depreciation. Freehold land is not depreciated. Other tangible non-current assets are depreciated on a straight-line basis over their useful economic lives to their estimated residual value as follows:

Freehold buildings	20 - 25 years
Leasehold land and buildings	Shorter of useful economic life and the period of the lease
Plant and machinery	3 - 15 years
Office equipment	5 -10 years
Motor vehicles	3 - 5 years
Computers	3 - 5 years

Assets under construction are included in property, plant and equipment on the basis of expenditure incurred at the balance sheet date. In the case of assets constructed by the Company, the value includes the cost of own work completed, including directly attributable costs and interest where applicable.

The useful lives, depreciation methods and residual values applied to property, plant and equipment are reviewed annually and, if appropriate, adjusted accordingly.

Fixed asset investments
Fixed asset investments are stated at cost less any impairment in value.

Impairment of tangible, intangible and held for sale assets
At each reporting date the Company assesses whether there is an indication that an asset may be impaired. If the carrying amount of any asset exceeds its recoverable amount an impairment loss is recognised immediately in the profit and loss account. If the carrying amount exceeds the recoverable amount, the respective asset is written down to its recoverable amounts. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. The value in use is the present value of the future cash flows expected to be derived from an asset calculated using an appropriate pre-tax discount rate. Impairment losses are expensed to the profit and loss account.

Non-current assets held for sale
Non-current assets are classified as held for sale if their carrying amount will be recovered primarily through a sales transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and expected to be completed within a year of the balance sheet date. The assets should be available for immediate sale in their present condition and actively marketed at a price that is reasonable in relation to their current fair value.

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Any write-down to fair value less costs to sell shall be recognised directly through profit and loss as an impairment loss. No further depreciation is charged in respect of assets classified as held for sale.

1 **Basis of preparation and accounting policies (continued)**

Inventories
Inventories are valued at the lower of cost and net realisable value. Work-in-progress and manufactured finished goods are valued at production cost. Production cost includes direct production costs and an appropriate proportion of production overheads. A provision is established when the net realisable value of any inventory item is lower than its cost.

Trade and other receivables
Trade and other receivables are stated net of provisions for doubtful debts. Contract assets are included in trade and other receivables and represent revenue recognised in excess of amounts invoiced.

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and short-term highly liquid investments that are readily convertible into a known amount of cash and which are subject to an insignificant risk of changes in value.

Current and non-current liabilities
Current liabilities include amounts due within the normal operating cycle of the Company. Deferred income, or 'contract liabilities', is included in creditors and represents amounts invoiced in excess of revenue recognised. Interest-bearing current and non-current liabilities are initially recognised at fair value and then stated at amortised cost with any difference between the cost and redemption value being recognised in the profit and loss account over the period of the borrowings on an effective interest rate basis. Costs associated with the arrangement of bank facilities or the issue of loans are held net of the associated liability presented in the balance sheet. Capitalised issue costs are released over the estimated life of the facility or instrument to which they relate using the effective interest rate method. If it becomes clear that the facility or instrument will be redeemed early, the amortisation of the issue costs will be accelerated.

Provisions
A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event which can be reliably estimated, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where appropriate, provisions are determined by discounting the expected cash flows at an appropriate discount rate reflecting the level of risk and the time value of money. Where an exposure is highly likely to be covered by insurance an offsetting receivable is recorded.

Financial instruments
Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. The de-recognition of a financial instrument takes place when the Company no longer controls the contractual right that comprise the financial instrument, when the instrument expires, or when the instrument is sold, terminated or exercised.

Financial assets
Financial assets are classified on the Company's balance sheet as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. This classification is made on the basis of both the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Impairment of financial assets
The Company applies the simplified approach when using the expected credit loss (ECL) impairment model for trade receivables. Under the simplified approach the Company always measures the loss allowance at an amount equal to the lifetime expected credit losses for trade receivables. The Company measures the expected credit losses of trade receivables in a way that reflects a probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and supportable information that is readily available at each reporting date about past events, current condition and forecasts of future economic conditions. The ECL's are updated each reporting period to reflect changes in credit risk since initial recognition.

1 Basis of preparation and accounting policies (continued)

Financial liabilities
Financial liabilities are classified on the Company's balance sheet as subsequently measured at amortised cost except for financial liabilities at fair value through profit and loss. The Company may at initial recognition irrevocably designate a financial liability as measured at fair value through profit or loss if a contract contains one or more embedded derivatives and the host is not an asset within the scope of IFRS 9 (as applied under FRS101), or when doing so results in more relevant information.

Derivative financial statements
Derivative financial instruments are initially recognised and thereafter held at fair value, being the market value for quoted instruments or valuation based on models and discounted cash flow calculations for unlisted instruments.

Fair value hedging
Changes in fair value of derivatives designated as fair value hedges of currency risk or interest risk are recognised in the profit and loss account. The hedged item is held at fair value with respect to the hedged risk with any gain or loss recognised in the profit and loss account.

Cash flow hedging
Changes in fair value of derivatives designated as a cash flow hedge that are regarded as highly effective are recognised in equity. The ineffective portion is recognised immediately in the profit and loss account. Where a hedged item results in an asset or a liability, gains and losses previously recognised in equity are included in the cost of the asset or liability. Gains and losses previously recognised in equity are removed and recognised in the profit and loss account at the same time as the hedged transaction.

Foreign currencies
Functional and presentation currency
Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in 'Pounds Sterling' ('£'), which is also the Company's functional currency.

Transactions and balances
Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at period-end rates. Any resulting exchange differences are taken to the profit and loss account.

1 Basis of preparation and accounting policies (continued)

Leases

Leases – as a lessor

Lease income from operating leases where the Company is a lessor is recognised in income on a straight-line basis over the lease term (note 24). Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature.

Leases – as a lessee

The Company leases various offices, aircrafts, forklifts, equipment and vehicles. Rental contracts are typically made for fixed periods of 6 months to 25 years, but may have extension options as described below.

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone process.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leases assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and corresponding liability at the date at which the leases asset is available for use by the Company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Company under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments to be made under reasonably certain options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If the rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Company, which does not have recent third party financing; and
- makes adjustments specific to the lease for example to term, country, currency and security.

1 Basis of preparation and accounting policies (continued)

Leases (continued)

The Company is not exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. The Company does not revalue its land and buildings that are presented within property, plant and equipment and the same is applied to right-of-use buildings.

Payments associated with short-term leases of offices, equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise lease assets under £5,000.

Lease extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Company. These are used to maximise operational flexibility in terms of managing the assets used in the Company's operations. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor.

Judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of offices and equipment, the following factors are normally the most relevant:

- if there are significant penalties to terminate (or extend), the Company is typically reasonably certain to end (or not to terminate);
- if any leasehold improvements are expected to have a significant remaining value, the Company is typically reasonably certain to extend (or not terminate);
- Otherwise, the Company considers other factors including historical lease durations and the costs and business disruptions required to replace the leased asset.

1 **Basis of preparation and accounting policies (continued)**

Leases (continued)
Most extension options in office and vehicles leases have not been included in the lease liability, because the Company could replace the assets without significant cost or business disruption.

As at 31 March 2023 no (undiscounted) potential future cash outflows have been included in the lease liability for extension or termination.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event of significant change in circumstance occurs, which affects this assessment, and that is within the control of the lessee. During the current financial year the financial effect of revising lease terms to reflect the effect of exercising extension or termination options was nil (2022: nil) in recognised lease liabilities and right-of-use assets.

Post-retirement benefits
The Company provides both defined contribution and defined benefit pension arrangements. The liabilities of the Company arising from defined benefit obligations are determined using the projected unit credit method. Valuations for accounting purposes are carried out bi-annually. Actuarial advice is provided by external consultants. For the funded defined benefit plans, the excess or deficit of the fair value of plan assets less the present value of the defined benefit obligation are recognised as an asset or a liability respectively. Per the Scheme rules the Company has an unconditional right to a refund of any surplus that 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 Company's balance sheet and the Company's minimum funding commitments to the Scheme do not give rise to an additional balance sheet liability.

For defined benefit plans the cost charged to the profit and loss account consists of administrative expenses and the net interest income. There is no service cost due to the fact the plans are closed to future accrual. The finance element of the pension charge is shown in finance income and the administrative cost element is charged as a component of operating costs in the profit and loss account. Actuarial gains and losses and re-measurement gains and losses are recognised immediately in full through the statement of other comprehensive income. Contributions to defined contributions plans are charged to the profit and loss account as incurred.

Share based payments
QinetiQ operates share-based payment arrangements with employees. The fair value of equity-settled awards for share-based payments is determined on grant and expensed straight line over the period from grant to the date of earliest unconditional exercise. The charges for equity settled share-based payments are updated annually for non-market-based vesting conditions.

1 Basis of preparation and accounting policies (continued)

Critical accounting estimates and judgements in applying accounting policies

Critical accounting estimates

The following commentary is intended to highlight key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the financial statements in the next financial year.

Estimated value in use and impairment of investments in subsidiaries
The Company reviews annually whether an investment has suffered any impairment. This process relies on the use of estimates of the future profitability and cash flows of its cash generating units which may differ from the actual results delivered.

Estimation of the Company's post-retirement benefit net surplus
The Group's defined benefit pension obligations (and hence the net surplus) are based on key assumptions, including discount rates, mortality and inflation. Management exercises its best judgement, in consultation with actuarial advisors, in selecting the values for these assumptions that are the most appropriate to the Group. Small changes in these assumptions at the balance sheet date, individually or collectively, may result in significant changes in the size of the net surplus/deficit. Further details of these assumptions and the sensitivity of the net pension surplus to changes in these assumptions are set out in note 22.

In addition to the sensitivity of the liability side of the net pension surplus (which will impact the value of the net pension surplus) the net pension surplus is also exposed to significant variation due to changes in the fair value of Scheme assets. A specific sensitivity on assets has not been included in note 22 but any change in valuation of assets flows straight through to the value of the net pension surplus e.g. if equities fall by £10m then the net pension surplus falls by £10m. The values of unquoted assets assume that an available buyer is willing to purchase those assets at that value. For the Group's portfolio of assets, the unquoted alternative bonds of £256.4m; the unquoted corporate bonds of £117.6m and the unquoted equities of £32.9m are the assets with most uncertainty as to valuation as at 31 March 2023.

Estimates of costs to complete on long-term contracts
The Company has a large number of contracts which span multiple years and are accounted for on a percentage of completion basis in accordance with IFRS 15. Long-term contract accounting requires a number of estimates to be made, particularly in calculating the forecast costs to complete the contract. These forecast costs will be impacted by numerous risks that could crystallise in the future (with a range of cost outcomes), particularly on contracts of a developmental nature. Across the Company's portfolio of long-term contracts there is a risk that the actual out-turn of these contracts could be materially different than assumed in the year end contract forecasts.

For fixed price contracts the impact of inflation would reduce the contract profitability. As an example, an increase in cost inflation of 1% in one of the Company's most significant contracts, would increase costs and reduce profit by approximately £1m per annum. However in many cases the contracts include inflation uplift clauses, such that inflation of costs would create additional contract value and revenue, thus resulting in increased profit.

2 Revenue

Revenue by customer geographic location

	UK £ m	North America £ m	Australia £ m	Europe £ m	Rest of World £ m	Total £ m
2023						
Revenue	997.4	6.3	3.7	11.7	10.0	1,029.1

	UK £ m	North America £ m	Australia £ m	Europe £ m	Rest of World £ m	Total £ m
2022						
Revenue	925.0	4.9	3.8	11.0	9.2	953.9

Revenue by category

	2023 £ m	2022 £ m
Sales of goods to customers	11.6	18.0
Services with customers	1,014.7	933.3
Royalties and licences	2.8	2.6
	1,029.1	953.9

Revenue of £154.2m was recognised during the year that was previously unrecognised as at the previous year end and reported as a contract liability.

3 Other operating income

	2023 £ m	2022 restated* £ m
Property rental	9.8	9.5
Profit on sale of land and property	2.0	0.7
Research and development expenditure credits	16.9	25.8
	28.7	36.0

* Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 28 for details.

4 Operating profit

Arrived at after charging/(crediting);

	2023 £ m	2022 £ m
Depreciation and impairment of tangible fixed assets - owned	38.6	35.6
Depreciation and impairment of tangible fixed assets - leased	0.9	1.2
Amortisation of intangible assets	3.3	2.3
Operating lease income	(9.8)	(9.5)
Profit on Sale of Land and Property	(2.0)	(0.7)
Research and development expenditure including costs under customer funded contracts	270.6	277.3
Cost of inventories expensed	4.8	6.5

5 Auditors' remuneration

	2023 £ m	2022 £ m
Audit of the Company's financial statements	0.5	0.4
Audit of the financial statements of subsidiaries of the Company*	0.1	0.1
Total auditors' remuneration	0.6	0.5

*re-charged to subsidiary companies via management fees.

The amount paid to the Company's auditors for non-audit fees during the year was £nil (2022: £nil).

6 Gain on sale of investments

The gain on business divestments of £29.9m relates to the sale of the Space NV business for a consideration of £31.5m. Proceed received in the year were net of transaction costs of £1.6m. There is no deferred consideration arrangement from this business divestment. All consideration is settled directly in cash.

7 Finance income and expense

	2023 £ m	2022 £ m
Interest income on bank deposits	3.9	0.2
Interest receivable from Group undertakings	17.9	9.1
Defined benefit pension scheme net finance income	9.9	4.5
Interest receivable and similar income	31.7	13.8
Amortisation of deferred financing costs	(0.4)	(0.4)
Payable on commitment fees	(2.3)	(0.5)
Lease expense	(0.1)	(0.1)
Unwinding of discount on financial liabilities	(0.1)	-
Interest payable to Group undertakings	(3.2)	(1.3)
Other interest	(0.8)	-
Interest payable and similar expenses	(6.9)	(2.3)
Net finance income	**24.8**	**11.5**

8 Particulars of employees

The monthly average number of persons employed by the Company (including directors) during the year, was:

	2023 No.	2022 No.
EMEA Services	4,839	4,854
Global Products	24	27
Total employees	**4,863**	**4,881**

The aggregate payroll costs of these persons were as follows:

	2023 £ m	2022 £ m
Wages and salaries	250.0	227.0
Social security costs	30.4	26.9
Other pension costs	42.6	41.7
Share-based payments costs	6.5	6.9
Total employee costs	329.5	302.5

Directors' remuneration

The Directors' remuneration for the year was as follows:

	2023 £ m	2022 £ m
Emoluments	1.9	2.0
Employers' money purchase pension scheme contributions	0.1	-
Salary in lieu of pension	0.1	0.1
	2.1	2.1

8 Particulars of employees (continued)

A total of five directors (2022: four) are members of a money purchase pension scheme. The share-based award charge with respect to directors was £0.4m (2022: £0.6m). Seven directors exercised share options in the year (2022: five). The highest paid director received £986,000 for services in the year (salary: £431,000, pension: £45,000, bonus: £494,000, other: £16,000) (2022: £842,000, salary: £316,000, pension: £63,000, bonus: £434,000, other: £29,000). There was a change in the highest paid director in the current year.

9 Tax on profit

(a) Analysis of tax charge in the year

	2023 £ m	2022 restated* £ m
Current tax		
UK corporation tax	19.9	24.4
UK corporation tax adjustment to prior periods	0.2	(3.6)
Total current tax	**20.1**	**20.8**
Deferred tax		
Deferred tax expense	7.0	7.6
Pension scheme related deferred tax	2.1	0.5
Deferred tax in respect of prior years	(0.4)	1.5
Deferred tax impact of change in rates	3.8	14.2
Total deferred tax	**12.5**	**23.8**
Total tax expense for the year	**32.6**	**44.6**

* Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 28 for details.

(b) Tax charge reconciliation

	2023 £ m	2022 restated* £ m
Profit before taxation	200.0	178.9
Tax calculated at UK standard rate of corporation tax of 19% (2022: 19%)	38.0	34.0
Effects of:		
Expenses not deductible for tax purpose and other non-taxable items	(7.8)	(1.3)
Group relief claimed for nil consideration	(1.2)	-
Tax over provided in previous years	(0.2)	(2.3)
Deferred tax impact of change in rates	3.8	14.2
Total tax expense for the year	**32.6**	**44.6**

* Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 28 for details.

The effective tax rate (before the deferred tax impact of the change in tax rates) continues to be below the UK statutory rate of 19% (2022: 19%), primarily as a result of non taxable profits on disposals and the additional tax benefit of the super deduction on fixed asset acquisitions in the period.

9 Tax on profit (continued)

(c) Factors affecting future tax charges

The effective tax rate is expected to be in line with the UK statutory rate, subject to the impact of any tax legislation changes

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate will increase from 19% to 25%. The 25% rate has been substantively enacted at the balance sheet date. An adjustment was made in FY22 and a further adjustment has been made in FY23 of £3.8m to reflect the revised UK deferred tax balances that are expected to unwind at the new rate of 25%.

10 Intangible assets

	Development costs £ m	Other £ m	Total £ m
Cost			
At 1 April 2022	19.2	44.1	63.3
Additions	1.5	6.5	8.0
Reclassification from property, plant and equipment	4.8	0.4	5.2
Disposals	(0.2)	(2.1)	(2.3)
Transfers	0.2	(0.2)	-
At 31 March 2023	25.5	48.7	74.2
Accumulated amortisation			
At 1 April 2022	16.1	25.5	41.6
Amortisation charge	2.2	1.1	3.3
Disposals	(0.2)	(1.8)	(2.0)
At 31 March 2023	18.1	24.8	42.9
Net book value			
At 31 March 2023	**7.4**	**23.9**	**31.3**
At 31 March 2022	3.1	18.6	21.7

Amortisation is charged to operating costs in the Profit and loss account.

11 Property, plant and equipment

	Land and buildings £ m	Plant, machinery and vehicles £ m	Computers and office equipment £ m	Assets under construction £ m	Right of use assets - Buildings £m	Right of use assets - Vehicles £m	Total £ m
Cost							
At 1 April 2022	360.5	271.0	102.5	83.9	7.4	6.7	832.0
Additions	2.5	2.0	3.4	59.5	0.2	-	67.6
Disposals	(0.2)	(4.0)	(1.7)	(0.4)	-	-	(6.3)
Transfers	13.8	6.8	15.8	(36.4)	-	-	-
Reclassification to intangibles	-	-	-	(5.2)	-	-	(5.2)
At 31 March 2023	376.6	275.8	120.0	101.4	7.6	6.7	888.1
Accumulated depreciation							
At 1 April 2022	219.5	174.2	58.1	0.4	6.1	6.1	464.4
Charge for the year	10.7	14.0	13.9	-	0.5	0.4	39.5
Disposals	-	(3.9)	(1.4)	(0.4)	-	-	(5.7)
At 31 March 2023	230.2	184.3	70.6	-	6.6	6.5	498.2
Net book value							
At 31 March 2023	**146.4**	**91.5**	**49.4**	**101.4**	**1.0**	**0.2**	**389.9**
At 31 March 2022	141.0	96.8	44.4	83.5	1.3	0.6	367.6

Depreciation is charged to operating costs in the Profit and loss account.

Transfers of fixed assets shown above relates to assets constructed by the Company and reclassification of assets categories. These are initially recorded within assets under construction and, on commencement of use, transferred to the relevant asset category.

Under the terms of the Business Transfer Agreement with the MOD, certain restrictions have been placed on freehold land and buildings, surplus properties and certain plant and machinery related to them. These restrictions are detailed in note 23.

12 Investments

	2023 £ m	2022 £ m
At beginning of the financial year (1 April)	5.1	5.1
At end of the financial year (31 March)	5.1	5.1

12 Investments (continued)

QinetiQ Limited has investments in the following subsidiary undertakings:

Undertaking[1,2]	Country of incorporation	Registered office[3]
Subsidiaries		
Graphics Research Corporation Limited*	England & Wales	Farnborough
Qinetic Limited*	England & Wales	Farnborough
QinetiQ Estates Limited*	England & Wales	Farnborough
QinetiQ Insurance PCC Limited*	Guernsey	Mill Court, La Charroterie, St Peter Port, GY1 4ET Guernsey
QinetiQ PFP Limited Partnership *	Scotland	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, Scotland
QinetiQ Target Services Limited*	England & Wales	Farnborough

* indicates direct investment of the Company

1 As at 31 March 2023 the Company owned 100% of the ordinary shares of the subsidiary undertakings except for QinetiQ PFP Limited Partnership.

2 Despite having no voting rights, the Company controls QinetiQ PFP Limited Partnership. This is demonstrated by the fact that QinetiQ PFP Limited Partnership was set up by the Company as a special purpose entity to facilitate an Asset Backed Funding ('ABF') structure. The Company retains decision-making powers in respect of the QinetiQ PFP Limited Partnership, including the ability to substitute assets into the ABF structure as it chooses and also to terminate the activities of QinetiQ PFP Limited Partnership, subject to settling the outstanding finance lease creditor. As a result, QinetiQ PFP Limited Partnership is listed as a subsidiary undertaking.

3 The Farnborough registered office address is Cody Technology Park, Ively Road, Farnborough, Hampshire, GU14 0LX.

13 Inventories

	2023 £ m	2022 £ m
Raw materials	0.3	0.4
Work in progress	3.2	0.8
Finished goods	10.2	7.7
	13.7	8.9

14 Trade and other receivables

	2023 £ m	2022 restated* £ m
Trade receivables	121.8	106.4
Contract assets	63.5	78.9
Amounts owed by ultimate parent undertaking	6.4	4.6
Amounts owed by immediate parent undertaking	80.9	78.8
Amounts owed by fellow subsidiary undertakings	355.1	291.4
Other receivables	33.1	34.5
Prepayments	20.4	23.0
	681.2	**617.6**

* Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 28 for details.

Trade and other receivables includes assets that are realised as part of the business's normal operating cycle, including total amounts of £31.9m (2022: £25.4m) that are not expected to be realised within 12 months of the year end. The total mainly relating to amounts owed by fellow subsidiaries and parent undertakings of £22.5m (2022: £23.1m) that will mature after more than one year. As at 31 March 2023 the Company carried a provision for doubtful debts of £1.0m (2022: £1.1m).

15 Creditors: amounts falling due within one year

	2023 £ m	2022 restated* £ m
Trade creditors	98.5	52.7
Amounts owed to fellow subsidary undertakings	12.8	8.8
Lease liabilities	0.7	1.3
Other taxes and social security	48.5	60.5
Corporation tax	1.0	6.5
Contract liabilities	207.7	168.9
Accrued expenses and other creditors	104.4	107.3
	473.6	406.0

* Prior year comparatives have been restated due to a change in accounting policy for Research and Development Expenditure Credits (RDEC). See note 28 for details.

Amounts owed to fellow subsidiary undertakings are unsecured, repayable on 31 March 2024 and bear interest of 1.60% plus Relevant Reference Rate.

16 Creditors: amounts falling due after more than one year

	2023 £ m	2022 £ m
Lease liabilities	24.1	24.7
Other creditors	14.0	15.2
	38.1	39.9

17 Other financial assets and liabilities

	2023			2022		
	Assets £ m	Liabilities £ m	Net £ m	Assets £ m	Liabilities £ m	Net £ m
Current financial assets/(liabilities)						
Deferred financing costs	0.4	-	0.4	0.4	-	0.4
Derivative financial instruments	0.9	(0.6)	0.3	0.2	(1.4)	(1.2)
Total current financial assets/(liabilities)	**1.3**	**(0.6)**	**0.7**	**0.6**	**(1.4)**	**(0.8)**
Non-current assets/(liabilities)						
Deferred financing costs	0.2	-	0.2	0.5	-	0.5
Derivative financial instruments	-	(0.3)	(0.3)	-	(0.6)	(0.6)
Total non-current financial assets/(liabilities)	**0.2**	**(0.3)**	**(0.1)**	**0.5**	**(0.6)**	**(0.1)**

At 31 March 2023 the Company did not hold any cash which is restricted in its use.

18 Deferred tax

Year ended 31 March 2023

Deferred tax asset

	Short-term timing differences £ m	Total £ m
At 1 April 2022	0.3	0.3
Charged to profit and loss account	0.8	0.8
Charged to equity	0.4	0.4
Gross deferred tax asset at 31 March 2023	**1.5**	**1.5**
Less: liability available for offset		(1.5)
Net deferred tax asset at 31 March 2023		**-**

Deferred tax liability

	Pension surplus £ m	Fixed assets £ m	Total £ m
At 1 April 2022	(96.4)	(46.9)	(143.3)
Charged to profit and loss account	(2.6)	(10.5)	(13.1)
Charged to other comprehensive income	63.5	-	63.5
Gross deferred tax liability at 31 March 2023	**(35.5)**	**(57.4)**	**(92.9)**
Less: asset available for offset			1.5
Net deferred tax liability at 31 March 2023			**(91.4)**

Year ended 31 March 2022

18 Deferred tax (continued)

Deferred tax asset

	Short-term timing differences £ m	Total £ m
At 1 April 2021	5.1	5.1
Charged to profit and loss account	(4.5)	(4.5)
Credited to other comprehensive income	(0.1)	(0.1)
Credited to equity	(0.5)	(0.5)
Transfer to current tax	0.3	0.3
Gross deferred tax asset at 31 March 2022	**0.3**	**0.3**
Less: liabilities available for offset		(0.3)
Net deferred tax asset at 31 March 2022		**-**

Deferred tax liability

	Pension surplus £ m	Fixed assets £ m	Total £ m
At 1 April 2021	(45.4)	(31.0)	(76.4)
Charged to profit and loss account	(3.4)	(15.9)	(19.3)
Credited to other comprehensive income	(47.6)	-	(47.6)
Gross deferred tax liability at 31 March 2022	**(96.4)**	**(46.9)**	**(143.3)**
Less: asset available for offset			0.3
Net deferred tax liability at 31 March 2022			**(143.0)**

19 Provisions for liabilities

	Property £ m	Other provisions £ m	Total £ m
At 1 April 2022	6.8	18.3	25.1
Created in year	0.5	0.3	0.8
Unwind of discount	0.1	-	0.1
Utilised in year	(1.2)	(2.1)	(3.3)
Released in year	(0.1)	-	(0.1)
At 31 March 2023	**6.1**	**16.5**	**22.6**
Current liabilities	2.7	16.5	19.2
Non-current liabilities	3.4	-	3.4
At 31 March 2023	**6.1**	**16.5**	**22.6**

Property provisions relate to under-utilised properties. The extent of the provision is affected by timing of when properties can be sub-let and the proportion of space that can sub-let. Based on current assessment the provision will be utilised within 5 years. Other provisions includes £14.2m (2022: £16.0m) in respect of a safety incident at the Pendine site. This is offset in Other Receivables for an insurance recoverable. The balance relates to environmental and other liabilities, the magnitude and timing of utilisation of which are determined by a variety of factors.

20 Called up share capital

Allotted, called up and fully paid shares

	2023		2022	
	No.	£ m	No.	£ m
Ordinary shares of £1 each	99,999,999	100.0	99,999,999	100.0
Special share of £1 each	1	0.0	1	0.0
	100,000,000	100.0	100,000,000	100.0

20 Called up share capital (continued)

Special share - QinetiQ Group plc and its subsidiaries carry out activities which are important to UK defence and security interests. To protect these interests in the context of the on-going commercial relationship between the MOD and QinetiQ, and to promote and reinforce the Compliance Principles, the MOD holds a Special Share in the Company. QinetiQ obtained MOD consent to changes in its Special Shareholder rights, which were approved by shareholders at the 2012 AGM. The changes to the Special Share were disclosed in the 2012 Annual Report of QinetiQ Group plc. Subsequent to the changes approved at the 2012 AGM the Special Share confers certain rights on the holder:

a) to require the Group to implement and maintain the Compliance System (as defined in the Articles of Association) so as to make at all times effective its and each member of QinetiQ Controlled Group's application of the Compliance Principles, in a manner acceptable to the Special Shareholder;

b) to refer matters to the Board for its consideration in relation to the application of the Compliance Principles;

c) to require the Board to obtain Special Shareholder's consent:

i) if at any time when the chairman is not a British Citizen, it is proposed to appoint any person to the office of chief executive, who is not a British Citizen; and
ii) if at any time when the chief executive is not a British Citizen, it is proposed to appoint any person to the office of chairman, who is not a British Citizen;

d) to require the Board to take action to rectify any omission in the application of the Compliance Principles, if the Special Shareholder is of the opinion that such steps are necessary to protect the defence or security interests of the United Kingdom; and

e) to demand a poll at any of QinetiQ's meetings (even though it may have no voting rights except those specifically set out in the Articles).

The Special Shareholder has an option to purchase defined Strategic Assets of the Group in certain circumstances. The Special Shareholder has, inter alia, the right to purchase any Strategic Assets which the Group wishes to sell. Strategic Assets are normally testing and research facilities.

The Special Share may only be issued to, held by and transferred to HM Government (or as it directs). At any time the Special Shareholder may require QinetiQ to redeem the Special Share at par. If QinetiQ is wound up the Special Shareholder will be entitled to be repaid the capital paid up on the Special Share before other shareholders receive any payment. The Special Shareholder has no other right to share in the capital or profits of QinetiQ.

The Special Shareholder must give consent to a general meeting held on short notice.

The Special Share entitles the Special Shareholder to require certain persons who hold (together with any person acting in concert with them) a material interest in QinetiQ to dispose of some or all of their ordinary shares in certain prescribed circumstances on the grounds of national security or conflict of interest.

The Directors must register any transfer of the Special Share within seven days.

21 Share-based payments

The Company operates a number of share-based payment plans for employees. The total share-based payments expense in the year was £6.5m, of which £6.5m related to equity-settled schemes and nil related to cash-settled schemes (2022: £6.9m, of which £6.9m related to equity-settled schemes and nil to cash-settled schemes). The expense for share-settled schemes was charged to the Company by the ultimate parent company QinetiQ Group plc, in respect of share options over its shares. Set out below are details of the share-based payments arrangements that were utilised during the year. In all cases they relate to the shares of QinetiQ Group plc, the ultimate parent company.

Group Share Incentive Plan (SIP)

Under the QinetiQ SIP the Company offers UK employees the opportunity of purchasing up to £150 worth of shares a month at the prevailing market rate. The Company will make a matching share award of a third of the employee's payment. The Company's matching shares may be forfeited if the employee ceases to be employed by QinetiQ within three years of the award of the shares. There is no exercise price for these SIP awards.

SIP matching shares are equity-settled awards; those outstanding at 31 March 2023 had an average remaining life of 1.5 years (2022: 1.5 years). There is no exercise price for these SIP awards. Of the shares outstanding at the end of the year nil were exercisable (2022: nil).

Deferred Share Plan (DSP)

The number of awards is dependent on the Group's performance during the year (specifically with respect to the Group revenue growth). This is provisionally quantified at year end based on Group performance and also the number of eligible employees in employment as at 31 March. Actual awards are made in the following June and the final number awarded will be slightly different to the number provisionally calculated. Awards are then subject to a three-year vesting period and a further two-year holding period. Vesting of the awards is contingent upon Group operating profit in the year prior to vesting being maintained at the level reported during the year prior to award.

At 31 March 2023 the awards had an average remaining life of 2.4 years (2022: 1.8 years). There is no exercise price for these awards. The fair value of DSP's provisionally awarded at 31 March 2023 was £3.34 being the Group's 30 day average on 31 March. The weighted average share price at date of exercise was £3.64 (2022: £3.50). Of the awards outstanding at the end of the year nil were exercisable.

21 Share-based payments (continued)

Bonus Banking Plan (BBP)
The BBP is a remuneration scheme that runs in three-year performance cycles, with each cycle vesting over a four-year period. Under the BBP a contribution will be made by the Company into the participant's Plan account following the end of each Plan year. 50% of the value of a participant's Plan account will be paid out annually for three years with 100% of the residual value paid out at the end of year four. 50% of the unpaid balance of a participant's bonus account will be at risk of forfeiture.

At 31 March 2023 the awards had an average remaining life of 1.7 years (2022: 1.6 years). There is no exercise price for these awards. The fair value of the awards at 31 March 2023 was £3.34 (2022: £3.02) being the 30 days average on 31 March. Of the awards outstanding at the end of the year nil were exercisable (2022: nil).

Restricted Share Plan (RSP)
During the year the Group granted RSP awards to certain senior executives in the UK. At 31 March 2023 the awards had an average remaining life of 1.4 years (2022: 1.9 years). There is no exercise price for these awards. The weighted average fair value of grants made during the year was £3.41 (2022: £2.75). The weighted average share price at date of exercise was £3.17 (2022: £3.06). Of the options outstanding at the end of the year nil were exercisable (2022: nil).

Value Creation Plan (VCP)
The Company has granted awards under a Value Creation Plan to a certain senior executive in the UK. At 31 March 2023 the awards had an average remaining life of 0.2 years (2022: 1.2 years). There is no exercise price for these awards. The weighted average fair value of grants made during the year was £nil (2022: £nil). Of the options outstanding at the end of the year nil were exercisable (2022: nil).

High Performance Share Award (HPSA)
During FY21, as one of eight initial measures in response to the COVID-19 pandemic, the senior leaders agreed to, on average, a temporary base salary reduction of 15%. To both recognise the senior leaders for their sacrifice and to incentivise them to lead the Group through the crisis as quickly and effectively as possible, the Group adopted a new award called High Performance Share Award (HPSA). The HPSA was awarded in November 2020 as a 'Thank Q' to senior leaders for their sacrifice and enormous efforts to lead their teams out of unprecedented crisis. The fair value of QinetiQ shares on grant date was £2.70 and the awards vest in June 2023. At 31 March 2023 the awards had an average remaining life of 0.3 years (2022: 1.3 years). Of the awards outstanding at the end of the year nil were exercisable (2022: nil).

Share-based awards - pricing
Share-based awards that vest based on non-market performance conditions have been valued at the share price at grant date and equity-settled.

22 Post-retirement benefits

Defined contribution plans

In the UK the Company operates a defined contribution arrangement provided by Mercer Master Trust. A defined contribution plan is a pension plan under which the Company and employees pay fixed contributions to a third-party financial provider. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as an employee benefit expense when they are due. The expense incurred during the year was £55.2m (2022: £49.4m). Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Defined benefit pension plans

In the UK the Company 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. 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 level of benefits provided depends on the members' length of service and their final pensionable earnings at closure to future accrual. In the Scheme, pensions in payment are generally updated in line with the Consumer Price Index (CPI). The benefit payments are made from Trustee-administered funds.

Plan assets held in trusts are governed by UK regulations as is the nature of the relationship between the Group and the Trustees and their composition. Responsibility for the governance of the Scheme - including investment decisions and contribution schedules - lies with the Board of Trustees but the Company is consulted. The Board of Trustees must be composed of representatives of the Company and plan participants in accordance with the Scheme's rules.

The asset recognised in the balance sheet in respect of the defined benefit pension plan is the fair value of plan assets less the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated bi-annually by independent actuaries using the projected unit credit method. Future cash flows of the Scheme which are subject to inflation are calculated using a CPI inflation assumption for the majority of the cash flows, with a small proportion of cash flows linked to RPI. IAS 19 requires the inflation assumptions to be market-based assumptions, as opposed to being based on economic forecasts.

The present value of the defined benefit obligation is determined by discounting the estimated, inflated future cash outflows using interest rates of high quality corporate bonds and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

The Company has no further payment obligations once the agreed contributions have been paid. The expected employer cash contribution to the Scheme for the year ending 31 March 2024 is £3.4m.

22 Post-retirement benefits (continued)

Triennial funding valuation

The most recent completed full actuarial valuation of the Scheme was undertaken as at 30 June 2020 and resulted in an actuarially assessed surplus of £176.5m (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 2023.

The agreed recovery plan requires £2.8m per annum (at 2021 prices) distributions to the Scheme until 31 March 2032, indexed by reference to CPI. Such distributions are from the Group's Pension Funding Partnership.

QinetiQ's Pension Funding Partnership (PFP) Structure

On 26 March 2012 QinetiQ established the QinetiQ PFP Limited Partnership (the 'Partnership') with the Scheme. Under this arrangement, properties to the capitalised value of £32.3m were transferred to the Partnership. The transfers were affected through a 20-year sale and leaseback agreement. The Scheme's interest in the Partnership entitles it to an annual distribution of approximately £2.5m (from 2012) for 20 years, indexed with reference to CPI. The Scheme's interest in the Partnership will revert back to QinetiQ Limited in 2032.

Other UK schemes

The Company has a small number of employees for whom benefits are secured through the Prudential Platinum Scheme. The PPS scheme is always fully funded and has a very small surplus at year end. QinetiQ also offers employees access to a Group Self Invested Personal Pension Plan, but no Company contributions are paid to this arrangement.

Defined benefit pension plan ('Scheme') net pension asset

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.

	2023 £ m	2022 £ m
Equities - quoted	177.4	176.1
Equities - unquoted	32.9	44.7
LDI investment*	227.2	291.8
Asset backed security investments	4.3	501.7
Alternative bonds - unquoted**	256.4	208.6
Corporate bonds***	117.6	97.4
Property	-	29.5
Cash and cash equivalents	17.2	78.5
Insurance buy-in policy	515.5	645.9
Derivatives	6.7	(8.5)
Total market value of assets	1,355.2	2,065.7
Present value of Scheme liabilities	(1,235.4)	(1,703.5)
Net pension asset before deferred tax	**119.8**	**362.2**
Deferred tax liability	(35.4)	(96.4)
Net pension asset after deferred tax	**84.4**	**265.8**

* Asset backed securities are used as collateral for the LDI. As gilt yields spiked during the year, the LDI drew down on significant levels of security, causing the year on year drop shown above.

** Primarily private market debt investments.

*** Unlisted corporate bonds with commercial property held as security.

22 Post-retirement benefits (continued)

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 Company - principally the value 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's liabilities. This is particularly pertinent at current times whilst markets are highly volatile. Sensitivities and risks are described on page 58 and 59.

The key driver for the decrease in the net pension asset since the March 2022 year end was the turmoil in financial markets following the Government's 'mini-budget' in September 2022, particularly a sharp increase in gilt yields (and reduced gilt prices). Prior to the 'mini-budget' the Scheme was 100% hedged on both interest rate and inflation risk, and significant levels of collateral were required to maintain such hedging levels. The spike in gilt yields in October 2022 eroded the collateral required to be held in the LDI portfolio to such an extent that the hedges needed to be reduced to a lower level, covering approximately 65% of the interest rate risk and 80% of the inflation rate risk. Subsequent falls in gilt yields meant that, as interest rate risk was then 35% unhedged, the Scheme suffered a loss in value.

This reduced level of hedging was maintained through to 31 March 2023, as measured on the Trustees' gilt-funded basis. Over the course of the year, the fall in value of assets across the whole investment portfolio (primarily LDI-related collateral) was in excess of the reduction in Scheme liabilities (which also fell substantially, primarily due to an increase in the discount rate).

The insurance policy obtained by the pension scheme can only be used to pay or fund employee benefits under the Company's defined benefit plan. It is not available to the Company's own creditors and cannot be paid to another entity. These are the requirements of IAS 19 paragraph 7 and hence our determination is that the insurance policy is a qualifying insurance policy and requires classification as a plan asset. The policy was issued by an insurer that is not a related party.

Per the Scheme rules, the Company has an unconditional right to 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 Company's balance sheet and the Company's minimum funding commitments to the Scheme do not give rise to an additional balance sheet liability.

Changes to the fair value of Scheme assets

	2023 £ m	2022 £ m
Opening fair value of Scheme assets	2,065.7	2,071.8
Interest income on Scheme assets	55.8	43.0
Re-measurement loss on Scheme assets	(716.3)	(5.9)
Contributions by the employer	3.0	2.9
Net benefits paid out and transfers	(51.6)	(45.0)
Administrative expenses	(1.4)	(1.1)
Closing fair value of Scheme assets	1,355.2	2,065.7

22 Post-retirement benefits (continued)

Changes to the present value of Scheme liabilities

	2023 £ m	2022 £ m
Present value of scheme liabilities	(1,703.5)	(1,857.5)
Interest cost	(45.9)	(38.5)
Actuarial gain/(loss) on Scheme liabilities based on:		
Change in financial assumptions	588.0	107.5
Experience (losses)/gains	(171.4)	36.5
Changes in demographic assumptions	45.8	5.9
Net benefits paid out and transfers	51.6	45.0
Past service cost	-	(2.4)
Closing present value of defined benefit obligation	**(1,235.4)**	**(1,703.5)**

The net actuarial gains are primarily due to a decrease in value of the financial assumption for the discount rate (see Assumptions section below).

22 Post-retirement benefits (continued)

Movement in the net pension asset

	2023 £ m	2022 £ m
Opening net pension asset	362.2	214.3
Net finance income	9.9	4.5
Administrative expenses	(1.4)	(1.1)
Net actuarial (loss)/gain	(253.9)	144.0
Contributions by the employer	3.0	2.9
Past service cost	-	(2.4)
Closing net pension asset	119.8	362.2

Total expense recognised in the profit and loss account

	2023 £ m	2022 £ m
Amounts recognised in operating profit		
Past service cost	-	(2.4)
Administrative expenses	(1.4)	(1.1)
Amounts recognised in finance income		
Net finance income on the net pension asset	9.9	4.5
Total net income recognised in the profit and loss account (gross of deferred tax)	**8.5**	**1.0**

Assumptions

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

	Insured members	Uninsured members
Discount rate applied to Scheme liabilities	4.80%	4.65%
CPI inflation assumption	2.55%	2.70%
Net rate (discount rate less inflation)	2.25%	1.95%
Assumed life expectancies in years:		
Life expectancy at 60 for male currently aged 40	n/a	27.9
Life expectancy at 60 for female currently aged 40	n/a	30.3
Life expectancy at 60 for male currently aged 60	n/a	26.2
Life expectancy at 60 for female currently aged 60	n/a	28.2
Life expectancy at 65 for male currently aged 65	21.6	n/a
Life expectancy at 65 for female currently aged 65	23.3	n/a

22 Post-retirement benefits (continued)

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, because of the timescale covered, may not necessarily be borne out in practice. It is important to note that these assumptions are long term and, in the case of the discount rate and the inflation rate, are measured by reference to external market indicators. The discount rate is based on observable yields on corporate bonds but there is no direct, observable market rate for CPI. A 'market approach' to deriving CPI involves adjusting a market-based RPI rate downward by an 'inflation risk premium' and an RPI-CPI adjustment factor (determined from relevant market yield curves). This market-based approach is required by IAS 19 and results in a CPI inflation rate significantly in excess of the Bank of England long term target and also in excess of a consensus view of CPI (based on surveys of economists). However, adopting an economic consensus approach to setting CPI inflation is not acceptable under accounting standards.

The mortality assumptions for both the current and prior year were based on the S3 Normal Lives base tables, with various scaling factors based on sex and status. For the 31 March 2023 assumptions each of the various scaling factors were 8ppts higher than as at 31 March 2022, reflecting the negative impact of COVID-19 on future life expectancy. Allowance, in both years, was made for improvements in mortality in line with CMI_2021 Core Projections and a long-term rate of improvement of 1.25% per annum.

The funding of the Scheme is based on long-term trends and assumptions relating to market growth, as advised by qualified actuaries and investment advisors. The weighted average duration of the defined benefit obligation is approximately 20 years.

Sensitivity analysis of the principal assumptions

Assumption	Change in assumption	Indicative impact on Scheme assets / Scheme liabilities	Indicative impact on net pension asset
Discount rate	increase by 0.1%	- by £7.0m / - by £21.7m	+ by £14.7m
Rate of inflation	increase by 0.1%	+ by £5.5m / + by £20.6m	- by £15.1m
Life expectancy	increase by one year	+ by £14.3m / + by £34.0m	- by £19.7m

'+' = increase, '-' = decrease

The impact of movements in Scheme liabilities will, to an extent, be offset by movements in the value of Scheme assets as the Scheme has assets invested in a Liability Driven Investment portfolio. As at 31 March 2022 this portfolio hedged against approximately 95% of the interest rate risk and also 95% of the inflation rate risk, as measured on the Trustees' gilt-funded basis. During the current financial year, due to the increased volatility in gilt yields and reflecting increased liquidity requirements for Schemes running LDI portfolios, the hedges have been amended to cover approximately 65% of the interest rate risk and 80% of the inflation rate risk as at 31 March 2023, as measured on the Trustees' gilt-funded basis.

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (projected unit credit method) has been applied as when calculating the pension liability recognised within the statement of financial position. The methods and types of assumption did not change.

22 Post-retirement benefits (continued)

In addition to the sensitivity of the liability side of the net pension asset (which will impact the value of the net pension asset) the net pension asset is also exposed to significant variation due to changes in the fair value of Scheme assets. A specific sensitivity on assets has not been included in the above table but any change in valuation of assets flows straight through to the value of the net pension asset e.g. if equities fall by £10m then the net pension asset falls by £10m. The values of unquoted assets assume that an available buyer is willing to purchase those assets at that value. For the Group's portfolio of assets, the unquoted alternative bonds of £256.4m; the unquoted corporate bonds of £117.6m and the unquoted equities of £32.9m are the assets with most uncertainty as to valuation as at 31 March 2023.

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

Risks

Through its defined benefit pension plan, the Company is exposed to a number of risks, the most significant of which are detailed on the following page.

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 AA-rated 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 Company'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 Company's profit and loss account.

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.

23 Transactions with the MOD

The MOD continues to own its Special Share in the Company which conveys certain rights as set out in note 20. Transactions between the Company and the MOD are disclosed as follows:

Freehold land and buildings and surplus properties
Under the terms of the Company's acquisition of part of the business and certain assets of DERA from the MOD on 1 July 2001, the MOD retained certain rights in respect of the freehold land and buildings transferred.

Restrictions on transfer of title
The title deeds of those properties with strategic assets (see below) include a clause that prevents their transfer without the approval of the MOD. The MOD also has the right to purchase any strategic assets in certain circumstances.

MOD's generic compliance regime
Adherence to the generic compliance system is monitored by the Risk & Security Committee.

Strategic assets
Under the Principal Agreement with the MOD, QinetiQ is not permitted without the written consent of the MOD, to:

- dispose of or destroy all or part of a strategic asset; or
- voluntarily undertake any closure of, or cease to provide a strategic capability by means of, all or any part of a strategic asset.

The net book value of assets identified as being strategic assets as at 31 March 2023 was £3.0m (2022: £3.9m).

Long Term Partnering Agreement
On 27 February 2003 QinetiQ Limited entered into a Long Term Partnering Agreement (LTPA) to provide Test and Evaluation (T&E) facilities and training support services to the MOD. This is a 25-year contract with a total revenue value of up to £5.6bn, dependent on the level of usage by the MOD, under which QinetiQ Limited is committed to providing T&E services with increasing efficiencies through cost saving and innovative service delivery. Following an amendment to the LTPA contract on 5 April 2019, this contract is no longer subject to re-pricing every five years and is now contracted at a fixed price to 31 March 2028.

Other contracts with MOD
The LTPA is the most significant contract QinetiQ has with the MOD. In total approximately 84% (2022: 84%) of the Company's revenue comes directly from contracts with the MOD.

24 Leases

Company as a lessor

The Company receives rental income on certain properties. Primarily these are properties partially occupied by Group companies, with vacant space sub-let to third-party tenants. The Company had contracted with tenants for the following future minimum lease payments.

	2023 £ m	2022 £ m
Within one year	5.7	5.7
In the second to fifth years inclusive	7.7	9.3
Greater than five years	1.8	0.5
	15.2	**15.5**

Company as a lessee

Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	2023 £ m	2022 £ m
Right of use assets (included within Property, plant and equipment - see note 11)		
Right of use assets - Buildings	1.0	1.3
Right of use assets - Vehicles	0.2	0.6
	1.2	**1.9**

	2023 £ m	2022 £ m
Lease liabilities (included within Creditors - see note 15 and 16)		
Current	0.7	1.3
Non-current	24.1	24.7
	24.8	**26.0**

Additions to the right-of-use asset during the 2023 financial year was £0.2m (2022: £0.2m). The total cash outflow for leases in 2023 was £1.1m (2022: £1.4m).

24 Leases (continued)

Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	2023 £ m	2022 £ m
Right of use assets - Buildings	0.5	0.5
Right of use assets - Vehicles	0.4	0.7
Total depreciation charge	**0.9**	**1.2**
Interest expense (included in finance expense - see note 7)	0.1	0.1
Expenses relating to short-term leases (included in operating costs)	0.9	0.7
Total expenses charged to profit before tax	**1.9**	**2.0**

25 Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £42.8m (2022: £28.7m).

This includes £21.2m (2022: £21.5m) in relation to property, plant and equipment that will be wholly funded by a third-party customer under long-term contract arrangements. These primarily relate to investments under the LTPA contract.

26 Contingent liabilities and assets

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. 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.

The Company is a guarantor with respect to the borrowings in other Group companies under a £275.0m (2022: £275.0m) revolving credit facility and a £337.6m (2022: nil) term loan held by other Group companies. The revolving credit facility, which is unutilised, has an initial term of five years and will mature on 27 September 2025. At 31 March 2023 other Group companies' borrowings under this facility amounted to £nil (2022: £nil) with £nil (2022: £nil) borrowed by the Company. The £337.6m term loan is repayable on 27 September 2025, with two one-year extension options available, with interest periods set to three months.

The Company has provided bank guarantees issued in the course of ordinary trade to the value of £10.3m (2022: £14.7m). The Company provides guarantees to certain customers of fellow subsidiaries to the value of £nil (2022: £nil).

27 Parent undertaking and control

The ultimate parent undertaking and controlling party is QinetiQ Group plc, a company registered in England and Wales. The immediate parent undertaking is QinetiQ Holdings Limited, a company registered in England and Wales. The financial statements of QinetiQ Limited are consolidated in the financial statements of QinetiQ Group plc, the only Company in the Group which prepares consolidated financial statements. Copies of the consolidated financial statements of QinetiQ Group plc are available from the Company Secretary, QinetiQ Group plc, Cody Technology Park, Ively Road, Farnborough, Hampshire, GU14 0LX.

28 Changes in accounting policies

This note explains the impact of a change in accounting policy that is effective for the first time in the Company's financial statements for the year ended 31 March 2023:

Accounting for Research and Development Expenditure Credits ('RDEC')
Following a routine Financial Reporting Council ("FRC") review of the QinetiQ Limited ultimate parent company, QinetiQ Group Plc's consolidated financial statements for the year ended 31 March 2022, the Company has changed its accounting policy relating to RDEC. The Company's accounting policy has historically been to account for RDEC under IAS12 Income Tax, as a credit within the tax charge. Following engagement with the FRC, and a review of common market practice, the Company has now decided to account for RDEC as other operating income under IAS20 Government Grants.

The impact of this change is to move £25.8m of RDEC income for the year ended 31 March 2022 from the tax charge into other income. The impact on the balance sheet and related notes is to reclassify a £15.1m receivable from current tax payable to other receivables as at 31 March 2022 (£11.8m as at 31 March 2021) as well as £14.7m (£12.6m as at 31 March 2021) from current tax to accrued expenses and other payables. There is an impact on net assets of £4.7m as at 31 March 2022 and £2.0m as at 31 March 2021 due to the deferred income impact of the updated income recognition under IAS20. There is £2.7m impact on profit after tax for FY22. The following tables show the adjustments recognised for each individual line item as at 31 March 2023, 31 March 2022 and 1 April 2021.

28 Changes in accounting policies (continued)

Balance sheet (extract)

	Previous policy £ m	Change in policy £ m	As presented £ m
2023			
Assets/(liabilities)			
Trade and other receivables - other receivables	18.2	14.9	33.1
Trade and other payables - accrued expenses and other payables	(91.5)	(12.9)	(104.4)
Current tax payable	7.3	(8.3)	(1.0)
Deferred tax liability	(92.0)	0.6	(91.4)
Other net assets	870.9	-	870.9
Net assets	**712.9**	**(5.7)**	**707.2**
Capital and reserves			
Called up share capital	100.0	-	100.0
Hedging reserves	(0.2)	-	(0.2)
Retained earnings	613.1	(5.7)	607.4
Total shareholders' funds	**712.9**	**(5.7)**	**707.2**

28 Changes in accounting policies (continued)

	As originally presented £ m	Impact of restatement £ m	Restated £ m
2022			
Assets/(liabilities)			
Trade and other receivables - other receivables	19.4	15.1	34.5
Trade and other payables - accrued expenses and other payables	(92.6)	(14.7)	(107.3)
Current tax payable	(1.4)	(5.1)	(6.5)
Deferred tax liability	(143.0)	-	(143.0)
Other net assets	1,190.1	-	1,190.1
Net assets	**972.5**	**(4.7)**	**967.8**
Capital and reserves			
Called up share capital	100.0	-	100.0
Hedging reserves	0.1	-	0.1
Retained earnings	872.4	(4.7)	867.7
Total shareholders' funds	**972.5**	**(4.7)**	**967.8**

	As originally presented £ m	Impact of restatement £ m	Restated £ m
2021			
Assets/(liabilities)			
Trade and other receivables - other receivables	3.5	11.8	15.3
Trade and other payables - accrued expenses and other payables	(85.4)	(12.6)	(98.0)
Current tax payable	(1.6)	(1.2)	(2.8)
Deferred tax liability	(71.3)	-	(71.3)
Other net assets	927.0	-	927.0
Net assets	**772.2**	**(2.0)**	**770.2**
Capital and reserves			
Called up share capital	100.0	-	100.0
Hedging reserves	(0.4)	-	(0.4)
Retained earnings	672.6	(2.0)	670.6
Total shareholders' funds	**772.2**	**(2.0)**	**770.2**

28 Changes in accounting policies (continued)

Statement of profit or loss (extract)

	Previous policy £ m	Change in policy £ m	As presented £ m
2023			
Revenue	1,029.1	-	1,029.1
Operating cost	(913.4)	-	(913.4)
Other operating income	11.8	16.9	28.7
Operating profit	**127.5**	**16.9**	**144.4**
Gain on business divestment	29.9	-	29.9
Profit before net finance income and income from shares in Group undertakings	**157.4**	**16.9**	**174.3**
Finance income	31.7	-	31.7
Finance expense	(6.9)	-	(6.9)
Finance income - net	**24.8**	**-**	**24.8**
Income from shares in Group undertakings	0.9	-	0.9
Profit before tax	**183.1**	**16.9**	**200.0**
Tax on profit	(14.7)	(17.9)	(32.6)
Profit for the year	**168.4**	**(1.0)**	**167.4**

	As originally presented £ m	Impact of restatement £ m	Restated £ m
2022			
Revenue	953.9	-	953.9
Operating cost	(826.3)	-	(826.3)
Other operating income	10.2	25.8	36.0
Operating profit	**137.8**	**25.8**	**163.6**
Gain on business divestment	-	-	-
Profit before net finance income and income from shares in Group undertakings	**137.8**	**25.8**	**163.6**
Finance income	13.8	-	13.8
Finance expense	(2.3)	-	(2.3)
Finance income - net	**11.5**	**-**	**11.5**
Income from shares in Group undertakings	3.8	-	3.8
Profit before tax	**153.1**	**25.8**	**178.9**
Tax on profit	(16.1)	(28.5)	(44.6)
Profit for the year	**137.0**	**(2.7)**	**134.3**