Board of Directors
An experienced and strategically focused Board who continue to be paramount to the Company's long-term sustainable success.

Read more on page 96

Corporate Governance

Purpose, values and culture

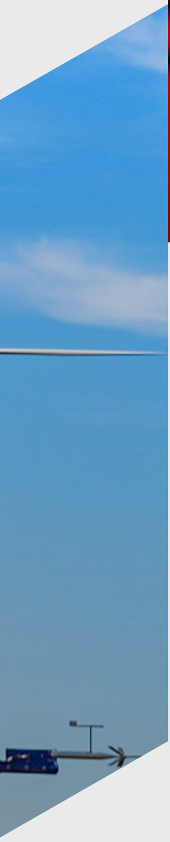
Our purpose communicates the Group's strategic direction and intentions to our stakeholders.

Read more on page 104

Board decision making: ESG

The Board agreed the importance of continuing to identify and invest in ESG matters as a whole and specifically for the Net-Zero programme supporting on programmes such as ESG data improvement.

Read more on page 102



Board decision making: acquisitions

The acquisitions of Avantus and Air Affairs in the US and Australia provide positive momentum for us to deliver sustainable performance in the years ahead.

Read more on page 101

Governance framework

The Board is accountable to shareholders for its standards of governance and as a UK-listed Company our governance is based on applying the principles and provisions of the UK Corporate Governance Code. See page 93 for further information.

The UK Corporate Governance Code is publicly available at www.frc.org.uk.

1. Board leadership and Company purpose

Provides an overview of the activities undertaken by the Board in the year, how the Board has considered its section 172(1) responsibilities and its governance framework

2. Division of responsibilities

Explains the roles of the Board and its Directors

3. Composition, succession and evaluation

Sets out key processes, which ensure that the Board and its Committees can operate effectively

4. Audit, risk and internal control

Explains the role of the Board, the Audit Committee and the Risk & Security Committee in ensuring the integrity of the financial statements and maintaining effective systems of internal controls

5. Remuneration

Describes the Company's remuneration arrangements in respect of its Directors, how these have been implemented in FY23, and details of our remuneration policy

Group Chair introduction

Introduction to Governance

Dear Shareholder,
I am pleased to present this year's corporate governance statement. This report provides an overview of the system of governance adopted by the Company and will enable our shareholders to evaluate the manner in which the UK Corporate Governance Code's Principles and Provisions have been applied by the Company."

For the year ended 31 March 2023, the Board considers that the Company fully applied the principles and complied with the provisions of the Code, with the exception of provisions 38 and 41.

For more details on these exceptions, see page 94

While being a British company, we operate internationally and our governance structure respects the special arrangements in place to protect the national security interests of our government customers globally. Over the year, the Board has worked closely with the Company's executive and senior leadership teams on the reset of the Group's global growth strategy, evolving it to more closely align with the recently announced AUKUS strategic alliance, and playing a key role in challenging, shaping and developing the Company's latest five-year Integrated Strategic Business Plan.

Fast-evolving geopolitical and regulatory environment

More than ever this year, we have seen increasing pace in the change of geopolitical events around us, and none more so than in the defence and security arena. This has been particularly characterised by the conflict in Ukraine, and the rising cost of living that has directly affected so many of the countries that our people and customers operate in. As a result, the Company's purpose of protecting lives and securing the vital interests of our customers, feels even more relevant today and looking towards the future, than ever before. This has also come at a time when the pace of regulatory change relevant to our industry has brought more rigorous and demanding governance requirements for our business to meet.

In response, the Company's executive and leadership teams, supported by the experience and stewardship of the Board, have acted swiftly to implement key changes to its strategy, structure, processes, and employee offerings, to put it in the best possible position to meet these challenges. I have highlighted a number of these below, and you can read more about this in the following corporate governance statement.

Board activities

FY23 saw the Company deliver a strong underlying operating performance at Group level, and I have been particularly pleased to see the improved performance of our US business, with its newly established leadership team.

The Board has also overseen the Group's largest US acquisition and a further strategically important acquisition in Australia, representing a major step towards achieving our strategic growth ambition in the US, the world's largest defence and security market; and further establishing the Group as a long-term, strategic partner to the Australian Defence Force. Underpinning its strategic position as a market leader in threat representation, training, and test and evaluation services.

The Board has also played a vital role in guiding and steering a substantial structural reorganisation of the Group's business. Designed to better empower Sector leadership teams, embed functional expertise directly in our Sectors, and enable efficient Group-level functional leadership. All of which will better enable effective delivery to our customers, drive the Company's strategy and, ultimately, enhance returns for our investors.

In dealing with the renewal of our Directors' remuneration policy at this year's AGM, the Remuneration Committee has considered at some length how best to incentivise our leaders and employees to achieve both the organic and inorganic growth ambitions of the Company, actively engaging with our investor community to secure the valuable benefit of their views and insights.

Additionally, the Audit Committee has been actively monitoring, and planning for, the significant changes we expect to the audit, risk and internal control provisions in the UK Corporate Governance Code, and the proposed changes in the non-financial reporting and audit environment, to ensure we are well placed to implement these when necessary.

A fuller summary of the Board's activity during the year can be found on pages 101 to 102, further information about the Group's stakeholder engagement can be found on page 56, and pages 105 to 107.

Group Chair introduction continued

Environmental, Social and Governance (ESG)
QinetiQ is committed to responsible and sustainable business practice and is proud to be acting as a catalyst, by driving and leading these important issues within our sector. During the year, the Board and I have had many discussions on how to best keep evolving our approach to ESG matters. As part of our regular business review, we are able to oversee and monitor management of ESG aspects, which are being delivered through our ESG function. We are proud of the significant progress made to date on our ESG strategy and programmes, and we continue to support the business in its ambition to embed this further into corporate strategy and decision making.

Health, safety and wellbeing
At QinetiQ, health, safety and wellbeing remain our number one priority. Our commitment to look after our people, customers and visitors while ensuring the public is never harmed by the work we do is at the heart of our culture.

Further information on this can be found on pages 66 to 72, and 104 to 105.

Culture
Promoting a culture of openness and debate in the boardroom is one of my key responsibilities as Group Chair, and as a Board we play an important leadership role in promoting the desired culture throughout the organisation. By spending time with the business and its people, the Board and I have seen that the culture and values of QinetiQ (integrity, collaboration and high performance), are clearly embedded and genuinely lived. In QinetiQ, I have found a culture that is grounded, responsible and humble, where people have confidence in their capabilities and our strategy, with a strong desire to learn and develop. The Company continues to spend considerable time on engagement with our people to embed and harness the benefits of our Company values.

Board and management succession
In August 2022 we welcomed Steve Mogford to the Board. Steve brings a wealth of international defence and security sector experience from both executive and non-executive roles, and this experience further enhances the skill sets of our Board while supporting our global development ambitions. Steve will become the Senior Independent Director upon the retirement of Michael Harper at the 2023 AGM.

At the end of 2022, Lynn Brubaker stepped down as Non-executive Director. We recognise that this has impacted the gender balance on the Board which stands at 33% women, and we do not therefore currently meet the target of 40%. This coming year will see continued focus on evolving the composition of the Board to best align with, and support, the Company's global growth strategy, while continuing our efforts to meet gender and ethnicity targets.

A new QinetiQ Leadership Team (QLT) was announced this year, which included both promotion of internal talent and new appointments, bringing the leadership skills and expertise needed to drive the Company's global growth ambitions. Ensuring a diverse culture on the QLT is crucial to improving effectiveness, encouraging constructive debate, delivering superior performance and enhancing the success of the Company. We currently have a QLT comprising 36% women. We continue to be committed to our gender and ethnic minority diversity targets for the QLT.

Evaluating the Board's performance
Central to setting the correct tone is the review of the Board's own performance. Following on from the external assessment carried out in FY22 by Tom Bonham-Carter of The Effective Board LLP, a further external review was conducted in FY23 to assess how we are progressing against last year's recommendations.

Please see pages 114 to 119 for further information.

Remuneration
This year was the third and final year of the Directors' Remuneration Policy that was approved by shareholders at the AGM in 2020 (the Policy). During this year, the Board's Remuneration Committee has focused on ensuring that the Policy is continuing to operate as intended to reward, retain and incentivise appropriately the Executive Directors who are driving the Company's success. It has done so by seeking to ensure that the Company's remuneration schemes and their outcomes for Executive Directors continue to be transparent, aligned with the Company's strategy and with the interests of, and returns delivered to, shareholders.

The Remuneration Committee, led by its Chair, Susan Searle, has been working with advisors and consulting with investors to develop the Company's new Remuneration Policy, which will be presented for approval by shareholders at the 2023 AGM.

The Company has also introduced new, enhanced reward schemes for its employees, aimed at supporting its people with the rising cost of living in a number of its home countries, including additional support through a hardship fund available to those who have been most affected.

Exceptions to UK Corporate Governance Code Compliance
Provision 38

During FY23, the Remuneration Committee agreed that the Chief Executive's pension contributions should be reduced such that, with effect from 1 January 2023, it would be aligned with the maximum level available to all UK employees (currently 10.5%). That change has been implemented and, consequently, the Company is now compliant with the UK Corporate Governance Code Provision 38.

Provision 41

The Company has not formally consulted with employees in forming the new Remuneration Policy, and is therefore not compliant with Provision 41 of the UK Corporate Governance Code which requires details of engagement with the workforce to explain how executive remuneration aligns with the wider Company pay policy. However, the Company has engaged with its Global Employee Voice during this process. Further details on employee engagement can be found on page 24.

Annual General Meeting
We are delighted this year to again welcome shareholders to our AGM. The AGM will be held at 11:00 on Thursday 20 July 2023 at the office of Ashurst LLP, London Fruit and Wool Exchange, Duval Square, London E1 6PW. Further details will be provided in the Notice of AGM and on www.QinetiQ.com.

Conclusion
As ever, I would like to take this opportunity to express my gratitude to all employees of QinetiQ, the CEO and his executive team, and my fellow Directors for all their hard work during the year.

Neil Johnson
Non-executive Group Chair

Board leadership and Company purpose

Governance framework

This is the structure through which the Company is managed. It has evolved over time, and continues to evolve to meet the needs of the business and the Company's stakeholders. Boards of large companies invariably delegate day-to-day management and decision-making to Executive Management. Directors should maintain oversight of a Company's performance and ensure that management is acting in accordance with the strategy and its delegated authorities. At QinetiQ, the culture, values and standards that underpin this delegation help to ensure that when decisions are made, their wider impact has been considered. The Board has reserved certain matters (posted at www.QinetiQ.com) for its own consideration so that it can exercise judgement directly when making major decisions, and in doing so, promoting the success of the Company.

Shareholders

Group Chair

Responsible for the leadership of the Board and for ensuring that it operates effectively through dynamic discussions and challenge.

Board of Directors

The Board is responsible for leading the Group, by setting strategic priorities and overseeing the delivery of the strategy in a way that promotes sustainable long-term growth, while cultivating a balanced approach to risk within a framework of effective controls and taking into account the interests of a diverse range of stakeholders.

Committees

Audit Committee

Reviews and monitors the Group's financial accounting and reporting processes and the integrity of published financial statements. Reviews the Group's system of internal control, including the effectiveness of its internal audit function and the independence and effectiveness of its external auditors.

See pages 120 to 125 for Committee report

Nominations Committee

Considers the structure, size and composition of the Board and Committees, and succession planning. It identifies and proposes individuals to be Directors and also for Executive Management, and establishes the criteria for any new positions.

See pages 112 to 119 for Committee report

Remuneration Committee

Determines and recommends to the Board the framework for the remuneration of the Group Chair, CEO, CFO and QLT. Oversees workforce remuneration and workforce policy.

See pages 130 to 158 for Committee report

Risk & Security Committee

Provides scrutiny and assurance to the Board, that the required standards of risk management, security, health, safety and environment within the UK, and internationally, are achieved.

See pages 126 to 129 for Committee report

Disclosure Committee

Considers and acts on the need for disclosures to be made to the market under the requirements of the Market Abuse Regulations. The Committee comprises all Board members except for when called on short notice when it comprises the Group Chair, the CEO, the CFO and any one of the Committee Chairs.

Group Chief Executive Officer

Responsible for the day-to-day running of the Group's business and performance, and the development and implementation of the Group strategy.

QinetiQ Leadership Team (QLT)

The interaction between the Board and the QLT enables the Board to receive information first-hand about the Company and its operations and to give guidance on strategy and oversight of the business directly to senior management.
The QLT meets twice a month. It is responsible for the day-to-day management of the Group's activity. The focus of the QLT includes managing the operational performance of the business, delivering the strategy, managing risk, managing regulatory compliance, establishing financial and operational targets and monitoring performance against those targets.

Board leadership and Company purpose continued

An experienced and strategically focused Board

The Group Chair considers all of the Directors to contribute valuably, and to continue to be paramount to the Company's long-term sustainable success.

Committee membership key

A Audit **N** Nominations **R** Remuneration **RS** Risk & Security ■ Committee Chair

Neil Johnson
Group Chair

Nationality: British
Appointed: April 2019

N R RS

Skills, competence and experience:
Neil's former CEO experience and current roles as a plc Group Chair and Non-executive Director bring to the Board relevant knowledge, challenge and leadership.

Starting his career at Sandhurst and the Army, Neil spent much of his early career in the automotive and engineering industries. He was worldwide Sales and Marketing Director at Jaguar before being seconded to the UK Ministry of Defence to command 4th Battalion The Royal Green Jackets. He returned to the industry with British Aerospace, initially running Land Rover and then all of its European automotive operations. Neil was later CEO of the RAC, and former Director General of the EEF and a Home Office appointed Independent Member of the Metropolitan Police Authority. He was previously Chair of Motability Operations and Centaur Media plc and Hostmore Group plc.

Other appointments:
Chair of Unbound Group plc, and Deputy Chair and Senior Independent Non-executive Director of the Business Growth Fund.

Steve Wadey
Group Chief Executive Officer

Nationality: British
Appointed: April 2015

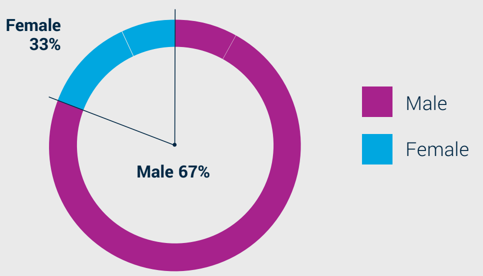
RS

Skills, competence and experience:
Steve's proven track record of driving growth and his in-depth experience of defence and technology industries are of essential importance and benefit to the Board.

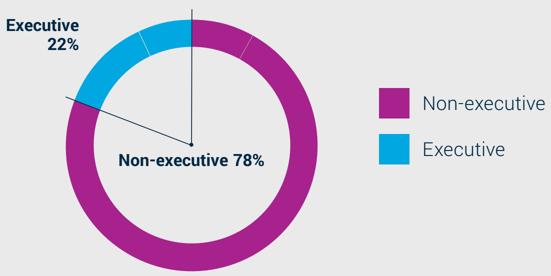
Steve is a Fellow of the Institution of Engineering and Technology, the Royal Aeronautical Society, and the Royal Academy of Engineering. He was previously a member of the Prime Minister's Business Advisory Group, Co-Chair of the National Defence Industries Council Research and Development Group, and a Non-executive Director of the UK MOD Research and Development Board. He has held various roles with MBDA, including as Managing Director, MBDA UK. Previously he held various roles with Matra BAe Dynamics and British Aerospace. He was also Chair of the Defence Industry Liaison Board of the UK Department for International Trade, Defence and Security Exports.

Other appointments:
Co-Chair of UK Defence Growth Partnership and Climate Change and Sustainability steering group with UK MOD.

Board Gender Diversity



Independent Directors



Carol Borg
Group Chief Financial Officer

Nationality: Australian
Appointed: October 2021

RS

Skills, competence and experience:
Carol has a wealth of global financial expertise and ESG leadership to bring to the role. Leading key interventions in working capital management, new market entry and establishment, risk management, insurance and business continuity, finance process maturation and shared service centre implementation, she has a deep international knowledge of operational execution, performance management, financial reporting, risk management, strategy and governance; all of which makes her a true strategic finance and commercial business partner.

Carol has held various senior roles in international businesses, most recently in a founder-led renewable business as the Chief Financial Officer of Lightsource BP, a global solar developer. Prior to that she held various positions at Vestas, a global wind turbine manufacturer, the most recent being the Regional Chief Financial Officer of Vestas' Southern Europe, Middle East and North Africa (MENA) and Latin America operations (spanning manufacturing, sales, construction and after-sales service).

Other appointments:
N/A

Michael Harper
Deputy Chair and Senior Independent Non-executive Director

Nationality: British
Appointed: November 2011

A N R RS

Skills, competence and experience:
Michael has deep operational and corporate experience from a lengthy career as a business leader and Board member within, among others, the engineering and aviation industries. He continues to provide highly valuable advice to the Board and its discussions, in particular in his capacity as the Senior Independent Director.

Michael has served as Chair of Ricardo plc, Vitec Group plc, and BBA Aviation plc, having previously been its CEO. His previous appointments include Senior Independent Director of Catlin Group Limited, Non-executive Director of Williams plc and the Aerospace Technology Institute, and CEO of Kidde plc.

Other appointments:
N/A

Steve Mogford
Independent Non-executive Director

Nationality: British
Appointed: August 2022

A N R RS

Skills, competence and experience:
Steve has vast experience in both executive and non-executive roles across a range of sectors. In particular, his long and comprehensive international defence and security sector experience equip him to further develop the skill sets of our Board while supporting our global development ambitions. Steve has a first-class honours degree in astrophysics, maths and physics from London University.

Formerly the Chief Executive Officer of United Utilities Group PLC, Steve started his career at British Aerospace at its North West based military aircraft business. During his long career with the Company he held a number of senior positions before being appointed Chief Operating Officer and a member of the BAE Systems plc Board. He then joined Finmeccanica, Italy's principal defence and security company as Chief Executive of SELEX Galileo. He also served on the Board of G4S plc as Senior Independent Director up to its acquisition in 2021.

Other appointments:
N/A

Shonaid Jemmett-Page
Independent Non-executive Director

Nationality: British
Appointed: May 2020

A N R RS

Skills, competence and experience:
Shonaid has widespread experience as an executive and non-executive director spanning a variety of sectors, including industrial and technology-based businesses with international operations. This, combined with her extensive financial experience, are invaluable in her role as Chair of the Audit Committee. Shonaid is a Fellow of the ICAEW.

Previously she was the Chief Operating Officer of CDC Group plc, the UK Government's development finance institution, having joined from Unilever, where she was Senior Vice-President Finance and Information, Home and Personal Care, originally in Asia and later for the Group as a whole. Her early career was spent at KPMG, latterly as a partner. Her Board level experience includes Non-executive Chair of Greencoat Wind plc, MSAmlin plc, and Non-executive Director at GKN plc.

Other appointments:
Non-executive Chair of Cordiant Digital Infrastructure Limited, Senior Independent Director of ClearBank Limited and Non-executive Director of Aviva plc.

Board leadership and Company purpose continued

General Sir Gordon Messenger
Independent Non-executive Director
Nationality: British
Appointed: October 2020

A N R RS

Skills, competence and experience:
Gordon brings considerable experience from the armed forces having served for 37 years as a Royal Marine. Throughout his military career he served in key appointments in various UK and NATO Headquarters, overseeing the planning and execution of UK and coalition military and humanitarian relief operations worldwide. He most recently served as Vice Chief of the Defence Staff, a position he held for three years until his retirement in 2019.

Gordon's unique experience enables him to provide invaluable insight in his role as the Chair of the Risk & Security Committee.

Other appointments:
UK Member of the International Defence Reform Advisory Board for Ukraine, Board member of the UK Health Security Agency, a member of the Advisory Board of C3.ai Inc. and His Majesty's Constable of the Tower of London.

Lawrence (Larry) Prior III
Independent Non-executive Director
Nationality: American
Appointed: August 2021

A N R RS

Skills, competence and experience:
Larry is an experienced executive and non-executive from sectors including aerospace, defence and government services, IT, and cyber and security. This, combined with his global and US focus, make him ideal to support QinetiQ's progress in becoming an integrated global defence and security company.

Larry is currently an Operating Executive for the Carlyle Group. His most recent executive experience was as President and Chief Executive Officer of CSRA, which was acquired by General Dynamics in 2018. Previously, he was Executive Vice President and General Manager of CSC's North American Public Sector (NPS) business, providing next-generation technology solutions and mission services to the US Department of Defense, Intelligence Community and FedCiv sectors. Larry started his career as an Intelligence Officer in the U.S. Marine Corp.

Other appointments:
Operating Executive for the Carlyle Group and Non-executive Director and Chair of KLDiscovery Inc and Two Six Technologies; Non-executive Director of CNSI; and independent Director of Shift5.

Susan Searle
Independent Non-executive Director
Nationality: British
Appointed: March 2014

A N R RS

Skills, competence and experience:
Susan brings to the Board essential experience of investing in growing technology businesses, acquisitions and exploitation of new technologies. Her extensive experience as a plc Remuneration Committee Chair enables her to efficiently and valuably chair the QinetiQ Remuneration Committee.

Susan was a founder of Touchstone Innovations plc, and formerly its CEO. She has served on a variety of private company boards in engineering, healthcare and advanced materials, and held a variety of commercial and business development roles with Shell Chemicals, the Bank of Nova Scotia, Montech (Australia), and Signet Group plc. Previously she was the Senior Independent Director and Remuneration Committee Chair of Horizon Discovery Group plc, and Chair of Mercia Asset Management plc and Schroder UK Public Private Trust plc.

Other appointments:
Senior Independent Non-executive Director and Chair of the Remuneration Committee of Benchmark Holdings plc, Non-executive Director of Gooch & Housego PLC and Chair of Greenback Recycling Technologies Ltd.

James Field
Company Secretary and Group Director Legal
Nationality: British
Appointed: July 2022

Skills, competence and experience:
James was appointed Company Secretary in July 2022.

James joined QinetiQ as an in-house lawyer in 2004, progressing through various roles to Head of the Group Legal and Intellectual Property team, before becoming Group Director Legal and Company Secretary. Prior to QinetiQ, James worked as in-house Legal Counsel at Transport for London, and has a background in London-based private legal practice.

Other appointments:
N/A.

Committee membership key
- A Audit
- N Nominations
- R Remuneration
- RS Risk & Security
- Committee Chair

Board activity

The key business and activities of the Board during the year were as follows:

Topic	Key activities	
Strategy and operations	• Reviewed and considered the Company's purpose, values and strategy. See more on pages 16 to 17 and page 104 • Approved the FY23 component of the Group's five-year Integrated Strategic Business Plan (ISBP). See more on page 83 • Undertook in-depth reviews of business strategy and performance • Undertook in-depth reviews of M&A pipeline and specific opportunities • Reviewed and approved material bid, contract and M&A proposals, divestments and assessed performance against these	• Received updates from each of the Group's Sectors and Functions on their performance vs strategy and budget, and their priorities and initiatives • Received reports and discussed the Group's Digital and Transformation strategy and investments • Monitored the economic, environmental, legislative and geopolitical landscape, particularly as regards the political climate in Ukraine and global economic pressures
Financial performance	• Approved the Company's annual budget, business plan and KPIs, and monitored performance against them. See more on pages 48 to 51 • Reviewed and approved the Group's full and half-year results and interim trading updates • Approved the full-year and half-year dividends • Approved the Company's Annual Report, including its fair, balanced and understandable nature	• Reviewed and confirmed the Group's viability statement and going concern status • Reviewed the Group's capital, debt and other liquidity arrangements • Approved the Group's tax strategy and treasury policy • Considered and approved material bids, acquisitions, contracts, expenditure and guarantees
Internal control and risk management	• Reviewed and approved the Group's risk appetite and reviewed the Group's principal and emerging risks, the processes for identifying them, and actions to mitigate these • Received reports from the Chair of the Risk & Security Committee on its activities • Received reports from the Chair of the Audit Committee on its activities and assessments	• Reviewed and validated the effectiveness of the Group's system of internal control • Approved amendments to the Group's delegated authorities framework • Reviewed and approved confidential reporting policies • Reviewed the reports on confidential reporting (the process of which is described further on page 108)
Leadership, people and culture	• Received recommendations from the Nominations Committee on the appointment of new Directors, the re-election of Directors and other advice regarding the structure, size and composition of the Board • Reviewed and actioned succession plans for the Board and senior management, having regard to skills, experience and diversity	• Received reports from the Chair of the Remuneration Committee on its activities, recommendations regarding remuneration strategy and decisions regarding the Group Chair's, Executive Directors' and senior management pay, and reviewed and approved Non-executive Director fees • Reviewed human capital reports, including updates on talent development programmes and diversity and inclusion programmes
Engagement, environment and community	• Undertook an annual review of the Group's stakeholders – who they are, methods of engagement, outcomes and feedback. See more on pages 2 to 27, and 105 to 108 • Reviewed feedback from investors and analysts and the output of engagement with major shareholders and other stakeholders • Reviewed workforce engagement activities and outcomes, including the results of the Peakon surveys and received reports on the Group Chair's workforce engagement activities	• Reviewed regular reports on our approach to ESG issues - see more on page 102 • Reviewed the activities of, and approved a financial commitment to, the Company's environmental programmes, Net-Zero plan and charitable and community initiatives
Governance and legal	• Approved the Group's section 172(1) statement. See more on pages 86 to 87 and 101 to 102 • Approved the Notice of the AGM • Undertook an annual compliance review of the UK Corporate Governance Code and DTR7	• Reviewed the results of the internal Board and Committee effectiveness evaluations • Reviewed and approved matters reserved for the Board and its Committees' terms of reference • Reviewed and approved the Group's annual Modern Slavery and Human Trafficking statement, published on www.QinetiQ.com

Board leadership and Company purpose continued

CASE STUDY

Board Engagement

In March 2023 Shonaid Jemmett-Page, General Sir Gordon Messenger and Steve Mogford visited MOD Boscombe Down, a key hub for our aviation operations, to gain a deeper understanding of the complexities of the site, to review risk and assurance processes and talk to our delivery teams across a range of activities.

Following an overview of the site, and its regulatory and compliance landscape, the Directors visited the Civil Flying Organisation, including the world's first and premier test pilot school, ETPS; the Aviation Engineering Centre, which delivers aircraft design, manufacturing and flight test activities under both civil and military approvals; and the Hypobaric Facility during an emergency response exercise, which provided an opportunity to discuss the intricacies of operating a high-hazard facility.

The visit allowed engagement with a significant number of employees, all of whom have a role to play in delivering a safe and compliant environment for our people and facilities. The Directors were able to engage with and constructively challenge developments across UK sites which have seen a focus on understanding and tracking key compliance drivers, alongside the latest progress of our Safety Improvement Programme.

"A Board that is committed to understanding how the Company operates at its frontline."

Neil Johnson
Group Chair

Board decision making

In making decisions, the Board of Directors is cognisant of undertaking its legal duties, including its duty under section 172(1), in the way that is most likely to promote the success of the Company for the benefit of its members as a whole, and the need to have regard to the factors set out therein; see pages 86 to 87 for more information. Examples of some of the most important decisions taken by the Board during the year of reporting, and an explanation of which factors the Board had regard to when reaching such decisions, are set out below.

1. M&A – Acquisitions of Avantus Federal & Air Affairs Australia

Background – In the third quarter of the financial year, the Company made two strategically important acquisitions. Firstly, its largest ever acquisition, Avantus Federal LLC in the US, a leading provider of cyber, data analytics and software development solutions to the US Department of Defense, Intelligence Community, Department of Homeland Security and other Federal civilian agencies. Secondly, the strategically important addition of Air Affairs in Australia, further establishing the Group as a long-term, strategic partner to the Australian Defence Force and underpinning its strategic position as a market leader in threat representation, training, and test and evaluation services.

Board discussion – During the year the Board was kept up to date on the progress of these acquisitions via updates from the CEO and CFO at each Board meeting, and through dedicated briefing sessions from the Chief Strategy Officer. The Board was able to provide guidance and challenge on the strategic fit, investment returns and integration considerations associated with the acquisitions, and also test that lessons learned from previous acquisitions had been considered and applied by the management team, before ultimately granting final approval for the transaction to complete. The Board was also able to consider and help guide the funding strategy adopted by the Group for the acquisitions, including consideration of the terms of its borrowing plans and how these would be repaid.

Board stakeholder considerations and impact – During its briefings, the Board had the opportunity to understand, consider and challenge each transaction's impact on investors, customers, and employees, particularly focusing on the following issues:

- Employees – the integration, incentivisation, development and succession planning for senior management and staff of the acquired companies; and opportunities that would be created for the Group's existing employees.
- Customers – the business development opportunities that would be created with existing and new customers; and synergies that could be realised between existing skills and technology of the Group, and new skills and technology that would be acquired, that could be combined to provide more valuable offerings for our customers.
- Investors – the implications for the Group's forward funding, capital structure and forecast investor returns.

Outcome and next steps – As a result, both acquisitions were able to successfully proceed to completion, underpinned by robust integration plans to ensure that customer and employee benefits, and investor returns, can be achieved as effectively as possible. The acquisitions represent a further major step towards achieving the Company's strategic growth ambitions in two of the world's key defence and security markets. Through ongoing updates to the Board on the progress of integration, at regular Board meetings, the Directors are able to continue to help steer and challenge the effectiveness of the integration of both Avantus and Air Affairs in terms of the Company meeting its delivery commitments to its customers and its returns commitments to its investors.

2. US – Development of leadership team

Background – Following various performance challenges in the prior FY22 financial year, the Nominations Committee oversaw the process of making changes to the senior leadership team of the US Sector. Alongside the organisational restructure of the Group, various changes were made to the US leadership team; to enhance its strategic, operational and performance delivery capability, ensuring it was appropriately skilled and resourced to deliver on the US elements of the Group's reset strategy, organically grow the business, and also effectively integrate planned US acquisitions within its existing business.

Board discussion – Through a combination of feedback from the CEO, CFO and Chief People Officer on the evolution and development of the US leadership team, and a site visit to various parts of the US business as part of the Company's annual Strategy Board meeting, the Board has kept itself appraised of the performance and effectiveness of the newly recruited team, and provided the benefits of individual Directors' collective experience and skills in both creating and leading high-performing senior leadership teams.

Board stakeholder considerations and impact – In continuing to have oversight of the performance of the US Sector, the Board appraised the ability of its leadership team to deliver on the business strategy, and lead the recovery of the Sector from the effects of the performance challenges of the prior financial year. This included considering the skills required to achieve both the organic and inorganic growth required to meet investor expectations on the level of shareholder returns the Group would achieve; providing guidance on the type and level of incentivisation offered to employees in the US business; and inputting into assessments of the skills and expertise required to both respond to the changing needs of the Company's US customers and develop the business to be able to deliver against the evolving mission of those customers.

Outcome and next steps – The improvements made in the US leadership team have led to sustained improvements across all metrics used to measure the performance of the US Sector, particularly in terms of new contracts won; the quality of delivery to customers, particularly within its robotics manufacturing business; its supply chain management capability; its financial performance results; and its levels of employee engagement.

Board leadership and Company purpose continued

3. Environment, Social and Governance – particular focus on climate change and Net-Zero Plan

Background – During FY23 the Board regularly engaged on ESG aspects to provide oversight and support.

Board discussion – A key aspect of our evolved strategy is a strong and increasing focus on ESG factors. The Board seeks to grow the Company in a responsible and sustainable way for the benefit of all stakeholders. Our ESG strategy is designed to meet stakeholder expectations across ESG themes, aligned with our business strategy. FY23 has been the foundation year of our Net-Zero plan with a number of programmes implemented across the four work streams. The Board included a focused session on climate change as part of the October strategy day and a dedicated session on non-financial reporting for the Audit Committee in March.

Board stakeholder considerations and impact – The Board was kept up to date on investors', customers', and employees' views. The transition to Net-Zero is of material interest to society and the Board supported a new Net-Zero plan and received regular updates on progress in the foundation year.

- Customers – The UK MOD has indicated the growing importance of climate change, and so our CEO Steve Wadey has actively engaged, as Industry Co-Chair of the Climate DSF Change and Sustainability Steering Group, to understand how we can support their wider objectives through leading and mobilising across the sector.
- Employees – We have introduced a number of new engagements on Net-Zero with employees, to ensure their views are heard (e.g. Peakon, Global Employee Roadshow) and they can contribute their ideas (eg IdeaXchange).
- Shareholders and debt providers – The Board has regularly spoken with shareholders on ESG aspects including Net-Zero.

Outcome and next steps – As part of the October 2022 strategy review, the Board agreed the importance of continuing to identify and invest in ESG matters as a whole and specifically for the Net-Zero programme, supporting on programmes such as ESG data improvement.

4. Group reorganisation and new operating model

Background – At the outset of the financial year, the Company embarked on the most significant restructure of its organisation in the last five years. Creating four operating Sectors; 'UK Defence', 'UK Intelligence', 'US' and latterly 'Australia', supported by six Group functions. The rationale for the reorganisation was to better empower Sector leadership teams, embed functional expertise directly in our Sectors, and enable efficient Group-level functional leadership. Alongside this, a new QinetiQ Operating Model was introduced as the principal architecture of what we do and how we do it, providing clarity on the roles and responsibilities within our organisation, and guiding our high-performing inclusive culture. The purpose of this process was to support the rest of the Group's strategy, focused around and aligned to the AUKUS alliance, and provide clarity on our delivery to the Company's customers.

Board discussion – Both prior to and during the design and implementation of the restructuring process, the Board received regular briefings from, and had the opportunity to interact with, the CEO and Chief People Officer, as part of the regular schedule of Board meetings. These allowed the Board to contribute to shaping the new structure of the organisation, and provide the benefits of their experience and insights from similar types of restructurings they have been involved in, to help steer how the process would be implemented in a way that would achieve the key objectives of the Executive team.

Board stakeholder considerations and impact – The Board's discussions included consideration of the purpose of the restructure; how it aligned to and supported the Group strategy, including enhancing returns for investors; its impact on and benefits to employees; and how it would ensure ongoing compliance by the Company with its legal and regulatory obligations and responsibilities wherever it operates in the world. In particular, the Chairs of the Audit and Risk & Security Committees provided direct input, to help ensure that the restructure of the Company's 'three lines model' (first and second line assurance, and third line audit process) would better support its effective and efficient delivery to customers and rigorous compliance with laws and regulations relevant to its evolving business.

Outcome and next steps – The successful delivery of an effective organisational restructure by the second trading quarter of the financial year, through an efficient process which mitigated any adverse impacts of change on the employees of the Company as far as possible, and ensured the Company could continue to perform to a high level in delivering to its customers. Throughout the year, the CEO and Chief People Officer have provided ongoing updates to the Board on the outcome of the restructuring process, which have enabled the ability to identify any opportunities for further improvements in the operations of the Company. Additionally, the Chairs of the Audit and Risk & Security Committees have undertaken a number of planned interventions with operational and functional teams in the business to assess and help improve the effectiveness of the Company's three lines model'.

Management and control of US subsidiaries

QinetiQ's US Sector is comprised of QinetiQ Inc and its subsidiary operating companies, including Foster Miller Inc and the newly acquired Avantus Federal group. These companies operate under a Special Security Agreement (SSA) between QinetiQ and the US Defense Counterintelligence & Security Agency (DCSA), which governs how the rest of the QinetiQ Group interfaces, collaborates and works with the companies in the US Sector. The controls established by the SSA are required by the US National Industry Security Program for main facility security clearances, to appropriately mitigate foreign ownership, control or influence to the extent that it could adversely affect the interests of US national security. QinetiQ Group plc, QinetiQ Inc and the US Department of Defense (DoD), represented by the DCSA, are parties to the SSA, which establishes procedures that regulate the management and operation of our US Sector, to achieve that mitigation. Under the SSA, the Board of Directors of QinetiQ Inc is comprised of three types of Directors, all nominated by QinetiQ Group plc, as the foreign owner of QinetiQ Inc., and approved by the DCSA. The three types of Director appointments are Outside Directors, Inside Directors and Officer Directors of QinetiQ Inc.

The Inside Directors are the means by which QinetiQ maintains appropriate visibility of the management and operations of the companies in the US Sector. These positions are held by the Group CEO and Group CFO of QinetiQ Group plc. The Inside Directors serve as a minority representative of QinetiQ Group plc as the foreign owner, to ensure there is no undue control or influence on the actions of the US Sector. Inside Directors do not need to be US citizens, and are excluded from access to US classified and export-controlled information in possession of QinetiQ Inc and its subsidiaries.

The Officer Directors are responsible for the day-to-day operations of the US Sector, and serve as a liaison with the wider QinetiQ Group. These positions are held by Shawn Purvis, President and CEO of the US Sector and Andy Manner, who is a consultant to Shawn. The Officer Directors must ensure that the procedures and requirements of the SSA are effectively implemented, and have an obligation to maintain the security of classified and export-controlled information entrusted to QinetiQ Inc and its subsidiaries, as well its ability to perform on classified contracts and participate in classified programs. They must be resident US citizens who either have, or are eligible to possess, personal US security clearance.

Outside Directors must be resident US citizens who are objective individuals, who have no prior relationship with QinetiQ, and possess personal US security clearance. Our appointed Outside Directors are John Hillen, Chair of the QinetiQ Inc Board, Pamela Drew and Tom Mills. The number of Outside Directors must outnumber the number of Inside Directors. The Outside Directors also form the Government Security Committee, which is in place to ensure US national security interests are upheld.

Supplementary information

The Board has seven meetings, each scheduled over two days, for Board and Committee business throughout the year. Additional Board sub-Committee meetings and conference calls are held between the scheduled meetings as required. The table below sets out the Board and Committee membership and attendance by members at meetings held in FY23.

Board and Committee attendance – 1 April 2022 to 31 March 2023:

Members	Board	Audit Committee	Nominations Committee	Remuneration Committee	Risk & Security Committee
Lynn Brubaker[1]	5/7	3/4	2/3	3/4	3/4
Carol Borg[5]	7/7	–	–	–	4/4
Michael Harper[4]	7/7	3/4	2/3	3/4	4/4
Shonaid Jemmett-Page	7/7	4/4	3/3	4/4	4/4
Neil Johnson[5]	7/7	–	3/3	4/4	4/4
General Sir Gordon Messenger[3]	7/7	3/4	3/3	4/4	4/4
Steve Mogford[2]	5/7	3/4	2/3	2/4	2/4
Larry Prior	7/7	4/4	3/3	4/4	4/4
Susan Searle	7/7	4/4	3/3	4/4	4/4
Steve Wadey[5]	7/7	–	–	–	4/4

1 Lynn Brubaker resigned from the Board on 31 December 2022.
2 Steve Mogford was appointed to the Board on 1 August 2022.
3 General Sir Gordon Messenger was unable to attend the Audit Committee meeting on 13 May 2022 due to a conflict with a prior commitment.
4 Michael Harper was unable to attend the Audit Committee, Remuneration Committee and Nominations Committee meetings on 23 March 2023 due to a conflict with a prior commitment.
5 In compliance with the UK Corporate Governance Code, and the Committee Terms of Reference, Steve Wadey and Carol Borg are not members of the Audit, Nominations and Remuneration Committees, and Neil Johnson is not a member of the Audit Committee.

Board leadership and Company purpose continued

The significance of our purpose, values and culture

Our Values

Integrity

Trusted to do the right thing at all times, we take pride in our decisions, and work to create a sustainable and responsible business. We are responsible and accountable for all our actions. We take personal responsibility to do the right thing, demonstrating this individually and as an organisation in our decisions, behaviour and day-to-day actions. We actively support each other to meet the highest ethical and professional standards.

Collaboration

The chosen partner for customers and industry colleagues, we are a diverse and inclusive community with a common purpose; every contribution is valued. Delivering value through partnership and teamwork, we actively collaborate with our colleagues, customers and industry partners to bring together the best thinking, the smartest talent, breadth and depth in capability to our work, driving ambition. We know that working together is the best way to meet our stakeholders' needs.

Performance

Customer-focused and highly responsive, providing operational excellence and assuring safe and secure delivery. Our performance is measured by how we deliver for our customers; meeting their needs through flawless execution and delivery of the mission-critical solutions on which they depend. This includes being accountable for getting things right the first time, safely, securely and in a cost-effective way. Taking an innovative and responsive approach to create an outstanding customer experience, we try to go the extra mile and act with courage.

Our Purpose

Protecting lives and securing the vital interests of our customers

Our Vision

The chosen partner around the world for mission-critical solutions, innovating for our customers' advantage

Driven by Mission-led Innovation

Applying our unique technical expertise across the product lifecycle, helping our customers to create, test and use defence and security capabilities as needed to meet their mission requirements

Creating a safe and secure environment for us all to thrive

Through our core values of Integrity, Collaboration and a High-Performance Culture, and our Company behaviours of Listening, Focusing and Keeping Our Promises

Delivered through a customer-focused growth strategy

Global leverage – Building an integrated global defence and security company to leverage our unique technical capabilities
Distinctive offerings – Co-creating high-value differentiated solutions for our customers in experimentation, test, training, information, engineering and autonomous systems

We deliver safely, responsibly and sustainably for the benefit of all our stakeholders

The Board has supported the review and further refinement of the Company's purpose, to ensure it continues to capture the Board's view of the Company, its evolving global strategy and its role in society. Our purpose communicates the Group's strategic direction and intentions to customers, employees, partners, investors, the local communities we work in, and its wider stakeholders. It is reconfirmed on an annual basis, to ensure it continues to reflect our strategy, values and desired culture. Our values make clear our priorities and form the foundations of the Company's culture.

While the Recognition Gala and Thank Q programmes raise awareness of and recognise and reward the behaviours that demonstrate our values, there are many other actions which contribute to the creation of a healthy corporate culture. These include:

- Our corporate policies, reviewed and approved by the Board, which set a clear expectation, and mandate, for every member of the workforce to perform the Company's business with integrity and in accordance with applicable laws, including anti-bribery and corruption, anti-slavery and human trafficking, data protection and confidential reporting policies and procedures
- Fair and transparent employee policies and practices which ensure that employees' rights are respected in accordance with applicable laws and employment contracts, together with a number of programmes and initiatives which support the health and wellbeing of our employees, develop talent and promote diversity
- Supplier protocols and procedures which seek to ensure that our key suppliers operate their businesses and respect their employees' rights in the same way that we do
- The application and monthly assessment by business and functional executive teams and the QinetiQ Leadership Team of safety and operational KPIs to enable management to monitor and drive continuous improvements in safety, reliability and efficiency of our services
- The work of Group support functions to prepare and advise upon the Group's policies, procedures and standards at every level and location of the business around the world, including dedicated safety and operational excellence teams, finance, legal and governance teams, procurement, HR function, and the Group internal audit function

In addition, we as a Board use a number of other methods to understand and monitor the Company's culture and assess whether our employees reflect our values. These include:

- Reviews, in the boardroom, of the outcomes of the Peakon surveys, customer satisfaction scores and updates on confidential reporting. These give us insights into what the Company does well and what could be improved, as well as any particular areas of concern
- The employee interaction with the Global Employee Voice (GEV), discussing the issues which matter most to our employees
- Directors' attendance at various Company events, such as:
  - Quarterly virtual Global Employee Roadshows
  - Monthly virtual Global Engagement Network (GEN) events, delivered by the QinetiQ Leadership Team
  - The Annual Recognition Gala

Through feedback from all of these monitoring activities, the Board is satisfied that the Company's culture is aligned with our values. Where the Peakon surveys, workforce engagement events or other interactions between Directors and employees or other stakeholders have revealed matters that can be improved upon or have flagged concerns, the Board has discussed these and is content that management is putting action plans in place that are designed to drive improvements or address those concerns.

Safety culture

QinetiQ's Environment, Health and Safety (EHS) strategy sets the direction for how we look after ourselves, each other and the world around us. Our culture journey, including safety culture, is constantly progressing and adapting. During the year the Board established a QLT-led Safety Improvement Programme (SIP) to drive a step-change in our safety culture.

Stakeholder engagement

Engagement and collaboration through our value chain are essential. Partnering with our stakeholders, understanding their challenges and managing risks, we can find solutions for our shared success, sustain our business and benefit all our stakeholders. We have aligned our strategic priorities with the requirements and needs of our stakeholders to enable delivery of profitable, sustainable value. The Board recognises that it has a duty to act in the best interests of the Company for the benefit of its shareholders, as well as considering other stakeholder interests. In its decision-making, the Board considers all relevant factors, including:

- How the decision would align with the Group's over-reaching purpose
- The likely short-, medium- and long-term consequences of the decision
- The value created for our investors
- The enhancement of our performance created by the decision
- The potential impacts on our people, local communities and environment of making the decision
- The need to create strong, mutually-beneficial customer and supplier relationships
- The Group's commitment to business ethics

The section 172(1) statement on pages 86 to 87 explains how the Directors have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006, when performing their duty under section 172. The Board aims to promote the success of the Company for the benefit of its shareholders as a whole, taking into account the long-term consequences of its decisions while giving due consideration to the interests of the Company's stakeholders (including employees, customers, suppliers, shareholders, as well as the environment and local communities which are impacted by our operations), while also considering the importance of maintaining our reputation for high standards of business conduct. Examples of what that has looked like in practice over the past year can be found as follows:

Shareholders	pages 26, 107, 108
Employees	pages 26, 106
Customers/suppliers	page 26
Environment	pages 52 to 65
Social	pages 66 to 72

Further information about how the Directors have accounted for stakeholders in their decision making is set out on pages 101 to 102.

Board leadership and Company purpose continued

Employee engagement

We have experienced, diverse and dedicated employees who are recognised as key assets of our business and who drive our success. The Group has a long-standing commitment to the importance and value of employee engagement. See more on pages 26, 66 to 72, and 106.

The Board recognises the value of engaging directly with employees to ensure an understanding of their views and inform its decision-making in considering employee interests. Under normal circumstances the Board holds a number of its meetings at different Company sites, both in the UK and globally, to take the opportunity to meet with employees in person.

The process set out below describes how the Board continued to be able to effectively gain the views of employees throughout the year.

How we engage with our employees

Dedicated Non-Executive Director

Neil Johnson is the dedicated Non-executive Director for gathering the views of employees

- Two meetings with the Global Employee Voice (GEV)
- Attends the Global Recognition Gala and also Global Employee Roadshows
- Reports back to the Board

Global Employee Voice (GEV)

The GEV is a global forum that acts as the collective voice of all QinetiQ employees. Elected employees from across QinetiQ sites in all home countries represent the employees to the leaders of the Company

- Regular contact with Neil Johnson
- Two meetings with Susan Searle, the Chair of the Remuneration Committee
- Regular meetings with the Chief People Officer, who reports to the Board on culture, employee and people strategy, and employee engagement

Global Employee Roadshows

Delivered quarterly by the QinetiQ Leadership Team, the Global Employee Roadshows give an update on the progress we are making against our vision and strategy, and provide an understanding of our key priorities for the future

- Employees have the opportunity to ask questions, either in writing or live
- Reported back to the Board by the CEO

Regular virtual QinetiQ Leadership Community (QLC) events – delivered by the QinetiQ Leadership Team (QLT)

Providing updates to the direct reports of the QLT on latest operational, financial, strategic, and key stakeholder issues

- The members of the QLC feedback to their teams by way of Q-Talks, team meetings and one-to-one meetings

Monthly virtual Q-Talks

Delivered by members of the QLC, with the purpose of keeping employees up-to-date with what is currently important across QinetiQ

- A mechanism accessible for employees to get a thorough understanding of what is happening in the Company and also to provide individual feedback

Peakon Employee Engagement surveys

Quarterly surveys enabling the Board and the Leadership team to immediately assess employees' engagement throughout the Group

See more on pages 69 to 70

- After each survey, the Group Director Employee Experience has a meeting with the CEO where they discuss the results, trends, and any matters for concern
- The CEO feeds back to his fellow Board members at each Board meeting

Global Portal – our intranet

A platform where all employees can access our polices and be kept fully informed of the latest Group news

- Enables employees to ask questions and discuss topics internally

Confidential Reporting

Our confidential reporting includes an anonymous reporting line for employees to raise any concerns with escalations to the Board as necessary

- Reported to the Board at each Board meeting

How does it work?

- By using a number of different employee engagement mechanisms ensuring flexibility
- By having a direct link to the Board via the purposefully designated Non-executive Director
- By way of a dedicated forum to relay the voice of the employees
- By regularly reporting to the Board on culture, people strategy, and employee engagement
- By drawing on each individual Board member's unique experience as business leaders

Shareholder engagement

Timeline

2022

May
- Full year results announcement
- Analyst briefings
- Full year results investor roadshow

June
- Annual Report published

July
- Governance meetings ahead of AGM
- Trading update and analyst briefings
- AGM
- US Investor Roadshow
- Farnborough International Air Show

August
September
- Announcement of Avantus Federal acquisition and shareholder and analyst engagement
- Group Chair meetings with shareholders

October
- Q2 post-close trading update

November
- Interim results announcement
- Analyst briefings
- Interim results investor roadshow
- 'Best of British' Investor Roadshow
- Completion of Avantus Federal acquisition and shareholder and analyst engagement

December
- Completion of Air Affairs acquisition and shareholder engagement

2023

January
- Q3 Trading update and analyst briefings

February
March

April
- Q4 trading update and analyst briefings

Approach

The Board is committed to communicating in an open and transparent manner with all shareholders, and places a clear importance on shareholder engagement. The Investor Relations programme is managed by the Investor Relations team, who provide day-to-day contact with investors. This is complemented by engagement with the CEO and CFO, who regularly attend meetings with institutional investors. In addition, the Group Chair and other Non-executive Directors make themselves available to discuss matters such as governance, ESG factors, remuneration and other relevant topics. The Board is also kept up to date on shareholders' views and concerns through regular Board papers, presentations and feedback from the Investor Relations team.

The AGM provides an opportunity for shareholders to engage directly with the Board and receive an update on business performance. The Company's results presentations and other investor events are also webcast live, and made readily available on the Company's website, enabling a wider audience to access them.

Activities during the year

During FY23 the CEO, CFO and Investor Relations team collectively met with over 40% of the share register and hosted a number of meetings with non-shareholders. This contact was conducted during routine roadshows after results announcements, ad-hoc roadshows and at various conferences. The Group's Chair, Neil Johnson, engaged with a number of shareholders on governance-related matters and the Chair of the Remuneration Committee, Susan Searle, engaged with shareholders ahead of the AGM on remuneration matters.

This year has seen increasing engagement, particularly with investors in the US. The Investor Relations team and the CFO held a short Investor Roadshow in July, overall 22% of the contacts made during the year were with investors based in North America. As at 31 March 2023, North American institutional investors accounted for 22% of the share register, compared to 14% at the same time last year. We continue to be proactive in investor engagement.

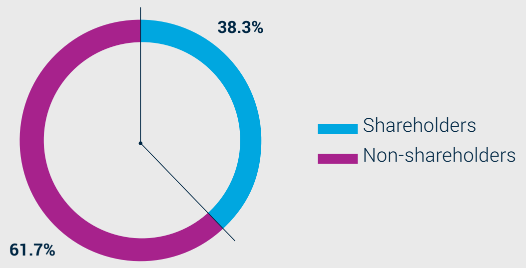
Constructive use of the Annual General Meeting (AGM)

The Notice of AGM and related papers will, unless otherwise noted, be sent to shareholders at least 20 working days before the meeting. For those shareholders who have elected to receive communications electronically, notice is given of the availability of the documents via www.QinetiQ.com. This year's AGM will be held at 11am on Thursday 20 July 2023 at the offices of Ashurst LLP, London Fruit and Wool Exchange, 1 Duval Square, London E1 6PW.

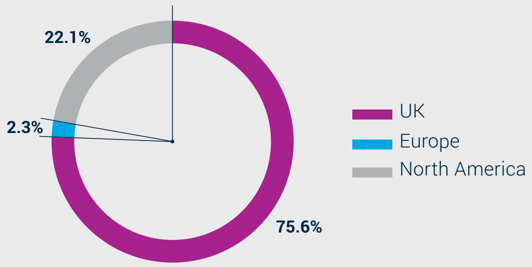
Any updates to the arrangements for the conduct of the meeting will be communicated via www.QinetiQ.com.

Board leadership and Company purpose continued

Investors met: By type



Investors met: By investor location



Confidential reporting process

QinetiQ has in place a confidential reporting process, which is detailed on the Company's intranet and in its Code of Conduct. If an individual does not feel that they can resolve any concerns with the Company directly through discussions with their functional manager, they can use an externally provided confidential internet and telephone reporting system. All concerns are passed by the external third party to the Group Head of Internal Audit, who ensures that they are held in strict confidence and properly investigated. Reports on confidential reporting activity and outcome of investigations are reported to the Board at each of its meetings. The Board reviewed the effectiveness of the Group's confidential reporting process, provided challenge and advice on the issues raised, and was satisfied that the process in place is fit for purpose.

Division of responsibilities

Role of the Board

Underpinned by good corporate governance, the Board is focused on delivering an effective and entrepreneurial Board which:

- Provides challenge, advice and support to management
- Drives informed, collaborative and accountable decision-making
- Creates long-term sustainable success and value for our shareholders, having regard to all interests of all our stakeholders

Roles and responsibilities

The Board has agreed a clear division of responsibilities between the Group Chair and the CEO. Other Directors and the Company Secretary's roles are also clearly defined to assist in enhancing the effectiveness of the Board. A summary is set out below.

Group Chair Neil Johnson	• Provides overall leadership and ensures effectiveness of the Board • Sets the agenda, character and tone of the Board meetings and discussions	• Maintains an effective working relationship with the CEO • Leads the annual performance evaluation of the Board, its Committees and ensures that each Non-executive Director makes an effective contribution
Deputy Chair Michael Harper	• Maintains a close dialogue with the Group Chair and CEO	• Supports and deputises for the Group Chair as required
Group CEO Steve Wadey	• Develops the Group's strategy for consideration and approval by the Board and provides effective leadership of the QinetiQ Leadership Team in its delivery of strategy • Develops the Group's business model and manages the Group's operations • Overseas the development and implementation by the QinetiQ Leadership Team's corporate, safety and environmental policies and standards	• Establishes and services relationships with key stakeholders • Reinforces the Group's values and sets expected employee behaviours • Communicates (with the CFO) the Group's financial performance and strategic progress to investors and analysts • Ensures the Board is kept fully appraised of the Group's operational and safety performance, risks and opportunities that may affect or contribute to the delivery of the strategy
Group CFO Carol Borg	• Responsible for the financial stewardship of the Group's resources through appropriate accounting, financial and other internal controls • Directs and manages the Group's finance, tax, treasury, risk management, legal and governance, insurance and internal audit functions, and climate-change initiatives	• Communicates (with the CEO) the Group's financial performance and strategic progress to investors and analysts
Senior Independent Non-executive Director Michael Harper	• Acts as sounding board for the Group Chair and a trusted intermediary for the other Directors • Available to shareholders to discuss any concerns that cannot be resolved through the normal Group Chair or CEO channels	• Leads the Board in the annual performance evaluation of the Group Chair and in developing the long-term plans for the Group Chair's succession • Meets with the Non-executive Directors without the Group Chair present at least annually, and as required, to discuss Board matters
Independent Non-executive Directors Michael Harper Shonaid Jemmett-Page General Sir Gordon Messenger Steve Mogford Larry Prior Susan Searle	• Monitor and scrutinise the Group's performance against its strategic goals and financial plans • Provide an objective perspective on the Board's deliberations and decision-making, drawing on their own broad collective experience and individual expertise and insights	• Monitor and assess the Group's culture, use appropriate and effective means to engage with employees and acquire an understanding of other stakeholders' views • Assess the effectiveness, support and constructively challenge the Executive Directors • Play a lead role in the functioning of the Board's Committees
Company Secretary James Field (appointed 22 July 2022)	• Provides advice and support to the Board, its Committees, the Group Chair and other Directors individually as required, primarily in relation to corporate governance matters, and Non-executive Directors' training and development needs • Responsible with the Group and Committee Chairs for setting the agenda for Board and Committee meetings and for high-quality and timely information and	communication between the Board and its Committees, and between the Directors and senior management as required • Ensures that Board and Committee procedures are complied with

Composition, succession and evaluation

Composition of the Board

The Board considers that its composition reflects the requisite balance of skills, experience, challenge and judgement appropriate for the requirements of the business and full Board effectiveness. The skills and experience of the Board's individual members, particularly in the areas of UK defence and security, the commercialisation of innovative technologies, corporate finance and governance, international markets and risk management, have brought both support and challenge to the CEO, CFO and the QinetiQ Leadership Team during the year.

Independence

A majority of the Board is comprised of independent Non-executive Directors. The independence of the Non-executive Directors is considered annually by the Nominations Committee, using the independence criteria set out in Provision 10 of the UK Corporate Governance Code. The Group Chair was independent upon his appointment in April 2019 and continues to use objective judgement in his leadership of the Board.

As part of this process, the Board keeps under review the length of tenure of all Directors, as this is a factor when assessing independence. The independence of Michael Harper and Susan Searle, who both have served on the Board for more than nine years, was subject to a rigorous review by the Nominations Committee in March 2023. When making this assessment for Michael (who has served on the Board since November 2011) and Susan (who has served on the Board since March 2014), the Nominations Committee based its decision on the fact that all continue to demonstrate integrity and independence in their advice and challenge. Neither Michael nor Susan were in attendance during the review and the Nominations Committee remains satisfied that the length of their tenures has not impacted on their respective levels of independence or their respective contributions. Further to this review, it was announced on 23 March 2023 that Michael Harper is to retire from the Board at the conclusion of the 2023 AGM.

Time commitment

Each Non-executive Director must be able to devote sufficient time to their role as a member of the Board in order to discharge their responsibilities effectively. As part of the appointment process, consideration is given to assess Non-executive Directors' ability to devote time to an additional directorship. Prior to undertaking an additional external role or appointment, the Non-executive Directors are asked to confirm that they will continue to have sufficient time to fulfil their commitments to the Company. This means not only attending and preparing for formal Board and Committee meetings, but also making time to understand the business of the Company. The Non-executive Directors' commitment is reviewed as part of the Board and Director evaluation.

The Group Chair is conscious that some shareholders have concerns regarding Directors taking on too many non-executive roles. Consequently, he has assessed the ability to meet the commitments required by QinetiQ for those members of the Board who hold more than one other Board position, and he is satisfied that all Board members are able to meet the Company's time commitment. In addition to their work on the QinetiQ Board and its Committees, the members of the Board also regularly make themselves available for Board calls, sub-Committee meetings and Executive leadership events.

Shonaid Jemmett-Page holds appointments in three other companies, Aviva plc, Cordiant Digital Infrastructure Limited and ClearBank Limited. She is the Chair of Cordiant Digital Infrastructure Limited, which is an investment trust listed on the Special Funds Segment of the FTSE, rather than a full operating company. Therefore by their nature, the time requirements for these roles are not as significant as at a FTSE 250 operating company such as QinetiQ. The Group Chair has reviewed her current commitments and contribution to the QinetiQ Board, and he confirms that during the year Shonaid has provided significant input and advice at QinetiQ's Board and Committee meetings, in particular in her role as the Audit Committee Chair. He is therefore confident and satisfied that Shonaid has the time and availability to commit fully to her role on the QinetiQ Board.

Board and Committee processes

The Board has a formal schedule of matters reserved for its approval, which includes (but is not limited to): strategy; risk appetite and review of Group-wide principal and emerging risks; major M&A, contracts and bids; share capital, debt financing and other liquidity matters; financial results and budgets; key policies; Board and Committee membership; and governance. Other matters, responsibilities and authorities have been delegated by the Board to its standing Committees, comprising Nominations, Audit, Risk & Security, Remuneration and Disclosure. Any matters outside of the schedule and the responsibility of the Committees fall within the authority of the CEO and/or CFO. The schedule of matters reserved for the Board and the terms of reference of each Committee, which are regularly reviewed and approved by the Board, can be found on the Company's website at www.QinetiQ.com.

The Group Chair and the Company Secretary are responsible, in consultation with the CEO and the Chairs of the Committees, for maintaining a scheduled 12-month programme of business for the Board and its Committees, with flexibility for additional business to be discussed as required. The programme ensures that all necessary matters are covered and appropriate time is given for discussion and, if thought fit, approval of relevant business. At each scheduled Board meeting, the Board rigorously reviews updates from the Executive Directors on Group and divisional safety, operating and financial performance, investor relations, and from the Group Director Legal & Company Secretary on legal compliance and corporate governance. Other regular Board agenda items include strategic proposals (including those relating to M&A, major contract bids and capital allocation), transformation and digital programme, risk management (including reviews of risk appetite and Group-level risks), tax and treasury updates, pension updates, human capital updates (including on employee relations, talent development and diversity promotion), and stakeholder engagement. Senior management and external advisers regularly attend both Board and Committee meetings, where detailed discussions on specific matters on which their input or advice is needed. The Board also seeks to hear external viewpoints inside and outside the boardroom, including from customers, suppliers and experts in areas relevant to the Company's strategy.

In advance of each Board and Committee meeting, Directors receive via a secure web portal high-quality briefings, prepared by the Executive Directors, senior management, the Company Secretary and/or external advisers where appropriate, on the agenda items to be discussed. The secure web portal also gives Directors immediate access to a range of other resources, including previous meeting papers, minutes, financial reports, business presentations, investor reports, Company policies and governance guidelines, and details of Board and Committee procedures. If a Director is unable to attend a meeting due to illness or exceptional circumstances, they will still receive all supporting papers in advance of the meeting and are directed to discuss with, and provide input, opinion and voting instructions to, the Group Chair or relevant Committee Chair on the business to be considered at that meeting.

The Board has access to the Company Secretary for support and advice as required, and the Company operates a policy which allows Directors to obtain, at the Company's expense, independent professional advice where required to enable them to fulfil their duties effectively. In addition to Board and Committee meetings, the Non-executive Directors hold private meetings without the Executive Directors present, including to discuss Executive Director performance. There are also opportunities during the year for Directors to have informal discussions outside the boardroom, either between themselves or with senior management or external advisers.

Conflict of interest

The Board operates a policy to identify and manage situations declared by the Directors (in accordance with their legal duty to do so) in which they or their connected persons have, or may have, an actual or potential conflict of interest with the Company. In accordance with the Companies Act 2006, and the Articles of Association, the Board has the authority to authorise conflicts of interest. This ensures that the influence of third parties does not compromise the independent judgement of the Board. Directors are required to declare any potential or actual conflicts of interest that could interfere with their ability to act in the best interest of the Group.

The Company Secretary maintains a conflicts register, which is a record of actual and potential conflicts, together with any Board authorisation of the conflict. The authorisations are for an indefinite period and are reviewed annually by the Nominations Committee, which also considers the effectiveness of the process for authorising Directors' conflicts of interest. The Board reserves the right to vary or terminate these authorisations at any time. No Director conflict of interest currently exists.

Composition, succession and evaluation continued

Nominations Committee report

> QinetiQ aims to have the best people leading our business and delivering to our customers today, and a diverse and talented pipeline ready to lead the business tomorrow."

Dear shareholder

I am pleased to present the Nominations Committee report. The Committee's ambition is to ensure we have the best people leading and governing our business today, and a competitive, diverse and talented pipeline of people, ready to join and lead the business tomorrow. The right high-performing people will have the necessary experience, skills and creativity of thinking to shape and drive the Company's strategy in a fast-evolving geopolitical environment. The Committee remains very focused on bringing diverse perspectives into the Company, to help shape our strategic decisions in a way that complements and reflects the knowledge and skills of the Company's growing business.

This has been a year of planned change and consolidation for the Committee, as we continue to embed succession plans designed to maintain the effectiveness of the Board and its Committees, in-step with the Company's strategic priorities.

You can read more, later in this report, about the development of our Directors and our talented senior management team. I would particularly like to highlight the following considerations of the Committee during the last year:

Lynn Brubaker has served on the Board since January 2016, and made the decision to retire in December 2022, having brought the benefit of her extensive aerospace and international experience, and provided strong and insightful support to QinetiQ's pursuit of its global growth strategy. On behalf of all Board members and the Company, I thank Lynn for her excellent support, and wish her the very best for the future.

During the year, we completed the new appointment of Steve Mogford to the Board, bringing a wealth of experience in both executive and non-executive roles across a breadth of sectors, including defence, security and aerospace. He is ideally equipped to develop further the skill sets of our Board, while supporting our global growth ambitions.

Michael Harper has served on the Board since November 2011. During his tenure, he has been instrumental to the Board in his roles as Deputy Chair and Senior Independent Director, providing strong support, guidance and advice to the Board and the Company's senior leadership, and acting as a valued sounding board to his fellow Board members. On 23 March 2023 we announced Michael's intention to retire from the Board with effect from the conclusion of the 2023 AGM. He will be much missed, and we all wish him well in a richly deserved retirement. However, we were pleased to be able to announce that, upon Michael's retirement, Steve Mogford will step into the role of Senior Independent Director.

Susan Searle, who has served on the Board since March 2014, has this year, in her role as Chair of the Remuneration Committee, led the development and refinement of the Company's latest three-year Directors' Remuneration Policy which is to be approved by shareholders at the 2023 AGM.

The Nominations Committee undertook its usual assessment of Directors' continued independence for the year in review, and further information on the Committee's effectiveness can be found on **pages 117 to 118**.

I hope you find the information in this report about the Committee's work helpful and I will be pleased to answer any questions you have at this year's AGM.

Neil Johnson
Nominations Committee Chair

Key responsibilities:

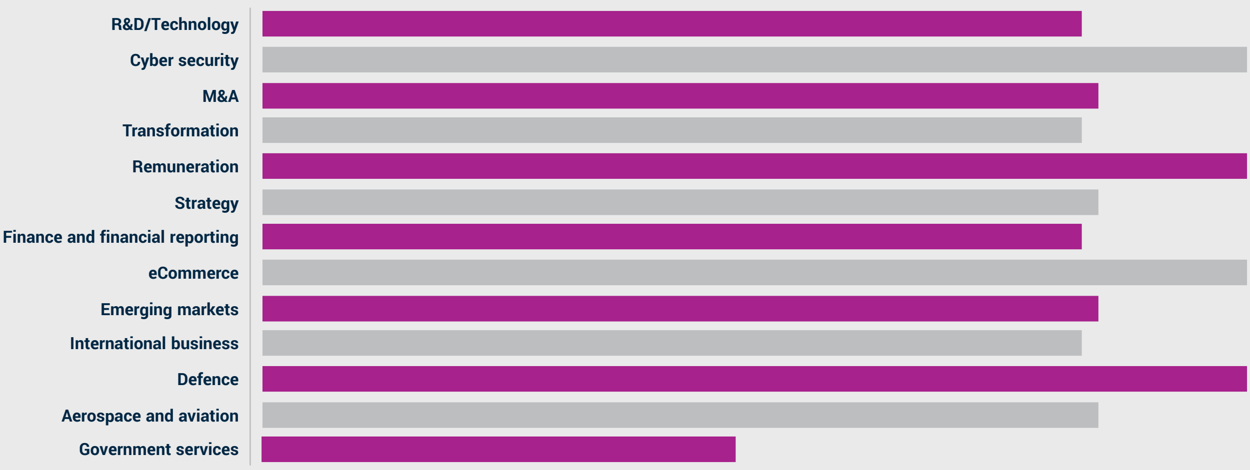
- Keep under review the structure, size and composition of the Board
- Succession planning for Directors and other senior Executives
- Keep under review the leadership needs of the organisation, both Executive and Non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace
- In accordance with the Board Diversity Policy, identifying and nominating, for the approval of the Board, appropriately diverse candidates to fill Board vacancies, as and when they arise
- Review annually the time required from Non-executive Directors – the performance evaluation is used to assess whether the Non-executive Directors are spending sufficient time to fulfil their duties
- Review the independence of the Non-executive Directors and any potential conflict of interest for all Directors

FY23 activity highlights:

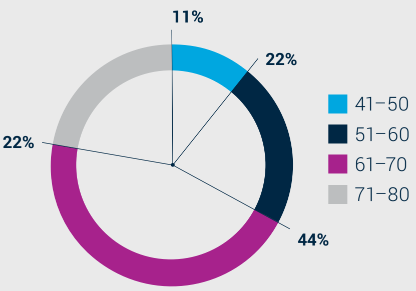
- Reviewed the structure, size and composition of the Board and its Committees, including the skills, experience, independence and diversity of its members, in anticipation of Non-executive Director changes to the Board and its Committees
- Led the process to recruit a new Non-executive Director
- Reviewed the Board and senior management succession plans, including via a review of potential internal successors and other high potential talent for executive and senior management positions
- Reviewed the Board's Diversity and Inclusion Policy and the Company's inclusion initiatives

Skills and experience

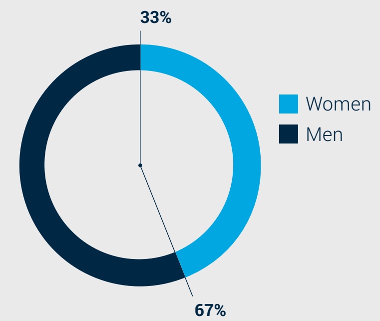
The chart below demonstrates the skills and experience of the Board members:



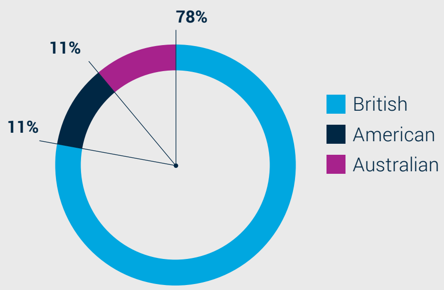
Board members – Age



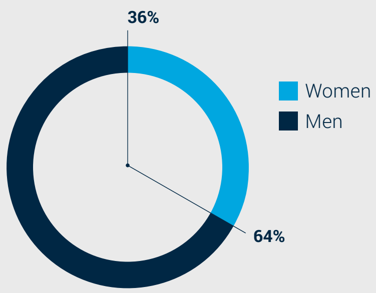
Board members – Gender balance



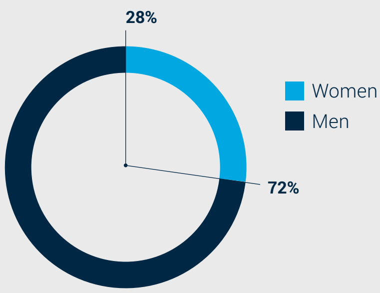
Board members – Nationality



QinetiQ Leadership Team – Gender balance



Direct reports to the QLT – Gender balance



Composition, succession and evaluation continued

Succession planning

Board and Committees

The Committee annually reviews the composition of the Board and its Committees and the Nominations Committee expects to continue to implement its succession plans for the Board and its Committees in 2023, 2024 and beyond. To ensure that we continue to recruit only the candidates of the highest standard, that we continue to make progress towards our diversity and inclusion targets, and that we have the right mix of an experienced Board, yet with a fresh perspective, we use the process outlined below. Following this year's review the Committee is satisfied that we have an appropriate mix of skills, knowledge and experience to operate effectively.

Process step	Action	Outcome/impact
Identifying current and future needs and skills gaps	The Committee maintains and regularly reviews a matrix of the Directors' experience and skills to ensure that the Board and its Committees are composed of individuals who have the right experience and skills to enable them to shape (and, in the case of the Executive Directors, deliver) the Company's strategy and to monitor and assess the effectiveness of the Company's control environment and management of risk. The matrix considers the following: • Diversity, including age, gender and ethnicity (see more on **page 113**) • Background, professional skills and experience (see more on **pages 96 to 98** and 113) • The number and balance of Executive and Non-executive Directors • Length of tenure (see more on **page 115**) • Independence (see more on **page 110**)	• The appointment of Steve Mogford as Non-Executive Director • At the conclusion of the 2023 Annual General Meeting, Michael Harper will step down as a Director of the Company, and Steve Mogford will assume the role of Senior Independent Director thereafter • An additional appointment is planned in the current financial year, to bring further skills which support the Group's alignment of its strategy to the AUKUS strategic alliance
Ensuring that we get access to the best candidates	• Regularly reviewing the recruitment agencies that we use and to ensure that they are best placed to find QinetiQ the right mix of candidates capturing the clear benefits of greater diversity. In addition, we pick the best suited agency for the specific role currently recruited for	• Russel Reynolds Associates (who has no other connection to the Group or to any individual Directors) was used for the recruitment of Steve Mogford
Ensuring accountability and success of the Board's performance	• Annual Board effectiveness and performance evaluation, using an external provider every three years. See more on **pages 117 to 118** • Annual review of the Group Chair's performance led by the Senior Independent Director. See more on **page 118** • Annual independence review of the Non-executive Directors. See more on **page 110** • Continued assessment of the Non-executive Directors' time commitment. See more on **page 110** • Policy on Board members' appointments to other Boards • Annual performance review of the CEO and CFO, supplemented by the Group Chair's and Non-executive Directors' continual assessment of their performance. See more on **page 118** • A thorough induction programme for new Directors. See more on **page 119** • Annual training for the Board as a whole and on an individual basis. See more on **page 119**	• The FY23 Board effectiveness review concluded that the Board has been effective, engaged with and helpful to the organisation • A summary of the Board's decision making, considering section 172(1) can be found on 86 to 87

The effectiveness of the Committee's succession plans is demonstrated by the appointment in FY23 of Steve Mogford, who has enhanced the Board's experience in the international defence and security sectors and brought valuable executive and non-executive director experience.

The process that the Committee has established, together with the particular considerations it takes into account, in identifying and nominating Director candidates, is set out below.

A sub-Committee of the Nominations Committee is appointed to oversee the recruitment and appointment process

A tender process identifies the most suitable recruitment agency to conduct the search and prepare candidate specifications

The sub-Committee reviews the list of candidates and narrows down to a short-list of those who best meet the Company's requirements, considering the following:

- **Background, skills and experience**
- **Independence and other commitments**
- **Diversity**
- **Other individual attributes to widen the Board's overall knowledge, providing challenge and further support**

The sub-Committee conducts initial interviews with the candidates on the short-list and identifies preferred candidates

Other Board members, including the Group CEO and Group CFO, interview the preferred candidates

Nominations Committee recommends to the Board which of the preferred candidates best fulfils the Board's and its Committees' needs

Non-executive Directors' length of service

Name	Appointment date	6-year date	9-year date
Michael Harper	22 Nov 2011	22 Nov 2017	22 Nov 2020
Susan Searle	14 Mar 2014	14 Mar 2020	14 Mar 2023
Neil Johnson	2 April 2019	2 April 2025	2 April 2028
Shonaid Jemmett-Page	19 May 2020	19 May 2026	19 May 2029
General Sir Gordon Messenger	12 Oct 2020	12 Oct 2026	12 Oct 2029
Steve Mogford	1 Aug 2022	1 Aug 2028	1 Aug 2031
Larry Prior	2 Aug 2021	2 Aug 2027	2 Aug 2030
% of Directors	0–3 years: 14.3%	4–6 years: 57.1%	7–9+ years: 28.6%

Senior management succession planning programme

The Committee has undertaken its usual programme of senior management succession planning. Senior management for this purpose includes the members of the QLT, as well as those talented individuals who have demonstrated the potential for promotion to higher or broader positions in the Group's senior management structure.

The programme includes an annual review of such senior managers' experience and skills and their progress and notable achievements to ascertain their potential for further career progression. The Committee also keeps the performance of potential successors to Executive Director roles under regular review throughout the year during Board interactions and visits to the Company's operations. This gives Committee members the opportunity to observe senior managers' working practices and relationships with their stakeholders first-hand. These reviews complement the Executive Directors' assessment of these individuals' performance through a formal process of annual reviews, and continual feedback and support. This programme enables the Committee to identify any gaps in the senior management succession pipeline and any requirements for senior managers' further development.

Composition, succession and evaluation continued

In FY23, the Group was restructured into four new operating sectors, supported by six Group functions. With effect from 1 July 2022, a new QinetiQ Leadership Team (QLT) was appointed, and this will be fundamental to deliver the next phase of sustainable growth and to create a safe and secure environment for employees to thrive in. As part of the implementation of the new QLT, the Committee was delighted to oversee the internal promotion of Amanda Nelson to Chief People Officer and Mike Sewart to Chief Technology and Operating Officer. The appointment of Gary Stewart as Chief Executive for the Australia Sector, following the retirement of Andy Thorp at the end of April 2023, is further demonstration of these plans being put into action. Gary brings more than 20 years of experience within the international defence industry.

Board and Company commitment to diversity

The Board is committed to ensuring diversity in all aspects (including as regards to gender, ethnic and social background), at Board and senior management level, and throughout the Company's employees. This is because we believe diversity can:

- Improve decision-making at all levels of the business by ensuring diverse perspectives
- Attract and retain the best talent with a culture of inclusion where all individuals are respected and supported to reach their full potential
- Better serve our customers, other stakeholders and the communities in which we operate by ensuring that the diversity of our workforce demographic is representative of the diversity of such stakeholders

This commitment is aligned with our values (see more on page 104), which in turn support our strategy of growth by retaining and winning business through having the best talent delivering the best service for our customers. Our commitment is confirmed in the Board's Diversity Policy, which applies to the Board, and all of its Committees - the main objectives of which are:

- To achieve and maintain targets on Gender and Ethnic Diversity on the Board and its Committees
- To ensure that the membership of the Board and its Committees reflects the diversity of the geographies and customers that the Group serves
- To respect the differences of its members, and value and encourage the diversity of thought that such differences can bring in each case within the context of Board members having, between them, the experience and skills required to support the development, oversight and delivery of the Company's strategy

We are pleased to have seen the positive benefits to these initiatives, which have resulted in improvements in both gender and ethnic diversity at a number of levels of the business, including:

- A female CFO
- The Audit and Remuneration Committee Chairs are female
- Female representation on the QLT has increased from 33.3% in 2022 to 36.4% in 2023
- Female representations of the direct reports to the QLT has increased from 27% to 27.8%, and remains a key area of focus
- One member of the QLT comes from an ethnic minority background

In respect of FY23 the Board has not yet met the targets in Listing Rule 9.8.6(9) that at least 40% of the Board should be female, and that there should be a Director from a minority ethnic background. We do however meet the target that our CFO is a woman. The Board continues to be dedicated to accomplishing these targets and will continue to keep this under review to ensure progress against the targets, as set out in the Board Diversity Policy. We believe that our established and effective process, as outlined above, will help us achieve and maintain these important targets in the near future. The Company's mandatory requirement for a diverse candidate pool ensures that we continue to have the opportunity to recruit candidates from all gender, cultural and ethnic backgrounds, while we remain focused on recruiting the best candidate for any role based on merit.

Voluntary disclosures required under Listing Rule 9.8.6 as at 31 March 2023
(a) Table for reporting on gender identity or sex

	Number of board members	Percentage of the board	Number of senior positions on the board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
Men	6	67%	3	1	50%
Women	3	33%	1	1	50%
Not specified/prefer not to say	N/A	N/A	N/A	N/A	N/A

(b) Table for reporting on ethnic background

	Number of board members	Percentage of the board	Number of senior positions on the board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
White British or other White (including minority-white groups)	9	100%	4	2	22%
Mixed/Multiple Ethnic Groups	N/A	N/A	N/A	N/A	N/A
Asian/Asian British	N/A	N/A	N/A	N/A	N/A
Black/African/Caribbean/Black British	N/A	N/A	N/A	N/A	N/A
Other ethnic group, including Arab	N/A	N/A	N/A	N/A	N/A
Not specified/ prefer not to say					

The employee Diversity & Inclusion (D&I) policy
Pages 68 to 69 describes the progress of our Diversity and Inclusion Programme in relation to employees and other diversity policies and procedures of the Company.

QinetiQ's D&I policy can be found on www.QinetiQ.com and outlines our approach to promoting D&I in the workplace. The effectiveness of the policy is governed via our assurance processes and with oversight by our Executive team, and is underpinned by our Inclusion 2025 Strategy. To help us reach our goals we have various tools in place, including global employee mandatory training on inclusion, a collective leadership objective on inclusion, and a D&I champion and network forum.

During the year we continued to see a significant increase in employee activity and engagement around D&I. We are confident that this will continue in 2024 and beyond, and have an overall positive effect on our D&I landscape.

Director effectiveness

A performance evaluation of the Board, its Committees and the individual Directors is conducted annually, with an externally facilitated review required at least every three years. As illustrated by the chart below, FY22 was the first in the three-year cycle when an external evaluation was undertaken by Tom Bonham-Carter of The Effective Board LLP. In FY23 a follow-up independent review was undertaken through The Effective Board LLP. Neither Tom Bonham-Carter, nor The Effective Board LLP has any other connection to the Group.

Year 1
FY22 – External
evaluation by selected independent consultants (specific basis and approach agreed)

Year 2
FY23 – External
evaluation to focus on reviewing core effectiveness and areas identified for development from the Year 1 external evaluation

Year 3
FY24 – External
evaluation to focus on reviewing the effectiveness of new initiatives and progress on areas identified for development from the Year 2 external evaluation

The principal sources of data used to assess the effectiveness of the Board and its Committees were questionnaires completed by each Board member, the Company Secretary and a selection of members of the senior management team.

The questions were designed to understand whether the Directors have thoroughly discussed and agreed the use and investment of the shareholders' funds to ensure the Company is successful while managing the risks inherent in its strategy, operational plans and operating environment. This was augmented by an assessment of how effective the Board is in ensuring that the Executive team implements the strategy and plans and manages all the other activities of the Company including engaging across the spectrum of its stakeholders.

For the individual Directors, there were questions on each Director's contribution, the manner in which he or she contributes and any suggestions for improvements. Finally, there were questions on the effectiveness of the Board's four Committees which included asking if each Committee fulfilled its terms of reference and how each Committee could improve.

Directors' views were also sought on how well the Board and its Committees had addressed the areas for development identified in the previous year's external evaluation.

The Company Secretary, in consultation with the Group Chair and Committee Chairs, analysed the results of the evaluation by reference to the scores given, the specific observations made, and any recommendations given or improvements suggested. Following which, those results were presented to and discussed by the Board and its Committees.

The overall outcomes of the evaluations were positive, evidencing that improvements had been made, acting on the prior year's recommendations, and demonstrating that the Board and each of its Committees continue to function effectively with a high level of probity, integrity and independence, through the mediums of both open and challenging debate in meetings, and appropriate engagements outside of meetings.

Composition, succession and evaluation continued

Director effectiveness continued

The key strengths and material areas for further attention identified by the FY23 Board and Committee evaluation are shown below:

Key strengths	Areas for further attention
The effectiveness of the Board's support to the further development and implementation of the Company's strategy, aligned to its purpose and vision.	Review monitoring and information received on the integration planning and benefits realisation elements of the Company's acquisitions process.
The Board continues to work well as a unit, with Board discussions being constructive and the Executive Directors being transparent with the Board and open to advice.	Review need for improvements to the Group-wide control and assurance framework, including clarity between the roles and responsibilities of the first and second lines of assurance within the Company's 'three lines model'.
Good progress is being made with the ESG agenda. The Company's Net-Zero plan has been published; the whole ESG Programme is incorporated within the Integrated Strategic Business Plan process; and there are ESG targets in all senior leaders' performance plans, which are cascaded down through the organisation. The Company is also making efforts to help customers and suppliers with their own emission management, and is therefore able to report these under Scope 3 of TCFD. See more information on ESG on page 53.	Increased assessment of emerging risks which have impacted the Company and lessons learned as a result. A specific example being assessment of the effectiveness of business continuity plans and procedures.

When comparing the outcome of the FY23 evaluation against principal areas for improvement identified through the FY22 review process, the following progress has been seen:

Areas for further attention	Progress during the year
To review the Board's programme of monitoring each business unit.	The schedule of strategic focus items that the Board reviews as part of its annual cycle of meetings now includes specific agenda items for each operating Sector, including updates on the financial and operational performance of the business units comprised in each Sector.
In light of section 172, to review the Company's suppliers and how the Company engages with them.	This has been reflected in three principal improvements: (i) increased ESG monitoring and reporting on efforts to reduce the carbon footprint of our supply chain; (ii) data on supply chain performance as part of regular operating Sector updates to the Board; and (iii) consideration of supply chain risk, as part of the Chief Risk Officer's standing report to the Risk & Security Committee.
To continue to monitor, oversee and challenge the Company's safety culture.	As well as the continuing health and safety update provided by the CEO at each Board meeting, a dedicated Safety Update report will be provided to the Board, twice a year, by the Chief Technology & Operating Officer. This will ensure the Board has access to up-to-date data, and appropriate opportunity to constructively challenge the Company's progress and improvements in this area.

The Group Chair's individual performance

As part of our annual evaluation process, Michael Harper, as Senior Independent Director, led a review of the Group Chair's performance. At a private meeting, the Non-executive Directors, with input from the Executive Directors, assessed the Group Chair's ability to fulfil his role as such. It was concluded that the he showed effective leadership of the Board and his actions continued to influence the Board and the wider organisation positively.

The Directors' individual performances

The Group Chair, Neil Johnson, held performance meetings with each Board member to discuss their individual contribution and performance over the year, and their future training and development needs. Following these meetings, Neil Johnson confirmed to the Nominations Committee that, during the year, all Directors have demonstrated a clear commitment to their roles.

Director induction
On joining the Board, whether in an Executive or Non-executive role, each Director undertakes an induction programme covering subject areas relevant to the requirements of their role. This programme is designed to fast-track a new Director's understanding of the Group's purpose, values, strategy and operations, thereby equipping them to perform their role.

Details of the induction programme, organised by the Company Secretary in conjunction with the Group Chair, for new Non-executive Directors, is illustrated by the diagram below:

Background reading material, including previous Board and Committee books, investor and strategy presentations, relevant Company procedures and Board policies

Meetings with the Group Chair, Executive Directors and members of senior management

Guidance on corporate governance arrangements, including the Board and Committee agendas and procedures, Board succession planning and Board evaluation – provided by the Company Secretary

Visits to Company sites, meeting with senior local management

Meetings with the Chair of the Committees, external auditors and external remuneration advisers

Meetings and Director site visits
As global coronavirus restrictions have eased, we have been able to resume a programme of physical Board meetings and Director visits at our sites both in the UK and internationally. Locations for meetings and site visits are agreed annually and are arranged by the Company Secretary with assistance from the QLT as appropriate.

During the year the Board held physical meetings in Farnborough and London in the UK, and Virginia in the US, as well as some Board meetings that continue to be held virtually.

In March 2023, the Group Chair paid a visit to our QTS business headquarters in Ashford, where he received a tour of their manufacturing facility to see first-hand what was being built for customers. He was able to engage in discussion with employees regarding the expansion of production capabilities and plans for further developing QTS's technology offerings in relation to mission rehearsal needs.

Also in March 2023, Steve Mogford visited MOD Boscombe Down as part of his induction. Shonaid Jemmett-Page, General Sir Gordon Messenger and James Field were also in attendance. The experience provided Shonaid, Steve and Gordon with an opportunity to better understand the day-to-day work of the business and to gain a real insight into the Company's culture and values in an operational setting, outside of the boardroom.

Ongoing Director training
The Directors have the opportunity to participate in an ongoing training programme organised by the Company Secretary. This includes the Company Secretary keeping the Board briefed on relevant regulatory changes, and arranging external training, as required.

During the year PwC briefed the Board on forthcoming changes to the external audit and governance environment, and Ashurst provided training on legal and regulatory updates.

Audit Committee report

Dear Shareholder,

I am pleased to present the report of the Audit Committee for the work carried out by the Committee during FY23. These pages outline how the Committee discharged the responsibilities delegated to it by the Board over the course of the year, and the key topics it considered in doing so.

The main tasks of the Committee continue to be the oversight of a robust system of internal controls and risk management across the business, encompassing both financial and increasingly non-financial risks and ensuring the integrity of all reporting, including the Annual Report and Accounts. The particular areas for focus, which are addressed by the internal audit plan, the approach of the external auditors and 'deep dive' reviews, are determined by the needs of the business and the risks it faces. The full terms of reference of the Committee can be found at www.QinetiQ.com.

We foster an ethos of continuous improvement and I am proud of the progress we have made this year in enhancing the internal control environment, including preparedness of our control frameworks in advance of UK corporate governance requirement changes, expansion of the internal audit programme to cover the approach to acquisitions, and focus on safety improvement and high-risk project management in internal audits.

During the year, we have acquired two companies, Air Affairs (Australia) and Avantus (United States of America), in addition to disposing of the Space NV (Belgium) business. The Committee reviewed the disclosures and accounting to ensure they were appropriate. The year-end impact is discussed in detail in the Significant Judgements section on **pages 121 to 123**.

The US continues to be an area of focus for the business and therefore for the Committee, and this year has seen investment in the US leadership team to ensure they are positioned for growth pay dividends as they delivered strong year-on-year growth. Further the US leadership team has been actively integrating the recently acquired Avantus business. As the business grows, we need to ensure that there remains a robust system of internal control and risk management which is commensurate with our growth ambitions. To this end, the Committee maintains a regular relationship with the US Special Security Arrangement (SSA) Audit Committee, sharing best practice and ensuring alignment of scope and coverage.

We received feedback from the FRC in January primarily related to our accounting for Research and Development Expenditure Credits (RDEC). Following an in-depth review including with both the Audit Committee and our external auditors, we have concluded to change our accounting policy and align our reporting with peers effective from the year ending 31 March 2023.

Finally the Committee has embraced the relevant aspects of the quickly evolving sustainability agenda, including target setting, assurance and reporting. The Task Force on Climate-related Financial Disclosures (TCFD) reporting, on **pages 52 to 74**, was reviewed and endorsed by the Committee.

I hope you find the information in this report about the Committee's work helpful and I will be pleased to answer any questions you have about it at this year's AGM.

Shonaid Jemmett-Page
Audit Committee Chair

Activities during the year

Financial reporting

The Group has complex long-term contract accounting and every year the Committee spends much of its time reviewing the accounting policies and judgements implicit in the Group's financial results. In FY23, we have also reviewed the accounting judgements associated with the disposal of Space NV and the acquisitions of Avantus and Air Affairs. The Committee reviewed the quality of income generated during the year. This entailed assessing the sustainability of income or whether it was generated from one-off items such as provision releases. The assessment informs the Committee's work on whether the accounts are fair, balanced and understandable, and whether any adjustments should be considered in remuneration calculations.

Fair, balanced and understandable

In accordance with the Code, the Board has established processes to ensure that all reports and information it is required to present in accordance with regulatory requirements, represent a fair, balanced and understandable assessment of the Company's performance, position and prospects.

As such, the Audit Committee was requested to provide advice to the Board on whether the FY23 Annual Report and Accounts, taken as a whole, provide a fair, balanced and understandable assessment of the Company's financial position and future prospects and provide all information necessary to a shareholder to assess the Group's performance, business model and strategy. Following the established process, the Committee reflected on the information it had received and its discussions throughout the year. The review is a well-established and documented process involving senior management and the core reporting team. The assessment was assisted by an internal verification of the factual content by management, a review at different levels of the Group to ensure consistency and overall balance, and a comprehensive review by the senior management team and the external auditors. The Board considers that the FY23 Annual Report and Accounts, taken as whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, and performance, business model and strategy.

Response to regulator engagement

During the year we engaged with the FRC on our accounting policy for RDEC and several other items. As summarised in the issues and judgements table, we updated our accounting policy for RDEC to account for it within operating profit. As a result of additional feedback received, we have enhanced the disclosures in the annual report on several topics including goodwill impairment reviews, pensions, SSA and TCFD.

The Company recognises that the FRC's review was based on the Annual Report and Accounts for the year ended 31 March 2022 and did not benefit from detailed knowledge of the Company's business or an understanding of the underlying transactions entered into. The FRC's review provides no assurance that the Company's Annual Report and Accounts are correct in all material respects; the FRC's role is not to verify the information provided but to consider compliance with reporting requirements. The FRC's letters are written on the basis that it (and its officers, employees and agents) accepts no liability for reliance on them by the Company or any third party, including but not limited to investors and shareholders.

Key issues and judgements impacting FY23 accounts

Issue	Key uncertainties and judgements	Review and challenge by the Committee	Conclusion
Impairment of goodwill and acquired intangibles Germany impairment assessment	The Group holds goodwill on its balance sheet in respect of various Cash Generating Units (CGUs). An impairment review has been undertaken confirming that sufficient headroom (the gap between the assessed net present value of future cash flows and the carrying value of net operating assets) exists in respect of these CGUs and no impairment is required. There is a low level of headroom in respect of the QinetiQ Germany CGU and applying a reasonable level of sensitivity to the assumptions would lead to an impairment.	The Committee reviewed the outputs of management's annual impairment testing exercise, noting the use of external advisers to prepare the technical assumptions (discount rates, long-term inflation) which have also been verified as appropriate by the external auditors. The Committee held detailed discussions with management and the external audit team, specifically challenging revenue, profit and technical assumptions.	The Committee acknowledged that there was a wide range of outcomes to the impairment test, which is sensitive to outer-year cash flows. These cash flows include certain assumptions around utilisation of aircraft, renewal of existing contracts and successful winning of new business opportunities. On challenging management, the Committee concluded that no impairments need to be recorded in the year.

Audit, risk and internal control continued

Issue	Key uncertainties and judgements	Review and challenge by the Committee	Conclusion
Long-term contract accounting Risk assessment on key contracts	The Group has a large number of contracts which span multiple periods and are accounted for on a percentage of completion basis in accordance with IFRS 15. Long-term contract accounting requires a number of judgements and management estimates to be made, particularly in calculating the forecast costs to complete the contract, and resultant contract profitability.	The Committee received commentary from both management and the external auditors in respect of the most significant contracts being delivered by the Group and discussed the main financial assumptions (including level of risk reserves and the use of Monte-Carlo modelling).	The Committee concluded that management's best estimates were reasonable.
Provisions and contingent liabilities Pendine and other provisions	The Group holds provisions in respect of legal, regulatory and environmental issues. Judgement is required in determining whether provisions are required. Specifically, a provision is held in respect of a serious incident at the MOD range at Pendine in a previous financial year.	The key judgements considered by the Committee were: (i) QinetiQ will be prosecuted, found guilty and be subject to financial penalties; (ii) the quantum of the liability in respect of such penalties; (iii) that insurance will cover the cost of any civil damages (with a provision of c.£15.0m being recorded together with an equally offsetting Other Receivable).	The Committee concluded that management's best estimates were reasonable.
Specific adjusting items Digital investment	The Group reports underlying performance which excludes the impact of specific adjusting items. Following the change in accounting policy relating to the capitalisation of intangible assets for software as a service in the prior year, the current one-off period of digital investment is included as a specific adjusting item.	The Committee receives an update on the nature and quantum of specific adjusting items, as well as management assessment as to their appropriate use.	The Committee agreed with management's assessment that the current Digital investment and other such items are distorting in nature and it is therefore helpful to the reader to separate their impact.
Accounting for Research and Development Expenditure Credits ('RDEC') Change in accounting policy	The Group receives Research and Development Expenditure Credits in the UK in relation to its direct and indirect R&D activities.	The Committee reviewed both of the accounting policy options, as well as a benchmarking of commonly adopted market practice.	The Committee acknowledged that both IAS 12 and IAS 20 are acceptable policy choices, but that given the more common adoption of IAS 20 it is appropriate for the Group to change its accounting policy.
Acquisition accounting Customer relationship intangibles	During the year the Group completed two strategic acquisitions. Intangible assets relating to customer relationships, existing technology and trade names were recognised as fair value adjustments to the opening balance sheets. The most material of these is the customer relationships intangible within Avantus.	The Committee reviewed the findings and assumptions used, noting the use of external advisers to prepare the technical calculations. In particular the Committee challenged the forecast growth rates assumed in the calculations and the useful economic lives applied to the resultant intangible assets.	The Committee concluded that the assumptions and outputs made by management were reasonable.

Issue	Key uncertainties and judgements	Review and challenge by the Committee	Conclusion
Pensions Net pension asset valuation	The Group's net pension asset decreased significantly during the year due to the economic turmoil and increase in gilt yields, reducing the value of the LDIs and related asset backed securities. This more than offset the reduction in liabilities which were impacted by higher discount rates.	The committee reviewed the results on the valuation exercise, and key assumptions used, noting the use of external advisers to prepare the calculations.	The Committee concluded that the assumptions and outputs made by management and the external advisers were reasonable.
Taxation Key judgments including recoverability of losses	The key accounting assumptions relating to tax include tax provisioning, acquisition related tax balances, the recoverability of deferred tax balances relating to historical losses and the impact of statutory rate changes.	The committee reviewed the key judgments taken by management, particularly relating to the future recoverability of deferred tax relating to losses, which will depend on the future financial results of the relevant entities.	The committee concluded that the judgments made by management were reasonable.

Going concern and viability statements

The acquisitions of Avantus and Air Affairs during FY23 took the Group into a net debt position, this meant that we have paid particular attention to these assessments, specifically considering if covenants may be breached. With consideration to the available information, following review and challenge, the Committee concluded that the Group will be able to continue in operation and meet its liabilities as they become due through to 31 March 2028. The Committee considered it appropriate that the statement covers a five-year period. In reaching its conclusion, the Committee reviewed the five-year forecast, the stress tests applied to it and the mitigating actions available to the Company. The viability statement and the going concern statement can be found in full on page 83, including the detail on how the process was conducted.

Internal control environment

Internal Audit

The Group Internal Audit function operates independently within the business, as part of the third line under QinetiQ's adoption of the Three Lines Model (see page 76 for further details). The function works closely with the business, providing an independent input to help develop a robust system of risk management and internal control, and also to ensure there remains a collaborative approach to assurance across the business.

Group Internal Audit reports to the Committee, formally reporting four times during the year. The Committee approves the annual audit plan, reviews findings, and assesses the overall effectiveness of the audit process. The plan aims to ensure that all significant financial and non-financial risks are reviewed within a rolling three-year period.

The audit plan for the year was built around a number of priorities including an assessment of high-risk project and programme management processes, a focus on the progress of the internal safety improvement programme, and reviews of the UK subsidiary businesses that have been acquired by QinetiQ in recent years.

The overall assessment following the audit and assurance activity in the period is that the control environment is considered to be effective, with an open culture focused on growing the business in a sustainable way for the future.

The effectiveness of the Group Internal Audit function was assessed by the Committee in the period, using a survey and questionnaire that was completed by members of the Committee, the external auditors, and a number of senior managers from across the organisation. The outcome was that the function remains effective in its activities, while noting the need to strengthen the team and consider using external expertise for more technical or specialist areas.

Moving forward into the next financial year there are a number of priorities for the function including, but not limited to, helping address the new UK corporate governance requirements, working with the business to mature further the internal assurance model, as well as focusing efforts to deliver assurance on the integration of more recent acquisitions in the US and Australia.

Risk Management

The Group Risk Management function operates independently within the business, as part of the second line under QinetiQ's adoption of the Three Lines Model (see page 76 for further details). The function works closely with the business, providing an independent input to help develop a robust system of risk management and internal control, and also to ensure there remains a collaborative approach to assurance across the business. The Committee notes improvements in identifying and mitigating emerging risks, such as macroeconomic and supply chain risks, and also notes early signs of improvements in embedding the three lines of assurance model, since the recruitment of a Chief Risk Officer in January 2023.

Prevention and detection of fraud

The Committee reviews the effectiveness of the control environment annually, which includes considering the Group policies, processes and controls for the detection and prevention of fraud. In addition, the Committee discusses with the internal and external auditors any findings on the quality of the organisation's anti-fraud systems and controls. At each Committee meeting during the year, the Committee members individually confirmed that they were not aware of any case of fraud within the Group at that point in time.

Audit, risk and internal control continued

Treasury strategy and compliance
The Group Treasury policies and procedures provide a robust framework of internal controls for the management of treasury risks faced in a net debt environment. These include monitoring of leverage and availability of liquidity through Group cash forecasting, meeting our covenant compliance and legal requirements for our banking partners and managing our financial exposures to foreign exchange and interest rate fluctuations. We seek to continually challenge and review this framework to ensure that it is fit for purpose and robust to meet the changing nature of financial risks as faced with the collapse of Silicon Valley Bank, the new higher interest rate environment and the banking sector's policy on investing in the defence sector, which impact the availability of liquidity.

Tax strategy and compliance
Group tax policies and procedures were tested with the identification of a significant VAT error in the year. There were internal control failings in both systems and processes which gave rise to a material adjustment and payment to HMRC relating to the underpayment of prior year obligations. There was early engagement with the tax authority, in line with our open and transparent approach to tax risk management. The control environment was tested and reviewed and further procedures were adopted immediately to close out the risk and check whether there were other instances of similar errors. We continue to engage with the tax authority to demonstrate the operation of these controls. The tax authority has suspended its penalty subject to compliance with these controls and meeting compliance obligations over a six month period of review.

Task Force on Climate-related Financial Disclosures (TCFD) and future non-financial reporting
In FY22 we were one of the first companies required to report, in line with Listing Rule 9.8.6(R)(8) which addresses the four TCFD recommendation pillars (Governance, Strategy, Risk and Metrics) and 11 disclosures. We are committed to continuous improvement as guidance and methodologies mature. For the FY23 reporting (see **page 61**) aligned with the TCFD recommendations, we are able demonstrate a number of refinements, for example in our approach to Governance (e.g. the establishment of a new Environmental, Social and Governance (ESG) Steering Committee providing a monthly oversight). The Committee reviewed the proposed disclosures and endorsed assumptions and judgements applied by management.

With the growing body of non-financial reporting requirements ahead, the Committee requested a deep dive review and a standing agenda item to continue to be briefed on this evolving area of interest. An overview of the various new requirements across relevant geographies was discussed, (including the new International Sustainability Standards Board (ISSB) sustainability-related financial reporting standards; and reporting in both the US and Australia) and the next steps and investment needed to ensure that we remain a leader among our peers.

External Audit

PwC audit scope
Reflecting the changing composition of the Group, the FY23 audit scope has been expanded to include key financial statement line items and the acquisition accounting relating to the acquisitions made during the year. Consistent with last year, QinetiQ Australia, QinetiQ Inc. (C5ISR) and QinetiQ Limited are full scope. The scope for Foster Miller Inc. (Technology Solutions) also remains consistent with the prior year with audit procedures being performed over Inventory, Revenue and associated balances only. The Committee viewed it appropriate for the audit scope to be updated to provide sufficient audit coverage over the consolidated financial statements.

Non-audit work and auditors independence
The Committee is responsible for the Group's policy, the Code of Practice on non-audit services and the approval of non-audit services. The Code of Practice is applicable to all employees and sets out the principles for regulating the award of non-audit work to the external auditors.

In order to safeguard the auditor's independence and objectivity, and in accordance with the 2019 FRC's ethical standard, the Group does not engage PwC for any non-audit services except where it is work that they must, or are clearly best suited to perform. Accordingly, the Group's policy for the engagement of the auditors to undertake non-audit services broadly limit these to audit-related services such as reporting to lenders and grant providers, where there is a requirement by law or regulation to perform the work. All other non-audit services are considered on a case-by-case basis in light of the requirements of the ethical standards and in compliance with the Group's own policy.

The Committee approves the terms of all audit services as well as permitted audit-related and non-audit services in advance. Pursuant to the Code of Practice, any non-audit services conducted by the external auditors require the prior consent of the Group Chief Financial Officer or the Chair of the Audit Committee, and any services exceeding £50,000 in value require the prior consent of the Committee as a whole. For work that is permissible by type, the Committee will take into consideration the size of the contract in proportion to the Group's revenue and profit, and also the total size when aggregated with other contracts with PwC, noting that some non-auditing services are subject to an annual regulatory 70% spending cap of the average of the audit fees billed over the last three year period.

It is also the Group's policy that no former PwC employee may be appointed to a senior position within the Group without the prior approval of the Group Chief Financial Officer.

Review of non-audit work during the year
The Committee reviews the cost and nature of non-audit work undertaken by the external auditors at three meetings during the financial year as a standing item, with a fourth meeting considering the auditor's fees as part of the year-end review. The Committee concluded, prior to engaging PwC for the provision of these services, that there had not been any conflict of interest that might compromise the independence of PwC's audit. Fees paid to PwC are set out in note 8 to the Consolidated Financial Statements on page 181 and include one off fees relating to the opening balance sheet and acquisition accounting for Avantus and Air Affairs.

Non-audit related fees paid to the auditor during the year were £0.15m (FY22: £0.66m), representing 8% (FY22: 59%) of the audit fee. This included £0.11m (FY22: £0.09m) relating to the review of the half-year results. FY22 included approved fees relating to an incomplete acquisition. Our annual review of the external auditors takes into account the nature and level of all services provided.

Review of the effectiveness and the independence of the external auditors
At its September meeting the Committee discussed the effectiveness of the external audit for FY22. It concluded that there had been several challenges and there were learnings to be taken for both PwC and the Group. As a result an additional week was incorporated into the reporting timetable. It was confirmed that PwC continues to perform its audit work to a high standard, in particular as a result of its comprehension of the company's business, control processes and the matters on which significant accounting judgements or estimates are required and its appropriate validation or challenge of management's views.

Audit appointment and partner succession
PwC was appointed as auditor of the Group at the 2017 Annual General Meeting (AGM) following a tender process. PwC are now in their sixth year as auditors with a new external audit engagement partner, John Ellis, who took the lead for FY23 audit cycle and will manage the external audit team going forward. The external audit contract will be put out to tender at least every 10 years, and the Committee considers that it would be appropriate to conduct an external audit tender during FY27 to ensure that new auditors are appointed for the FY28 audit cycle.

The Committee and the Board will be recommending PwC's re-appointment at the 2023 AGM.

Audit Committee structure
The Audit Committee is comprised entirely of independent Non-executive Directors and is chaired by Shonaid Jemmett-Page, who is considered by the Board to fulfil the Code requirement of recent and relevant experience from the financial sector.

The Board considers the members of the Audit Committee to be independent and, in accordance with the Code, the Board concludes that the Committee as a whole possesses competence relevant to the Group's sector, having a range of financial and commercial experience in the industry and the commercial environment in which the Group operates. The Group Chair, Group Chief Executive Officer, Group Chief Financial Officer, Group Financial Controller, Group Director Internal Audit, Chief Risk Officer and representatives of the external auditors attended all Committee meetings by invitation during the year. Twice a year we also welcome the Chair of the US SSA Audit Committee to update us specifically on the internal controls and risk management across the business.

The Committee met with PwC and the Group Director Internal Audit on two separate occasions, without Executive Directors present, to discuss the audit process and assure itself regarding resourcing, auditor independence and objectivity.

Audit Committee effectiveness review
In 2023 the effectiveness review of the Committee was conducted by The Effective Board LLP. This process is described further on pages 117 to 118. The outcome of the evaluation confirmed that the Committee continues to operate highly effectively and determined that Committee members have good oversight of, and are able to raise appropriate challenges in respect of, important financial matters, such as management's significant accounting judgements and the implementation of new accounting standards.

Looking ahead
We await the outcome of the Financial Reporting Council's consultation on Audit Committee minimum standards and the implementation of regulatory standards to address the response in respect of the corporate governance and audit reforms. The Committee will review its processes and implement changes to its operations, as may be required. We will also monitor the Group's implementation of any required changes resulting from the reforms.

Statutory audit services compliance
The company confirms that during the year under review it applied and was in compliance with the Competition and Market's Authority's Order on statutory audit and services, which relates to the frequency and governance of external audit tenders and the setting of a policy on the provision of non-audit services.

Audit, risk and internal control continued

Risk & Security Committee report

"We have strengthened our processes to match growing threats and ensure we are secure and effective in the modern age."

Dear Shareholder,

I am pleased to present our Risk & Security Committee report for FY23, which describes our activities and areas of focus during the year.

The Risk & Security Committee risk management responsibilities

The Risk and Security Committee has a close relationship with the Audit Committee which enhances the efficiency and effectiveness of Board oversight. The Committee provides further scrutiny and assurance to the Board that the required UK and international standards in risk management, security, health and safety, are achieved. This includes ensuring that the organisation fulfils its statutory requirements and duty of care. This assists the Board in reviewing and assessing the Group's risk management systems.

Risk profile of the Group

During the year, the Committee has focused on reducing the Group's risk profile. The review of the Group Risk Register, which is described further on pages 75 to 83, continues to be fundamental for the Committee to undertake its duties. The Risk Register contains details of the Company's principal risks and uncertainties, their impact on the Company and how they are managed.

Security profile of the Group

One of our core responsibilities is to oversee the Group's physical and non-physical security systems. Our future success will be reliant on our ability to exploit and operate technology at pace while still retaining the exacting levels of security required by our customers and partners.

The Committee members and I have, together with the Chief Enterprise Services Officer, Group Director Security, Business Services Director and Chief Risk Officer, developed a schedule of security-related agenda items, ensuring that the Committee will be able to oversee this important subject, as well as the risks facing the Group. As a defence and engineering Company, we must remain alert about our risks and strengthen our processes to address increasing geopolitical instability.

Key highlights FY23

- Tapped key talent for our CIO and CISO roles and on-boarded our Chief Risk Officer
- Matured our governance structure and our global view on risk
- Stood up the Security & Information and Risk & Assurance Councils as key new bodies to reinforce Group-wide awareness of risk and assurance
- Delineated and interlinked security risks into four pillars
- Embedded a sense of modernity into our risk and assurance approach

FY24 priorities

- Ensuring effective first line compliance and second line assurance activities
- Monitoring progress on the Global Interoperable Infrastructure Project
- Improving the consistency of risk reporting across the Group
- Continuing to ensure that we are recruiting, building and retaining the right workforce skills and talent to drive our physical and non-physical security focus

I hope you find the information in this report about the Committee's work helpful and I will be pleased to answer any questions you have about it at this year's AGM.

General Sir Gordon Messenger
Risk & Security Committee Chair

Key responsibilities

The Committee's primary functions are:

- To oversee the sound operation of the Group's risk management systems
- The ongoing review of the Group's principal and emerging risks (see pages 75 to 83)
- To oversee the Group's physical and non-physical security systems, including monitoring security exposures and security culture, and considering emerging security issues
- To ensure that health and safety risks are being effectively managed across the Group
- To oversee the Group's second line assurance activity over the first line compliance activity taking place across the Group's functions and businesses
- To monitor adherence to the generic MOD compliance system
- To review the Group's policies, processes and controls for the detection and prevention of bribery and modern slavery and compliance with applicable laws, regulations and codes of conduct

Risk management

The Board assumes ultimate responsibility for the effective management of risk across the Group, determining its risk appetite and ensuring that each business area implements appropriate internal controls. The Group's risk management systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. These systems are also designed to be sufficiently agile to respond to changes in circumstances, such as geopolitical instability and supply chain disruptions.

Risk & Security Committee structure

All members of the Board are members of the Risk & Security Committee, which is chaired by General Sir Gordon Messenger. The Chief Enterprise Services Officer, the Group Director Security, the Chief Information Officer, the Chief Information Security Officer, the Chief Risk Officer and the Group Director – Internal Audit attend Committee meetings by invitation.

To enable the Committee to get a comprehensive understanding of how risk management processes have been implemented and to ensure that these are fully embedded within the business's day-to-day work, deep-dives are presented to the Committee by employees who have first-hand knowledge of such matters, i.e. perform the work on a daily basis.

Risk reporting is incorporated into the management of the business through the QinetiQ Leadership Team and monthly performance reviews feed into the Group strategy at the Executive and Board level. The risk management and risk monitoring processes are divided as following:

Risk management	• Review risk management structures and reporting lines (i.e. effectiveness of control environment) • Evaluate effectiveness of risk reporting processes • Review effectiveness of risk identification processes • Consideration of any security issues relating to the appointment of external auditors
Risk monitoring exposures	• Review of risk register and key exposures • Monitor Health, Safety and Environmental performance • Scrutinise Internal Audit reports with respect to risk and security issues • Oversee international business governance • Oversee application of apply anti-bribery and corruption measures

Security management

The Committee is assured by the progress made by the Group in the year, although, with the ever-increasing incidence and sophistication of cyber attacks and the consequent need for the Group to remain vigilant, the Committee expects security to remain one of its key areas of focus. A Security Culture Survey, conducted by the Group Security team covering the whole Group and aimed at understanding the security maturity levels across four areas: information, physical, cyber and personnel security, proved invaluable in identifying areas for focus, both domestically and internationally.

Cyber security

Our cyber security procedures have been strengthened considerably in recent years in response to the increasing threat this poses to businesses, and it remains an area that we keep under continuous review.

We continue to develop our cyber capability leveraging deep technical expertise and knowledge to support all our business areas. The threat in this area continues to evolve with the introduction of advanced Artificial Intelligence tools (such as ChatGPT) making identification of phishing emails, malware and false social media profiles increasingly difficult to identify. This will form a key part of our security training and education programme in FY24.

The Committee continues to receive regular reports from the CIO and CISO on the maintenance of adequate cyber security systems, work undertaken to improve cyber security capabilities and lessons to be learnt from high-profile data breaches.

Audit, risk and internal control continued

All employees have to complete mandatory cyber, information, physical and personnel security training each year, which focuses on our policies, procedures, culture and behaviour aligned to known threats. Our Group intranet also includes a comprehensive Security Knowledge Library which is used both individually and by leaders for regular security engagements at team level. This approach substantially improved security culture and behaviour during FY23.

Governance

Self-certification process

An annual process of hierarchical self-certification on the effectiveness of internal controls has been established. This process provides a documented and auditable trail of accountability for the operation of the system of internal control. It is informed by a rigorous and structured self-assessment that addresses compliance with Group policy, and provides for successive assurances to be given at increasingly higher levels of management and, finally, to the Board. The self-certification process, which is carried out at the full and half-year, is reported to the Committee by the Group Director Risk & Governance.

The self-certification process continues to be a valuable tool in assessing the effectiveness of internal controls in all functions and business units across the Group.

Generic MOD compliance system

A key aspect of the Committee's work is the oversight of the UK Ministry of Defence's (MOD) generic compliance system. This is integral to the work of QinetiQ in its relationship with the UK Government.

The 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 Group wishes to operate on both the "buy" and the "supply" sides. The aim is to achieve a balance between meeting the needs of the procurement customers in the MOD (principally Defence Equipment & Support) and the need to allow QinetiQ the flexibility to commercialise research into the supply chain and pursue its planned business activities, without compromising the defence or security interests of the UK. The Board nominates two senior managers to act as Compliance Implementation Director (CID) and Compliance Audit Director (CAD).

Anti-bribery and corruption

The Committee oversees a zero-tolerance approach to bribery and corruption, as confirmed by the Company's anti-bribery and corruption policy and the supporting local policies that apply to members of its Group. The Group also has in place a range of procedures, including regular training targeted at potentially risk-exposed roles of the employees, Group and local gifts and hospitality policies, and Group and divisional procurement, contracting and partnering practices, which are designed to prevent bribery. See more on page 74.

Data privacy

The Company respects the personal data privacy of its customers, employees and other individuals in respect of whom it and members of its Group process personal information. The Group therefore has in place policies which mandate the lawful processing and protection of such personal information in accordance with applicable laws and procedures which are designed to achieve the same. A report on GDPR compliance is presented to the Committee at each Committee meeting.

Effectiveness review

In 2023 the effectiveness review of the Committee was conducted by The Effective Board LLP. This process is described further on pages 117 and 118. The performance of the Committee was rated highly overall, and the Committee agreed it would continue to focus on cyber risk and security in FY24.

Frameworks for risk management and internal control

The Board is responsible for promoting the long-term success of the Company for the benefit of shareholders, as well as taking account of other stakeholders including employees and customers. This includes ensuring that an appropriate and proportionate system of internal control is in place throughout the Group. To discharge this responsibility, the Board has established frameworks for risk management and internal control using a Three Lines Model, see page 76, and reserves for itself the setting of the Group's risk appetite. In-depth monitoring of the establishment and operation of prudent and effective controls in order to assess and manage risks associated with the Group's operations is delegated to the Audit Committee, complemented by the work of the Risk & Security Committee. However, the Board retains ultimate responsibility for the Group's systems of internal control and risk management and has reviewed their effectiveness during the year.

The frameworks for risk management and internal control play a key role in the management of risks that may impact the fulfilment of the Board's objectives. They are designed to identify and manage, rather than eliminate, the risk of the Group failing to achieve its business objectives and can only provide reasonable and not absolute assurance against material misstatement or losses. The frameworks are regularly reviewed and were in place for the financial year under review and up to the date of this report. They help ensure the Group complies with the Financial Reporting Council's (FRC) guidance on Risk Management, Internal Controls and related financial and business reporting.

After discussions with the Audit Committee and the Risk & Security Committee, the Board conducts a robust six-monthly assessment of the Group's emerging and principal risks. The assessments in the year included those emerging risks that could impact the Group's business model and future performance and therefore require management prioritisation and action. Specifically the Board considered the principal risks facing the Company when approving the Group business plan. During the year, the Risk & Security Committee received updates on a number of emerging risks and associated mitigating actions by management. Emerging risks were also taken into account in the design of scenarios which are intended to stress test the Group's five-year strategic business plan, recovery plan, climate change impacts, decisions on the return of capital to shareholders and operational resilience. The Company's approach to risk and risk management together with the principal risks that face the Group are explained within the risk section of the Strategic report.

Enterprise risk management
Our Enterprise Risk Management (ERM) is designed to consistently identify, measure, manage, monitor and report the principal risks to the achievement of the Group's business objectives and is embedded throughout the Group. It is codified through risk policies and business standards which set out the risk strategy, appetite, framework and minimum requirements and controls for the Group's worldwide operations. Group reporting manuals in relation to International Financial Reporting Standards (IFRS) reporting requirements and a Financial Reporting Control Framework (FRCF) are in place across the Group. The ERM relates to the preparation of reliable financial reporting, covering both IFRS, and local statutory reporting activity. The ERM process follows a risk-based approach, with management identification, assessment (documentation and testing), remediation (as required), reporting and certification over key financial reporting related controls.

Board oversight of risk management
The Board's delegated responsibilities regarding oversight of risk management and the approach to internal controls are set out on pages 75 to 83. There are good working relationships between the Board Committees, and they provide regular reports to the Board on their activities and escalate significant matters where appropriate. The responsibilities and activities of each Board Committee are set out in the Committee reports.

Self-assessment and certification model
Each business unit Managing and Functional Director is required to make a declaration that their business unit's governance and system of internal controls are effective and are fit for purpose for their business and that they are kept under review throughout the year. Any material risks not previously identified, control weaknesses or non-compliance with the Group's risk policies or local delegations of authority must be highlighted as part of this process. The effectiveness assessment draws on the regular cycle of assurance activity carried out during the year, as well as the results of the annual assessment process. The details of key failings or weaknesses are reported to the Risk and Security Committee and the Board on a regular basis and are summarised annually to enable them to carry out an effectiveness assessment.

Internal financial controls
Internal financial controls are the systems that the Group employs to support the Board in discharging its responsibilities for financial matters and the financial reporting process.

The main elements include:
- Assessment by Internal Audit of the effectiveness of operational controls
- Clear terms of reference setting out the duties of the Board and its Committees, with delegation to management in all locations
- Group Finance and Group Treasury manuals outlining accounting policies, processes and controls
- Weekly, monthly and annual reporting cycles, including targets approved by the Board and regular forecast updates
- Leadership teams reviewing results against forecast and agreed performance metrics and targets with overall performance reviewed at region and Group levels
- Specific reporting systems covering treasury operations, major investment projects and legal and insurance activities, which are reviewed by the Board and its Committees on a regular basis
- Confidential reporting procedures allowing individuals to report fraud or financial irregularities and other matters of concern
- Data protection policies to detect breaches and other issues

Directors' remuneration report

"It is against the backdrop of strong FY23 performance that I am pleased to propose our new Directors' Remuneration Policy to further incentivise our ambitious growth agenda."

Dear Shareholder,

As the Group Chair notes in his statement on **page 4**, FY23 was a year of excellent performance. This was reflected in the incentive out-turns where stretch financial targets were exceeded on orders, profit, cash and revenue; a truly exceptional performance.

It is against the backdrop of strong FY23 performance that I am pleased to propose our new Directors' Remuneration Policy to further incentivise our ambitious growth agenda.

Reward decisions for FY23

The Remuneration Committee awarded base salary increases of 3.6% for both the CEO and CFO effective 1 July 2022. Both salary reviews are aligned with the Rewarding for Performance guidance used for all UK employees and below the 4.0% budget for the July 2022 salary review.

The annual contribution to the Bonus Banking Plan (BBP) for FY23 for the CEO and the CFO is 98.2% and 96.8% of the maximum respectively, recognising their personal performance during a year when the Company delivered exceptional performance led by our Executive Directors.

The FY23 contingent share award under the Deferred Share Plan (DSP) will be made at 100% of the maximum reflecting stretch revenue growth in-year, an excellent result. This DSP award will not vest in full unless the performance underpin is met in FY26 that the level of operating profit for FY23 is at least maintained.

The FY23 CEO single figure on **page 146** is lower than FY22, despite the higher FY23 annual incentive payment, largely due to no DSP contingent shares vesting as no award was made based on FY20 performance.

The Committee considered the FY23 incentive out-turns in detail from the perspective of our key stakeholders (shareholders, customers and employees) and agreed that it was appropriate not to exercise the discretion available to amend the outcome; that is, no adjustment was made to incentive targets or outcomes.

New Directors' Remuneration Policy

During FY23 the Committee has spent a significant amount of time considering the new Directors' Remuneration Policy for approval at the July 2023 AGM to ensure that it is aligned with our strategy and growth ambitions. We have consulted widely with our shareholders as our proposal evolved and we are grateful for the input we received which has greatly assisted the Committee in finalising our proposals.

The Committee's desired outcomes from the review of our Policy, are to:
- Simplify the approach to incentives.
- Align more to market in terms of incentive structure.
- Be more aligned to the global and private equity markets where we are increasingly competing for talent.
- Drive sustainable annual performance supporting our ambitious growth strategy and long-term value creation.
- Provide clearer separation between the annual and long-term incentives.
- Ensure alignment between the Executive Directors, QinetiQ Leadership Team and other senior leaders.

The Committee believes that the new Policy and, in particular, the proposed new annual and long-term incentives, achieve the desired outcomes.

QinetiQ's Gender Pay Gap data can be found on our website at **www.QinetiQ.com**

The Bonus Banking Plan (BBP) will be replaced by an Annual Bonus Plan (ABP), with the current 200% of salary maximum remaining unchanged. The ABP is a more market-standard structure, with 70% of any outcome payable in cash at year end and 30% deferred into shares which vest after two years. This provides the same level of cash opportunity each year as the BBP.

The Committee is also proposing the introduction of a new Long-term Performance Award (LPA) to replace the Deferred Share Plan (DSP). The DSP has supported incremental annual growth but is no longer appropriate to motivate and reward our increased ambition. The LPA will be targeted on achieving stretching levels of performance, aligned with market guidance and the new FY27 ambition, beyond those of the current incentives with an increased reward opportunity. For the Executive Directors, the LPA will have a maximum award of shares to the value of 250% of salary for exceptional levels of performance over a three-year period, followed by a two-year holding period post-vesting.

The LPA is a similar construct to a Performance Share Plan whereas the DSP is restricted shares with a one-year pre-grant performance condition. The higher LPA maximum opportunity reflects the different nature of the award and the higher level of performance required with commensurately more stretching targets.

Implementation for FY24

Subject to shareholder approval at the AGM, the Committee intends to operate new incentive plans for FY24 as described in the Policy section on page 136 and above.

The ABP for FY24 is based on the same financial metrics as in prior years (orders, profit and cash) with stretch targets set against the delivery of the Integrated Strategic Business Plan (ISBP). Financial metrics have a 70% weighting and non-financial targets have a 30% weighting based on the achievement of personal and common goals, with the focus of the latter on ESG metrics.

The FY24 LPA will be made immediately after shareholder approval at the AGM, with a 3-year performance period commencing 1 April 2023.

The performance metrics for the FY24 LPA will be cumulative underlying operating profit, Return on Capital Employed (ROCE) and total revenue growth to drive consistent profit performance, robust investment selection and value creation for our customers through collaboration.

Employee engagement and reward

Recent discussions provided a clear indication that our shareholders want to understand the measures we have taken to ensure that our employees are supported in these difficult times. The Company's leadership has made a number of interventions in FY23 to the long-term benefit of our employees including: in the UK, a minimum salary review of £1,500 in July 2022 and a further £1,500 in December 2022 to the benefit of our lower paid employees; in the US, greater support for employees with the increased cost of medical provision; in Australia, greater investment in scarce skills to negate the impact of market attrition; and globally, establishing a hardship fund to provide immediate financial support to those in the most need.

QinetiQ's employees are key to the delivery of our ambitious growth strategy. Our employees have been outstanding this year, demonstrating extraordinary focus, collaboration and drive to continue to deliver to our customers.

The CEO and the Chief People Officer have held regular discussions with our Global Employee Voice on reward matters. The social section on page 52 details our employee engagement activity.

I met with the Chair and other representatives of the Global Employee Voice during the year and I found the discussions very helpful in terms of understanding employee views. I understand that they have also found the meetings helpful and it is our intention to continue to meet at appropriate intervals.

In FY19 the Company introduced an All Employee Incentive Scheme (AEIS) whereby every eligible employee can earn a payment if the Company achieves a level of operating profit within a predetermined range from target to stretch. For FY23 the stretch profit target was achieved resulting in a maximum payment for the Company element of the AEIS of £1,250. In addition, high-performing employees can earn up to an additional 5% of salary based on personal performance.

The AEIS is a key element of the Company's Rewarding for Performance framework and aligns employees and shareholder interests by incentivising and rewarding profitable growth. The Company will operate the AEIS again for FY24. Looking forward, the Company will continue to invest in our enhanced global reward strategy and employee offering.

Conclusion

Supporting leadership to drive Company performance and developing the new Directors' Remuneration Policy were the primary areas of focus of the Remuneration Committee in FY23. The Committee believes that we have a talented QLT and, as the Company continues to grow and expand internationally, we are mindful of our global competitive environment and the increasing levels of responsibility.

The Company performed exceptionally well in FY23. As we now enter the next phase of growth we need simple stretching incentives which offer enhanced opportunities for leadership aligned to the ambitious 5 year strategy. For FY24 the Committee looks forward to implementing the new Policy to support the Company in delivering its growth targets.

I am very grateful for the time shareholders have given us this year and I hope that we can rely on your vote in support of the Directors' Remuneration Policy and FY23 Report at the AGM on 20 July 2023.

I would welcome comments and questions from shareholders in relation to this Directors' Remuneration Report and I can be contacted through **companysecretariat@qinetiq.com**.

Susan Searle
Remuneration Committee Chair
25 May 2023

Directors' remuneration report continued

Remuneration at a glance

Components, alignment, application and changes (subject to the approval of the new Directors' Remuneration Policy at the 2023 AGM)

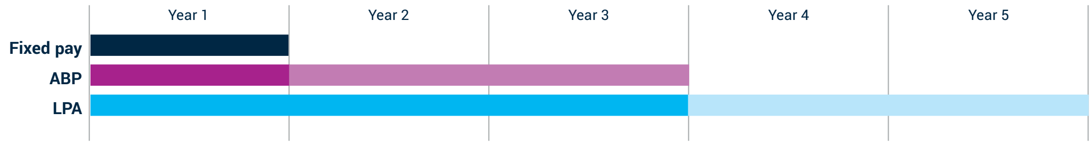
Annual fixed pay	Link to strategy	Application in FY24
Salary Executive Directors' base salaries are set on appointment and reviewed annually, or when there is a change in position or responsibility. Typically, base salaries will be increased by a similar percentage to the average pay increase for all employees of the Group.	Fixed pay is set at a level that enables us to attract and retain high-quality Executive Directors, who are capable of successfully leading and executing our strategy and delivering long-term sustainable growth. Our Policy aims to ensure that fixed pay remains attractive and competitive.	No change to current Policy.
Benefits Benefits include a car allowance, health insurance, life assurance, income protection and taxable expenses.		No change to current Policy.
Pension Executive Directors currently receive 10.5% of base salary allowance as cash in lieu of pension which is equivalent to the UK workforce pension available to all employees.		No change to current Policy.

Annual variable pay	Link to strategy	Application in FY24
The new Annual Bonus Plan (ABP) introduced for FY24 onwards will be as follows: • 70% of any outcome will be payable in cash at year end and 30% will be deferred into shares, which vest after two years. • The maximum incentive for Executive Directors will be 200% of salary. • The performance measures used for the ABP will be the same as those used in prior years. For FY24 these are orders, operating profit, cash flow, common goals (which include ESG metrics) and personal goals. As in FY23 a weighting of 70% financial and 30% non-financial metrics will be used for FY24.	The ABP rewards strong sustainable financial performance through a 70% weighting on core financial metrics, driven by the implementation of our strategy. The ABP also rewards non-financial performance through the delivery of key Common Goals related to environment (Net Zero roadmap), employee engagement & inclusion, and safety and the achievement of personal goals. The partial deferral of any ABP payment into shares drives a long-term and sustainable focus aligned to the interests of shareholders.	For FY24 the Remuneration Committee revised the annual incentive weightings by reducing the orders metric to 20% (previously 25%) and increasing the profit metric to 30% (previously 25%) to support the drive for profitable growth. Cash will remain at a 20% weighting.

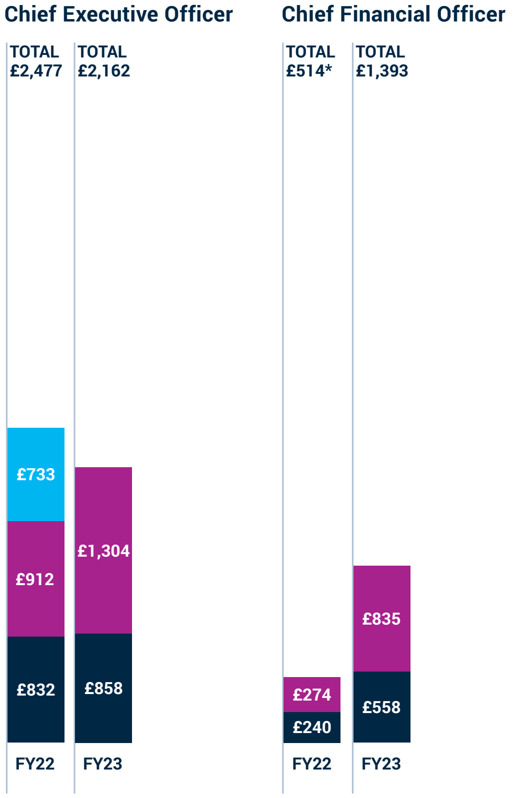
Long-term variable pay	Link to strategy	Application in FY24
The new Long-term Performance Award (LPA) introduced for FY24 onwards will be as follows: • Three-year performance test with any shares vesting subject to a further two-year holding period. • The maximum LPA award for Executive Directors will be 250% of salary for the delivery of truly stretching financial targets. • The performance measures used for the LPA for FY24 will be earnings, ROCE and total revenue growth. • No more than 20% of each element of the award will vest at threshold levels of performance.	The LPA has a clear link to strategy and incentivising growth: • Cumulative Earnings: To deliver consistent operational performance over the longer term. Understood, relevant and actionable for QinetiQ senior leaders. • Returns: To drive robust investment selection and delivery. • Total revenue growth: To drive value creation through collaboration and market leverage. The payment of any LPA in shares which must be held for a further two years drives a long-term and sustainable focus aligned to the interests of shareholders.	Each LPA will be based on key financial metrics aligned to Company strategy with weightings set to provide an appropriate balance between the metrics. For the FY24 LPA the metrics are earnings (underlying operating profit on a 3-year cumulative basis, 35% weighting), ROCE (average EBITA over three years divided by average capital employed, 35% weighting) and total revenue growth (30% weighting).

Timing

To create strong alignment between executive remuneration and the long-term interests of our shareholders, the ABP is paid in part in deferred shares vesting two years after the award was earned. The LPA has a three-year performance period, after which any vested shares must be retained by the executive for a further two years.



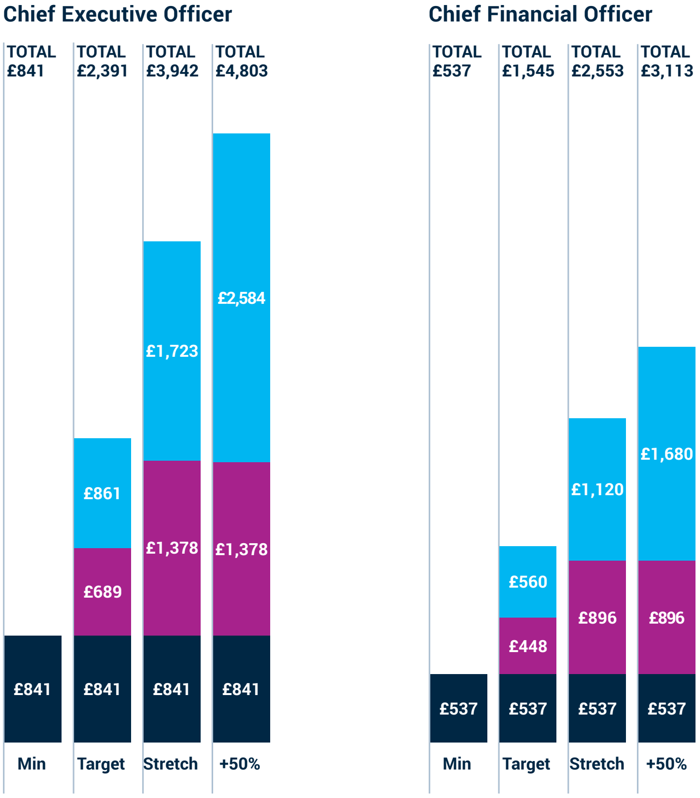
Single Figure FY23
(£'000)



Key
- Fixed pay
- Annual variable pay
- Long-term variable pay

* FY22 excludes £100,000 'Other'.

Illustration of FY24 potential
(£'000)



Minimum – Fixed pay (FY24 base salary, plus taxable benefits and pension allowance)
Target – Fixed pay plus ABP at Target (100% of base salary) and LPA at Target (125% of base salary)
Stretch – Fixed pay plus ABP at Maximum (200% of base salary) and LPA at Maximum (250% of base salary)
+ 50% Share price appreciation – Stretch plus 50% share price appreciation (on 100% of LPA)

Key
- Fixed pay
- Annual variable pay
- Long-term variable pay

Directors' remuneration report continued

2023 Directors' remuneration policy Q&A

What are the principles of QinetiQ's Directors' Remuneration Policy?

The principles of the new Policy are:

- A simplified approach with greater alignment to market practice and separation between annual and long-term incentives;
- To drive sustainable annual performance, supporting our ambitious growth strategy and long-term value creation;
- Balance between supporting organic and inorganic growth;
- Drive collaboration across our teams; and
- Retain, attract and incentivise top talent.

How does the Policy align executive pay with the interests of shareholders?

QinetiQ's annual incentive scheme and long-term share plan deliver shares which must be retained after any award is paid or vests. In our ABP, 30% of the award is deferred and held as shares and is therefore subject to share price exposure. In our LPA there is a three-year vesting period for any shares and then a further two-year holding period.

In addition, the Executive Directors are required to build and hold a significant shareholding in the Company of 300% of salary for the CEO and 200% for other Executive Directors.

How does your Policy reward the implementation of Company strategy?

Our strategy, as detailed in our five-year Integrated Strategic Business Plan (ISBP), aims to deliver sustainable and long-term growth in our business and to increase value to our shareholders.

The Policy focuses on the achievement of stretching but sustainable annual and three-year financial performance targets aligned to the ISBP, balanced with Common Goals and personal objectives, to provide strategic alignment and support the growth ambition of the Company.

How does the Policy drive corporate culture?

Our annual bonus scheme includes a 30% weighting towards non-financial metrics including common goals (which include ESG metrics) and personal objectives.

Common goals are based on ESG targets for employee engagement & inclusion, progress towards the Net Zero target and the overall safety maturity of the Company.

The personal objectives measure the 'what' and the 'how' to ensure that key personal deliverables are achieved through collegiate and collaborative behaviours.

How does the Annual Bonus Plan (ABP) work?

- The ABP is an annual incentive plan with a one-year performance measurement period, with any award paid partly in deferred shares;
- A maximum award of 200% of salary is available each year;
- At the end of the first year 70% of the award is paid as a cash bonus;
- The remaining 30% is deferred and held in shares, which are subject to share price exposure;
- The deferred shares are held for two years;
- The financial metrics proposed for the ABP in FY24 are orders (20% weighting), operating profit (30% weighting) and operating cash flow (20% weighting);
- The non-financial metrics carry a collective weighting of 30% and include priorities such as implementing new safety programmes, roadmap to net zero, transforming the culture and engagement levels within the business. This supports long-term sustainable growth.

How does the Long-term Performance Award (LPA) work?

- Vesting of the LPA award will be determined by performance against a scorecard of long-term performance measures (which will not duplicate those for the ABP) to track the step-change value enhancement and enable a rounded assessment of performance;
- For the initial FY24 award, this will include earnings, financial returns (e.g. ROCE with a mechanism to incentivise value creative acquisitive growth), as well as a total revenue measure to increase global collaboration and create value across our Company;
- The performance target range for the LPA will be highly stretching to reflect its intention to drive strong business growth at an appropriate return on capital, delivering good returns for our shareholders;
- No more than 20% of each element of the award may vest at threshold levels of performance.

In alignment with our growth ambition, the FY24 LPA targets will drive towards c.£3bn of revenue by FY27, at 11 - 12% margin, with ROCE in a 15 - 20% range.

Why aren't you proposing ESG and/or TSR as core performance metrics?

The Committee considered carefully both ESG measures and TSR as core metrics for the LPA:

ESG – measures such as route to Net-Zero, employee engagement and D&I interventions have a 17.5% weighting in the current annual incentive plan, which we anticipate will continue for the ABP in FY24 and thereafter. At this current point in the Company's journey towards Net-Zero and other core ESG milestones, the Committee considers it better to focus on annual incremental performance to deliver long-term goals.

TSR – The Committee's view is that comparative TSR is a measure which is based as much on market sentiment as Company performance; the Committee therefore prefers performance measures, such as those proposed for the FY24 award, which are in the direct control of senior leaders and strongly align with the delivery of QinetiQ's strategy and long-term sustainable value creation for shareholders. The Committee is also mindful of the challenge of identifying appropriate comparators for a Company such as QinetiQ that has few direct UK peers. However, the Committee will retain the flexibility to select the most appropriate measures aligned to business strategy each year, and will keep the use of TSR as a measure under review.

Why are you replacing the DSP with the LPA?

The LPA is designed to foster a greater focus on long-term sustained performance and to drive outstanding levels of organic and inorganic growth.

LPA performance targets are measured over three financial years, instead of an initial one-year target under the DSP, and will be calibrated to be more stretching. This will help to accelerate QinetiQ's growth and, if achieved, participants will earn higher payments than under the DSP.

How have you supported employees in the cost of living crisis?

We have made a number of interventions in FY23 including: in the UK, a minimum salary review of £1,500 in July 2022 and a further £1,500 in December 2022 to the benefit of our lower paid employees; in the US, greater support for employees with the spiralling cost of medical provision; in Australia, greater investment in scarce skills to negate the impact of market attrition; and globally, establishing a hardship fund to provide immediate financial support to those in the most need.

How do you focus on employee engagement?

Our employees share in the Company's success following the introduction of the AEIS in FY19 which pays up to £1,250 to all eligible employees on the basis of the Company's annual operating profit performance. The AEIS is important as a performance driver, to support collaboration and to share the success we create for shareholders.

Our Global Employee Voice (GEV), representing our global employees, is deeply engaged across the Company. We listen to the views and level of engagement of our employees through a quarterly survey using a market-leading dynamic tool (Peakon).

How do you avoid rewarding for failure?

In line with best practice, Executive Directors' contractual notice periods are 12 months with termination payments normally limited to salary, benefits and pension with a duty to mitigate loss if they are terminated by the Company.

Incentives have stretching performance targets to ensure that any payments are justified with the Remuneration Committee having discretion to adjust the formulaic outturn to ensure that rewards are appropriate. In addition, bonus deferral, holding periods and shareholding requirements ensure a focus on sustainable share price performance.

What other changes to Policy is the Committee proposing for 2023?

Apart from the introduction of the new annual and long-term incentives, there are no substantive changes proposed for the 2023 Policy.

Directors' remuneration policy

Introduction

Over the course of 2022 and 2023 the Remuneration Committee has reviewed the current Policy considering the views of internal and external stakeholders to ensure it is capable of supporting QinetiQ's ambitions for growth. The feedback received from our stakeholders identified several themes as summarised below:

- The former Policy supported business performance and strategy delivery across the last six years but, as the strategy evolves, so does the need for a flexible and globally competitive Policy.
- The former Policy supported incremental organic growth, but was not geared to motivate and reward for step-change value enhancement.
- The increased global nature of the business means we are competing for talent against a variety of companies, not just from UK-listed aerospace and defence peers. Private equity-backed companies increasingly present an attractive proposition for senior executives given their less restrictive pay policies and more leveraged incentive arrangements.
- Our Policy was more complicated than market norms and, while well understood internally, was difficult to explain to potential new recruits, particularly those outside of the UK.
- Consistency and fairness in approach are seen as being supportive of the QinetiQ culture.

Against this backdrop the Committee is proposing to make some changes to the future Policy. The desired outcome is, in response to shareholder feedback, to simplify the approach with incentive arrangements which:

- Are more aligned to market.
- Drive sustainable annual performance supporting longer-term value creation.
- Provide clearer separation between the annual and long-term incentives.
- Ensure alignment between the Executive Directors, QinetiQ Leadership Team and other senior leaders.

The review process

The Committee led the review process throughout, taking account of market practice, particularly given the increased international profile of the Company, the views of Committee members, executives and external advisers as appropriate to help shape our thinking. No individual is involved in the decision making on their own remuneration.

We then engaged with our largest shareholders representing some 49% of the register and revised the initial proposals to reflect the input received. In particular, the Committee reduced the overall quantum of the proposed Long-term Performance Award and revised the metrics. The Remuneration Committee strongly believes that the proposed Directors' Remuneration Policy will support the ambitious growth strategy.

We have also made every effort to engage with major shareholders to explain the Policy and the positive impact it will have on Company performance and culture. The Remuneration Committee therefore seeks approval for the Policy at the AGM on 20 July 2023.

Scope of Policy

The Policy applies to Executive Directors, the Group Chair and Non-executive Directors. Reference may also be made to the QinetiQ Leadership Team who, while not Directors, fall within the Remuneration Committee's remit, although the Policy is not binding for these individuals.

Changes to the Policy

As the annual incentive plan, the Committee is replacing the Bonus Banking Plan (BBP) with the Annual Bonus Plan (ABP), and the former Deferred Share Plan (DSP) will be replaced by the Long-term Performance Award (LPA). The terms of the new incentive plans and the rationale for their introduction is detailed in this report.

Apart from the introduction of the new annual and long-term incentives, there are no changes proposed for the future Policy.

Discretion

The Committee has discretions in several areas of Policy as set out in this report. The Committee commits to communicating to shareholders when discretion is used.

UK Corporate Governance Code

When considering the review of the Policy, the Committee was mindful of UK Corporate Governance Code provisions which state that the Committee should address issues of clarity, simplicity, risk, predictability, proportionality and alignment with culture.

- Clarity is achieved by the simplification of the incentives and the better separation between the annual and long-term plans.
- Simplicity is delivered by a much simpler approach to incentives, particularly the ABP.
- Risk continues to be managed through the operation of a broad suite of performance measures and targets, the use of deferral, holding periods and malus and clawback provisions, and the close interaction with the Audit and Risk & Security Committees.
- Predictability is achieved by setting clear performance targets and outcomes for threshold, target and stretch levels of performance, with a close link to Company strategy.
- Proportionality is delivered through performance conditions, both financial and non-financial, with the clear link to strategy. The Committee has the discretion to override formulaic outturns to ensure that they are appropriate and reflect overall performance.
- Alignment to culture is supported by performance measures which are consistent with the Company's purpose, values and strategy.

Executive Directors' Remuneration Policy

The Policy will be put forward for approval at the AGM on 20 July 2023. This Policy covers the three year period commencing 1 April 2023 and complies with the Large and Medium-sized Companies and Groups (Accounting and Reports) (Amendment) Regulations 2013.

Element	Purpose and link to strategy	Operation and performance measures	Maximum opportunity
Base salary	To attract and retain the talent needed to lead our business.	An Executive Director's base salary is set on appointment and reviewed annually or when there is a change in position or responsibility. When determining an appropriate level of salary, the Committee considers: • general salary rises to employees; • remuneration practices within the Group; • any change in scope, role and responsibilities; • the general performance of the Group; • the experience of the relevant Director; • the economic environment; and • pay levels for similar roles among appropriate comparators. Individuals who are recruited or promoted to the Board may, on occasion, have their salaries set below the targeted policy level until they become established in their role. In such cases subsequent increases in salary may be higher than the general rises for employees until the target positioning is achieved.	Typically, the base salaries of Executive Directors in post at the start of the policy period and who remain in the same role throughout the policy period will be increased by a similar percentage to the average annual percentage increase in salaries of all other employees in the Group. The exceptions to this rule may be where: • an individual is below market level and a decision is taken to increase base pay to reflect proven competence in the role; or • there is a material increase in scope or responsibility to the Executive Director's role. The Committee ensures that maximum salary levels are positioned in line with companies of a similar size to QinetiQ and validated against other companies in the industry, so that they are competitive against the market. The Committee intends to review the comparators periodically and may add or remove companies from the group as it considers appropriate.
Pension allowance	To ensure that Executive Directors' total remuneration remains attractive and competitive.	The Company provides a pension contribution allowance in line with practice relative to its comparators to enable the Company to recruit and retain Executive Directors with the experience and expertise to deliver the Group's strategy. The allowance is non-consolidated and does not impact any incentive calculations.	The maximum policy pension allowance is aligned with the Company pension contribution paid to the majority of UK pension scheme members (which is currently 10.5% of salary).
Benefits	To ensure that Executive Directors' total remuneration remains attractive and competitive.	Benefits include car allowance, health insurance, life assurance, income protection, expenses incurred which HMRC may deem taxable and membership of the Group's employee Share Incentive Plan which is open to all UK employees (the Executive Directors will also be eligible to participate in any other all-employee plan operated by the Company from time to time). The Committee recognises the need to maintain suitable flexibility in the benefits provided to ensure it is able to support the objective of attracting and retaining personnel in order to deliver the Group strategy. Additional benefits may therefore be offered such as relocation allowances on recruitment or where new benefits are introduced for the wider employee population.	The maximum is the cost of providing the relevant benefits.

Directors' remuneration report continued

Directors' remuneration policy continued

Annual Incentive	Purpose and link to strategy	Operation and performance measures	Maximum opportunity
Annual Bonus Plan (ABP)	The ABP provides an incentive for the Executive Directors to achieve targets that are entirely aligned to the Company's strategy. The ABP rewards strong sustainable financial performance through a 70% (for FY24) weighting on core financial metrics, driven by the implementation of our strategy. The ABP also rewards non-financial performance through the delivery of key common goals related to our Net Zero roadmap, employee engagement & inclusion, safety and the achievement of personal goals. The partial deferral of any ABP payment into shares drives a long-term and sustainable focus aligned to the interests of shareholders.	• The ABP is an annual incentive plan with a one year performance measurement period, with any award paid partly in deferred shares; • A maximum award of 200% of salary is available each year; • At the end of the first year 70% of the award is paid as a cash bonus; • The remaining 30% is deferred as an award of deferred shares that must be held for two years, and are subject to malus and clawback for up to three years from the payment date; • Dividend equivalents will be paid on the deferred shares; • The financial metrics will normally not be less than 60% of the overall weighting. In exceptional circumstances the Committee retains the discretion to: • Change the performance measures and targets and the weighting attached to the performance measures and targets part way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate; for example adjustments for: acquisitions and disposals; restructuring costs; business structure changes; restated corporate allocations; foreign currency exchange rates; and Board-approved budget adjustments. • Make downward or upward adjustments to the amount of incentive earned resulting from the application of the performance measures, if the Committee believes that the incentive outcomes are not a fair and accurate reflection of business performance.	Maximum = 200% of salary. Target = 100% of salary. Threshold = 0% of salary.

Long-term Incentive	Purpose and link to strategy	Operation and performance measures	Maximum opportunity
Long-term Performance Award (LPA)	The LPA provides an incentive for the Executive Directors to achieve long-term financial targets that are entirely aligned to the Company's strategy and the creation of shareholder value. With regard to the FY24 targets– • Cumulative earnings (35% weighting): To deliver consistent operational performance over the longer term. Understood, relevant and actionable for QinetiQ senior leaders • Returns (35% weighting): To drive robust investment selection and delivery • Total revenue growth (30% weighting): To drive value creation through collaboration and market leverage • The delivery of any LPA in shares which must be held for a further two-years drives a long-term and sustainable focus aligned to the interests of shareholders	Vesting of the LPA award will be determined by performance against a scorecard of three-year performance measures, the majority of which will be financial (which will not duplicate those for the ABP). Any vested shares must be held for a further two years. Malus and clawback provisions apply to the LPA. The Committee will normally provide dividend equivalents on vested shares under the LPA. In exceptional circumstances the Committee retains the discretion to: • Change the performance measures and targets and the weighting attached to the performance measures and targets part way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate; for example adjustments for: acquisitions and disposals; restructuring costs; business structure changes; restated corporate allocations; foreign currency exchange rates; and Board-approved budget adjustments. • Make downward or upward adjustments to the amount of incentive earned resulting from the application of the performance measures, if the Committee believes that the incentive outcomes are not a fair and accurate reflection of business performance. • Scale back incentive awards at grant if there were to be a substantial Company share price fall.	Maximum = 250% of salary. Target = 125% of salary. Threshold = 50% of salary. No more than 20% of each element of the LPA may vest at threshold levels of performance.

Directors' remuneration report continued

Directors' remuneration policy continued

Element	Purpose and link to strategy	Requirement	Operation
Minimum shareholding requirements – during and after employment	To align Executive Directors' interests with those of shareholders through the build-up and retention of a personal holding in QinetiQ shares.	Executives have five years to accumulate the required shareholding. 300% of base salary for the CEO. 200% of base salary for other Executive Directors. Executive Directors will have a post-employment shareholding requirement of 100% of salary for the first year post cessation, then 50% of salary for the second year post cessation of employment.	The Committee has adopted formal shareholding requirements to encourage the Executive Directors to build up over a five-year period and then subsequently hold a shareholding equivalent to a percentage of base salary. Adherence to these guidelines is a condition of continued participation in the equity incentive arrangements. This policy ensures that the interests of Executive Directors and those of shareholders are closely aligned. Executive Directors are required to retain at least 50% of the post-tax amount of vested shares from the Company incentive plans until the minimum shareholding requirement is met and maintained. Vested awards under the LPA must be retained by the participant for two years post-vesting to further support the post-employment shareholding requirement where an Executive Director leaves the Company. The Committee retains the discretion to increase the shareholding requirements.

Notes to the policy table

Performance measures and targets

The performance measures and targets, financial and non-financial, are determined annually based on the Company's strategy. Targets are set taking into account a variety of inputs including but not limited to the strategic plan, the annual plan and brokers' forecasts. The measures and, where possible, the targets will be disclosed after the end of the relevant financial year in that year's remuneration report.

Remuneration policy for all employees

All employees of QinetiQ are eligible to base salary, benefits and pension.

The link between performance and reward cascades down from the Executive incentive plans with the Leadership and Business Development Communities typically invited to participate in the Company's formal annual incentive arrangements. All other employees may receive a discretionary bonus based on Company and individual performance. Participation in long-term incentive plans is available to Executive Directors, QinetiQ Leadership Team members, Leadership Community and selected other employees. Share ownership is further encouraged via the QinetiQ Share Incentive Plan.

The Remuneration Committee is made aware of pay, incentives and benefits by grade across the Company and the relevant costs. This is actioned by an annual report to the Committee which also includes details of any changes in remuneration policy for all employees during the year.

Recruitment policy

The Company's principle is that the remuneration of any new recruit will be assessed in line with the current Executive Directors. The Committee is mindful that it wishes to avoid paying more than it considers necessary to secure a preferred candidate with the appropriate calibre and experience needed for the role. In setting the remuneration for new recruits, the Committee will have regard to guidelines and shareholder sentiment regarding one-off or enhanced short-term or long-term incentive payments as well as giving consideration for the appropriateness of any award. The Company's detailed policy when setting remuneration for the appointment of new Directors is summarised in the table below.

Remuneration element	Recruitment policy
Salary, benefits and pension	These will be set in line with the policy for existing Executive Directors.
Incentive Plans	Maximum annual participation will be set in line with the Company's policy for existing Executive Directors and will not exceed 450% of salary in aggregate. Depending on the timing of the appointment, the performance measures and targets used for the first award may differ to those of the existing Executive Directors. If different, they will be explained in detail in the following relevant Directors' Remuneration Report.
Maximum variable remuneration	The maximum variable remuneration which may be granted is 450% of salary (excluding any buy-outs).
Relocation policies	In instances where the new Executive Director is required to relocate or spend significant time away from their normal residence, the Company may provide one-off compensation to reflect the cost of relocation for the Executive Director. The level of the relocation package will be assessed on a case-by-case basis but will take into consideration any cost of living differences/housing allowance and schooling.
Buy-out awards	Where the Committee determines that it is necessary to buy-out previous entitlements forfeited on cessation of an Executive Director's previous employment, the value of such a buy-out award will be calculated taking into account the following: • The proportion of the vesting period completed on the date of cessation of employment; • The performance conditions attached to the vesting of the entitlements and the probability of them being satisfied; and • Any other terms and conditions having a material effect on their value. The Committee may then agree to compensate for the value forfeited using, where possible, existing incentive plans. To the extent that it is not possible or practical to provide the buy-out within the terms of existing incentive plans, a bespoke arrangement would be used, using any flexibility provided under the Listing Rules.

Where an existing employee is promoted to the Board, the policy set out above would apply from the date of promotion but there would be no retrospective application of the policy in relation to subsisting incentive awards or remuneration arrangements.

Service contracts

Current Executive Directors have open-ended service contracts terminable by the Company immediately without notice upon breach by the individual or by the Company giving to the individual 12 months' written notice or, at its discretion, payment in lieu of salary, pension and benefits only during that notice. The payment in lieu of notice may be made in staged payments and may either reduce or cease completely where the departing Executive Director gains new employment. The Executive Director may terminate their contract by giving the Company 12 months' written notice. Contracts for new Executive Directors will be limited to 12 months' notice by both parties (or payment in lieu of notice in respect of the Company).

Copies of the service contracts are available for inspection at the Company's registered address.

The Group Chair and the Non-executive Directors have letters of appointment and are appointed for initial fixed terms of three years, subject to re-election at each Annual General Meeting. The Group Chair and the Non-executive Directors are not entitled to any payment in lieu of notice or any compensation for loss of office.

The dates of the service contracts, letters of appointment and unexpired term periods are set out in the Annual Report on Remuneration (page 136).

Directors' remuneration report continued

Directors' remuneration policy continued

Loss of office and change of control policy

When determining any loss of office payment for a departing Executive Director the Committee will always seek to minimise the cost to the Company while complying with the contractual terms and seeking to reflect the circumstances in place at the time. The Committee reserves the right to make additional payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation); or by way of settlement or compromise of any claim arising in connection with the termination of an Executive Director's office or employment.

The Committee has a number of discretions, including in relation to the determination of a good leaver. Any exercise of the Committee's discretions will be disclosed in full to shareholders.

Remuneration element	Approach	Application of Committee discretion
Salary, benefits (on cessation of employment)	In the event of termination by the Company, there will be no compensation for loss of office due to misconduct or normal resignation. In other circumstances, Executive Directors may be entitled to receive compensation for loss of office which will be a maximum of 12 months' salary and benefits. Such payments will be equivalent to the monthly salary and benefits that the Executive Director would have received if still in employment with the Company. These will be paid over the notice period. Executive Directors will be expected to mitigate their loss.	The Company has discretion to make a payment in lieu of notice, either as a lump sum or as a series of phased payments.
Pension (on cessation of employment)	Pension contributions or payments in lieu of pension contribution will be made during the notice period.	The Company has discretion to make a lump sum payment in lieu or a series of phased payments.

Remuneration element	Approach	Application of Committee discretion
Annual Bonus Plan (on cessation of employment)	For the year of cessation Good leavers: Performance conditions will be measured at the normal measurement date. The Company incentive payment will be pro-rated for the period worked during the financial year of cessation. Unvested deferred shares will vest in-line with the normal vesting cycle of the award. Other leavers: No Company incentive cash payment or deferred shares awarded for the year of cessation. Any unvested deferred shares awarded in prior years will lapse on cessation.	For the year of cessation Any payment will normally be made as a mix of cash and shares. However, the Committee has the discretion (e.g. in the event of death or ill-heath retirement of a participant) to pay the entire amount in cash. Deferred shares The Committee may decide to accelerate the vesting (e.g. in the event of death or ill-heath retirement of a participant) so that these vest at cessation of employment.
Annual Bonus Plan (on change of control)	For the year of the change of control performance conditions will be measured to the date of the change of control. The Company incentive payment will be pro-rated to the date of the change of control. Unvested deferred shares will vest immediately on the change of control.	The Committee has discretion to make a payment entirely in cash.

Remuneration element	Approach	Application of Committee discretion
Long-term Performance Award (on cessation of employment)	Good leavers: Performance conditions will be measured at the normal measurement date and vest on their original vesting dates and remain subject to the sale restrictions. The LPA will normally be pro-rated for the part of the three-year performance period worked. Vested LPA awards will remain subject to the holding restrictions. Other leavers: LPA awards lapse immediately on cessation and no award for the year of cessation or if serving notice at the time of the award.	The Committee may decide to accelerate the vesting of LPA awards and measure performance up to the date of cessation in circumstances where there is an appropriate business case. The Committee may also waive or shorten the holding restrictions applicable to an award on compassionate grounds (e.g. due to death or ill-health retirement).
Long-term Performance Award (on change of control)	Performance conditions will be measured at the date of the change of control and the award will normally be pro-rated to the date of the change of control.	The Committee may waive pro-rating in circumstances where it feels it is in the interests of shareholders to do so.
Other contractual obligations (on change of control)	There are no other contractual provisions other than those set out above that could impact quantum of the payment.	None.

Awards under the Deferred Share Plan, as detailed on page 152 (which includes the FY23 award), will vest on their original terms and will be treated in-line with the Policy approved by shareholders at the 2020 AGM.

'Good leaver' is a person whose cessation of employment is for one of the following reasons:

– Death; ill-health; injury or disability; redundancy; retirement; employing Company ceasing to be a Group Company; transfer of employment to a Company which is not a Group Company; and where the person is designated a good leaver at the discretion of the Committee (as described above).

A person who ceases employment in circumstances other than those set out above is designated as an 'other leaver'.

Directors' remuneration report continued

Directors' remuneration policy continued

Malus and clawback

Malus provisions apply to both the ABP and the LPA. Malus is the adjustment of ABP or LPA outturns or awards which have not vested or been paid due to the occurrence of one or more circumstances. The adjustment may result in the value being reduced to nil.

Clawback is the recovery of payments made or vested shares as a result of the occurrence of one or more circumstances. Clawback may apply to all or part of a participant's payment or share award under the ABP or LPA and may be effected, among other means, by requiring the transfer of shares, payment of cash or reduction of awards or bonuses.

The circumstances in which malus and clawback could apply are as follows:

- Discovery of a material misstatement resulting in an adjustment in the audited accounts of the Group or any Group Company;
- The assessment that any performance condition or condition in respect of a payment or award under the ABP or LPA was based on error, or inaccurate or misleading information;
- The discovery that any information used to determine the ABP or LPA award was based on error, or inaccurate or misleading information;
- Action or conduct of a participant which amounts to fraud or gross misconduct; or
- Events or the behaviour of a participant have led to the censure of a Group Company by a regulatory authority or have had a significant detrimental impact on the reputation of any Group Company provided that the Board is satisfied that the relevant participant was responsible for the censure or reputational damage and that the censure or reputational damage is attributable to the participant.

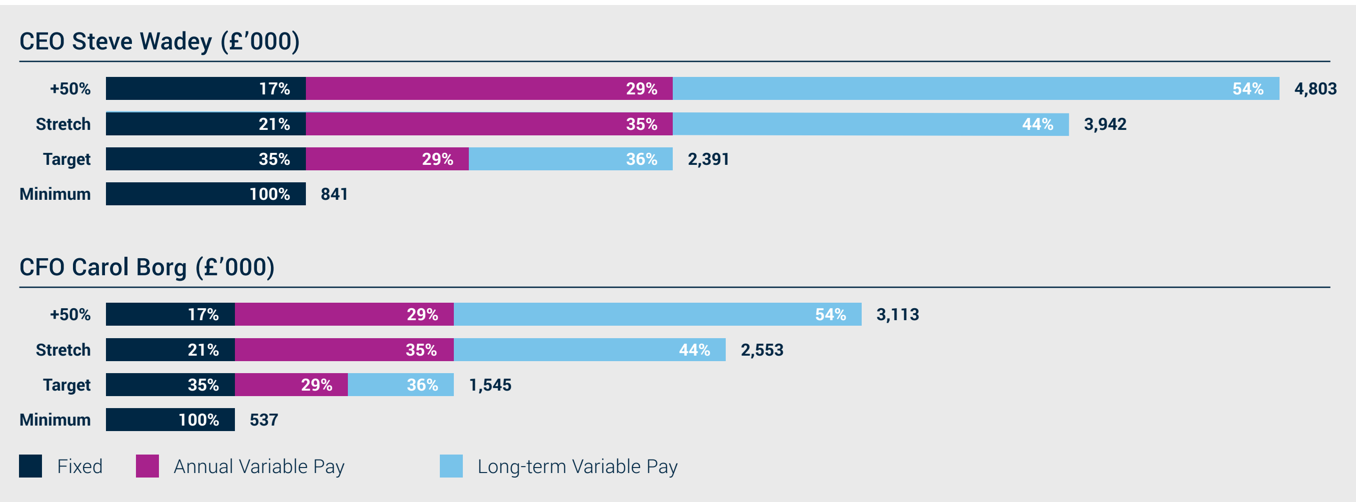
The following table sets out the periods during which malus and clawback may be effected.

	Annual Bonus Plan	Long-term Performance Award
Malus	Up to the date of a payment/ award	Any time prior to vesting
Clawback	Three years post the date of any payment/ award	Three years from the date of vesting

Pay and performance scenario analysis

The proposed Directors' Remuneration Policy is illustrated in the following charts showing what each Director could expect to receive in FY24 under different performance scenarios, based on the following definitions:

Scenario	Linked to performance
50% share price appreciation	Stretch plus 50% share price growth (on 100% of LPA)
Stretch	100% of ABP opportunity (200% of salary) 100% of LPA opportunity (250% of salary)
Target	50% of ABP opportunity (100% of salary) 50% of LPA opportunity (125% of salary)
Minimum	No variable pay



Policy for the Chairman and the Non-executive Directors

Fees for the appointment of a new Group Chair or Non-executive Directors will be aligned with the Policy for existing incumbents.

Chairman and Non-executive Directors

Element	Purpose and link to strategy	Operation and performance measures	Maximum opportunity
Fees	To attract and retain Non-executive Directors of the calibre required to assist the Company in setting and delivering its strategy.	The Executive Directors and the Group Chair are responsible for setting the remuneration of the Non-executive Directors. The Board, minus the Chair, is responsible for setting the Chair's fees. Non-executive Directors are paid an annual fee and additional fees for chairmanship of Committees and any other additional duties, and the Company retains the flexibility to pay fees for the membership of Committees. The Chair does not receive any additional fees for membership of Committees. Fees are reviewed annually based on equivalent roles in the comparator group used to review salaries paid to the Executive Directors. An additional fee is payable to those Non-executive Directors attending meetings outside of their country of residence. Non-executive Directors and the Group Chair do not participate in any variable remuneration or benefits arrangements. Fee levels may be increased on a temporary basis for a significant increase in time commitments (e.g. assuming an executive position for an interim period).	The fees for Non-executive Directors and the Group Chair are broadly set at a competitive level against the comparator group. In general the level of fee increase for the Non-executive Directors and the Group Chair will be set taking account of any change in responsibility and the general rise in salaries across employees. The Company will pay reasonable expenses incurred by the Non-executive Directors and Group Chair and may settle any tax incurred in relation to these.

Consideration of shareholder and employee views

The Chair of the Committee and the Group Chair consult with key shareholders on remuneration matters from time to time, and particularly in seeking views on the Directors' Remuneration Policy in preparation for the triennial vote at the AGM. Any concerns expressed by shareholders are reported to the Committee and these are taken into account as the Committee develops and implements its Policy. Any comments received from shareholders outside these consultation exercises are also reported to the Committee, and the Committee takes account of general views on remuneration expressed by shareholders and their representative bodies.

The Remuneration Committee is grateful for shareholders' comments and engagement during the Directors' Remuneration Policy consultation process. At the end of this process, the Remuneration Committee was pleased that the majority of the shareholders consulted expressed support for the new Policy.

The Committee has not formally consulted with employees in developing this Policy. However, our Global Employee Voice (GEV) is deeply engaged across the Company to provide an employee voice at the table on all relevant issues, including remuneration (regular interactions are held with the Group Chair, Remuneration Committee Chair, CEO and the Chief People Officer). The Company takes the views of employees very seriously and we monitor this through a quarterly survey using a market-leading dynamic tool (Peakon).

The Committee is cognisant of employment conditions when determining Executive Director pay. In particular, the annual salary increase available to the rest of the workforce is an important factor in determining any salary increase for the Executive Directors. The Committee reviews the CEO pay ratio and considers it in the broader context of pay trends within the business.

Directors' remuneration report continued

Annual Report on remuneration

The following section of this report details how the Directors' Remuneration Policy has been implemented for the year ended 31 March 2023.

Audited information

Executive Directors' single total figure of remuneration:

Executive Director	Year	Salary £'000	Benefits £'000	Pension £'000	Total fixed pay £'000	Bonus Banking Plan £'000	Deferred Share Plan £'000	Other £'000	Total variable pay £'000	Total remuneration £'000
Steve Wadey (CEO)	2023	664	79	115	858	1,304	–	–	1,304	2,162
	2022	639	65	128	832	912	733	–	1,645	2,477
Carol Borg (CFO)	2023	431	82	45	558	835	–	–	835	1,393
(Appointed 11 October 2021)	2022	199	20	21	240	274	–	100	374	614

Benefits can include travel and subsistence expenses incurred in relation to the execution of their duties with the Company that are considered by HMRC to be taxable.
The 'Other' payment to the CFO in FY22 is a payment in part compensation for performance-based annual bonus lost on resigning from her former employer as detailed in the FY22 DRR.

Salary
Salaries are reviewed effective 1 July, which is the same timing as for the rest of the UK employee population.

	Salary as at 1 April 2022 £'000	Increase in the year	Salary as at 1 July 2022 £'000	FY23 salary actually paid £'000
CEO	647	3.6%	670	664
CFO	420	3.6%	435	431

Benefits
Benefits comprise a car allowance, travel allowance, private medical expenses insurance, life assurance, income protection, and taxable expenses.

	Taxable expenses £'000	Travel & car allowance £'000	Insurance benefit £'000	Total benefits £'000
CEO	39	19	21	79
CFO	14	62	6	82

Pensions
The Executive Directors did not participate in the QinetiQ pension scheme for FY23. The pension figure is cash in lieu of pension equating to 20% of base salary for the CEO until 31 December 2022 (not compliant with Provision 38 of the Code), when it was reduced to 10.5%, and 10.5% of base salary for the CFO from appointment.

	Cash in lieu of pension £'000	Total in lieu of pension £'000
CEO	115	115
CFO	45	45

Bonus Banking Plan
The Bonus Banking Plan operates on a three-year performance cycle mirroring the financial year, with a four-year payment cycle, i.e. running from 1 April to 31 March. FY23 represents the third year of Cycle 3 as detailed on page 149.

Each year any incentive award earned is added to the total plan balance, with 50% of the total plan balance being paid in cash in June after the FY. The remaining 50% is held in the plan in notional shares. In year four, the total remaining plan balance is paid in shares.

	BBP Cycle 3 balance brought forward £'000	Dividend equivalent payment £'000	BBP award in year £'000	June 2023 payment in cash (50% value) £'000	BBP cycle 3 balance carried forward £'000
CEO	739	18	1,304	1,065	1,065
CFO	137	3	835	494	494

Deferred Share Plan
No contingent shares were awarded under the DSP in FY20 as the performance test was not achieved, so there is no DSP award available to vest in FY23.

	FY20 Shares Awarded	Vesting %	Shares Vesting	Estimated value £'000
CEO	0	–	0	0

Bonus Banking Plan

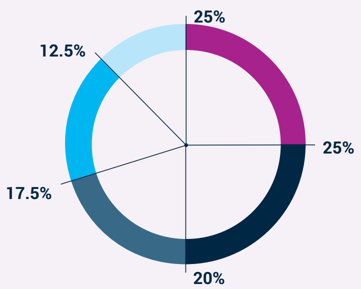
FY23 performance measures and operation

For the year ended 31 March 2023 achievement of on-target performance provides a payment equal to 100% of base salary, rising on a linear scale to 200% of base salary for achievement of stretch performance.

The scheme begins to pay out once threshold performance measures have been achieved. For the year ended 31 March 2023, the CEO and CFO were measured against the targets as shown in the chart to the right. The target payment was 50% of maximum for financial and non-financial objectives.

When setting performance targets the Remuneration Committee takes into account the budget and the Company's strategy set in relation to the ISBP, shareholder expectations and the external environment. The aim is to set stretching targets which incentivise the Executive Directors to deliver annual results which will exceed the expectations of investors, but which are also sustainable and do not create undue profit risk. Financial performance measures exclude the contribution from businesses acquired in the year.

% of base salary



- Orders
- Underlying operating profit
- Underlying net cash flow from operations
- Common goals
- Personal goals

Audited information

FY23 performance outcomes

		Threshold	Target	Stretch	Actual	% of maximum reward achieved	CEO contribution	CFO contribution
CEO/CFO financial performance measures:								
Orders[1]	25%	£1,130.6m	£1,230.6m	£1,330.6m	£1,701.0m	100.0%	£332,108	£215,630
Underlying operating profit[1, 2]	25%	£148.0m	£158.0m	£168.0m	£169.5m	100.0%	£332,108	£215,630
Underlying net cash flow from operations[1, 2]	20%	£153.0m	£173.0m	£193.0m	£270.2m	100.0%	£265,686	£172,504
CEO/CFO common goals (as detailed on page 148):								
• Performance against key stretching objectives	17.5%	40%	50%	100%	92.4%	92.4%	£159,412	£139,495
CEO personal goals								
• Performance against stretching objectives	12.5%	40%	50%	100%	96.0%	96.0%	£214,847	
CFO personal goals								
• Performance against stretching goals relating to growth and leadership	12.5%	40%	50%	100%	85.0%	85.0%		£91,643
CEO overall result						98.2%	£1,304,161	
CFO overall result						96.8%		£834,902

1 Performance measures have been adjusted for the disposal of Space NV in FY23 and an unbudgeted VAT payment. The impact of the Space NV disposal to the original baseline targets was orders -19.4m, profit -£2.0m and cash -£13.0m. The VAT payment was a cash -£14.0m adjustment.

2 Definition of underlying measures and performance can be found in the glossary on page 178.

Directors' remuneration report continued

Annual Report on remuneration continued

Common goals (17.5% weighting)

Measures	FY23 Performance	Outcome (% maximum)
Net Zero	Undertake environmental engagements with demonstrable progress on Net Zero roadmap	
Engagement	Achieve Group Peakon (third-party employee engagement survey) improvement target	
Inclusion	Undertake interventions to address organisational biases and drive D&I culture	
Safety	Drive safety performance-based on lagging and leading metrics	
Security	Evidence demonstrable progress	
Total		92.4%

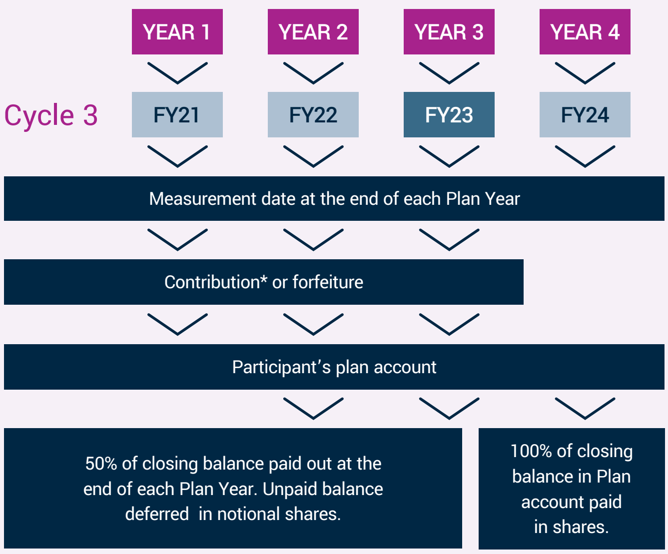
Personal goals (12.5% weighting)

Measures	FY23 Performance	Outcome (% maximum)
CEO	Embed safety, security and Three Lines assurance model Enable growth through customer focus and investment in new capabilities Develop organisational capability and culture consistent with five-year ambition Enable Company performance to demonstrate return to growth in FY23	
Total		96.0%
CFO	Complete Company restructuring and benefits realisation, inc. overhead recovery model Deliver year 1 of ESG plan Establish an effective Finance & Governance Function aligned to new operating model Refinance (debt/equity) in support of M&A ambition	
Total		85.0%

How the plan operates

- The Plan operates on a fixed three-year performance cycle with a four-year vesting cycle. FY23 represents year three of Cycle 3. Plan years commence on 1 April.
- Performance targets are set at the beginning of each Plan year.
- At the end of each of the first three Plan years the performance against targets is assessed and the level of the incentive earned is determined and paid into the Plan account.
- Each year 50% of the account balance is subject to forfeiture based on the achievement of a profit underpin target.
- At the end of each of the first three Plan years, 50% of the account balance will be paid in cash and the balance retained and held in the Plan as notional shares.
- At the end of the fourth year, any remaining balance in the Plan account is paid out in shares and a cash dividend equivalent is paid.

BBP payout mechanism



* Single figure BBP value for a Plan/financial year.

Audited information

Operation during FY23

Cycle 3

	Notional shares on account at start of Plan Year 3 (1 April 2022)	30-day average share price to 31 March 2023 (p)	Share value as at measurement date (£)	Bonus plan contribution for Plan Year 3 (£)	Dividend equivalent payment (£)	Bonus pool total value as at measurement date (£)	Gross payment in cash for Plan Year 3 (£)	Bonus pool total value after cash payment (£)	Notional shares on account at end of Plan Year 3 (31 March 2023)
CEO	244,692	330.2	807,973	1,304,161	18,107	2,130,241	1,065,120	1,065,121	322,568
CFO	45,450	330.2	150,076	834,902	3,363	988,342	494,170	494,171	149,658

Forfeiture

For BBP Cycle 3 the CEO and CFO retained notional shares in their Plan accounts of which 50% were subject to forfeiture. Forfeiture would have been enacted if Group underlying operating profit was less than the level determined by the Remuneration Committee at the start of the year of £130.0m for FY23. FY23 Group underlying operating profit was £169.5m (excluding contribution from acquisitions) therefore no notional shares were forfeited.

Discretion

For BBP Cycle 3, for the year ended 31 March 2023, targets were largely achieved providing a contribution of 98.2% of the maximum award for the CEO and 96.8% for the CFO. CEO £1,304,161 and CFO £834,902 has been reported in the single figure table which represents the contributions to the Plan related to FY23 performance. No discretion was applied to these contributions as the Committee considers them appropriate reflecting Group performance. In reviewing the BBP out-turn the Remuneration Committee was mindful of the wider stakeholder experience across the financial year.

Termination of the BBP

Subject to shareholder approval of the new Directors' Remuneration Policy at the 2023 AGM, the BBP will be terminated and no investment will be made in FY24. For FY24 the BBP is in Cycle 3 Year 4 when no investment would normally be made. The notional shares on account as at the end of Plan Year 3 (as identified above) will be revalued using the share price over the 30-day period to 31 March 2024 and then delivered to the CEO and CFO as actual shares with a dividend equivalent payment.

Directors' remuneration report continued

Annual Report on remuneration continued

Deferred Share Plan (DSP)

Scheme interests awarded during the financial year ended 31 March 2023

The Deferred Share Plan was first approved by shareholders at the 2017 AGM and further approved as a key element of the Directors' Remuneration Policy at the 2020 AGM. A maximum award of 125% of salary may be made to Executive Directors with the amount contingent on meeting a stretching annual performance target based on QinetiQ's strategic growth plan. Once the award has been made, it is deferred for three years and remains subject to a performance underpin; any vested shares are then subject to a further two-year holding period. FY22 DSP contingent shares granted in the year are detailed on page 152. The FY22 award was 60.2% of the maximum available.

Termination of the DSP

Subject to shareholder approval of the new Directors' Remuneration Policy at the 2023 AGM, the DSP will be terminated and no award will be made in relation to FY24 performance. Subsisting DSP awards as identified on page 152 will continue to be available to vest on the basis of the relevant performance underpin.

Audited information

FY23 performance outcome

The FY23 Deferred Share Plan award was measured against Group organic revenue with the following calibration which was adjusted for the disposal of Space NV.

Measure	Weighting	Threshold	Target	Stretch	Actual	% Max award achieved	% Salary awarded	Total £'000
Group Revenue[1]								
CEO	100%	£1,248.6m	£1,348.6m	£1,448.6m	£1,489.6m	100.0%	125.0%	£830,269
CFO								£539,075

1 The performance measure has been adjusted for the disposal of Space NV in FY23, with an impact to the original baseline targets of -£26.4m.

The FY23 DSP award was also subject to a pre-grant performance underpin that FY23 profit margins are higher than 10%, which was achieved. Group revenue achieved at £1,489.6m was above the Stretch level of performance resulting in a FY23 DSP contingent award of shares at 125% of the maximum available.

The FY23 DSP award will be subject to a further performance underpin before vesting:

- Group underlying profit out-turn for FY23 must be maintained at the end of the three-year vesting period. If this is not maintained then, at a minimum, 50% of the award will lapse. For the purposes of the FY23 DSP award, this will be the actual underlying operating profit of £169.5m for FY23 which must be achieved in FY26.

The FY23 DSP award which vests based on the achievement of the FY26 performance underpin must be held as shares for a further two years.

No FY20 DSP award of contingent shares was made as the pre-grant performance tests were not achieved and, therefore, there was no DSP award available to vest based on FY23 performance and no amount has been reported in the single figure table.

Audited information

Statement of Directors' shareholding and share interests

In relation to the shareholding requirement adopted on 1 April 2017 the Company requires Executive Directors to hold shares equivalent to 300% (CEO) and 200% (CFO) of base salary. Executive Directors have five years from the adoption of the guideline to achieve the required level through, at a minimum, retaining 50% of the after-tax shares vesting from Company incentive plans.

The CEO has achieved his shareholding requirement and currently holds actual shares equivalent to 485% of base salary using a share price of 339.6p (three-month average to 31 March 2023).

The CFO was appointed during 2021 and does not currently meet the minimum shareholding requirement, with a current holding of actual shares equivalent to 151% of base salary.

The Remuneration Committee continues to monitor progress towards the shareholding requirement.

	Shares beneficially owned	Shares subject to performance conditions	Shares not subject to performance conditions	Total shares held at 31 Mar 2023
Steve Wadey	955,909	391,944	564	1,348,417
Carol Borg	–	49,299	193,199	242,498
Michael Harper	45,000	–	–	45,000
Susan Searle	48,300	–	–	48,300
Neil Johnson	100,000	–	–	100,000
Shonaid Jemmett-Page	7,000	–	–	7,000
Lynn Brubaker (Resigned 31 December 2022)	25,000	–	–	25,000
Steve Mogford (Appointed 01 August 2022)	–	–	–	–
General Sir Gordon Messenger	–	–	–	–
Lawrence Prior III	–	–	–	–

Shares beneficially owned comprise shares purchased under the Share Incentive Plan (SIP) and shares owned by the Director and any connected persons. SIP matching shares are identified as shares not subject to performance conditions.

On 11 April 2023 Steve Wadey purchased 57 shares, then on 9 May 2023 he purchased 55 shares, through his participation in the SIP. There have been no other changes to the shares shown above between 31 March 2023 and 25 May 2023.

Shares subject to performance conditions comprise awards made under the Deferred Share Plan which remain contingent subject to the performance underpin as detailed on page 152. The Compensation Share Plan award to Carol Borg (193,199 shares above awarded on 5 January 2022) is only subject to continued employment.

Notional shares held by the CEO and CFO in the BBP Cycle 3 do not appear in the table above as they are not actual shares at 24 May 2023. However, in reviewing compliance with the shareholding requirement, the net of tax value of notional shares (i.e. 51.75% in the UK) of the 50% of the BBP balance which is not subject to forfeiture is included within the calculation.

Directors' remuneration report continued

Annual Report on remuneration continued

Audited information

Total scheme interests summary

Total scheme interests, including those awarded during the financial year ended 31 March 2023, are as follows.

Plan name	Date of grant	Number 1 April 2022	Granted in year (maximum potential of awards)	Vested in year	Lapsed in year	Number 31 March 2023	Share price on date of grant	Vest date
Steve Wadey								
DSP 2019	28 Jun 19	243,650	–	243,650	–	–	304.0	28 Jun 22
DSP 2021	25 Jun 21	232,746	–	–	–	232,746	321.9	25 Jun 24
DSP 2022[1]	14 Jun 22	–	159,198	–	–	159,198	302.1	14 Jun 25
		476,396	159,198	243,650	–	391,944		
David Smith (former CFO)								
DSP 2019	28 Jun 19	169,118	–	169,118	–	–	304.0	28Jun 22
DSP 2021	25 Jun 21	73,443	–	–	–	73,443	321.9	25 Jun 24
DSP 2022	14 Jun 22	–	19,761	–	–	19,761	302.1	14 Jun 25
		242,561	19,761	169,118	–	93,204		
Carol Borg								
Compensation Share Plan	5 Jan 22	193,199	–	–	–	193,199	258.8	5 Jan 25
DSP 2022[1]	14 Jun 22	–	49,299	–	–	49,299	302.1	14 Jun 25
		193,199	49,299	–	–	242,498		

1. The FY22 DSP contingent share award granted on 14 June 2022 at a share price of 302.1p (30-day average to 31 March 2022) is calculated on awards of 60.2% of the maximum (75.3% of salary) with a face value of £480,939 and £148,933 for the CEO and CFO respectively, the award to the CFO being a pro-rata calculation to reflect the portion of FY22 served. If the FY22 Group underlying organic profit (£137.4m) is not achieved in FY25, a minimum of 50% of the award will lapse.

The contingent share award for the FY23 DSP will be granted in June 2023. The Committee estimates that 251,444 contingent shares will be awarded to Steve Wadey and 163,256 to Carol Borg. This is calculated based on awards of 125% of salary and a share price of 330.2p (30-day average to 31 March 2023).

As detailed in the FY22 Report, as part of the package approved by the Remuneration Committee for Carol Borg at recruitment, it was agreed that she would receive a share award in part compensation for share awards which were forfeited on resigning from her former employer. On 5 January 2022 Carol was granted an award over 193,199 shares which will vest in three years. The QinetiQ share price used was the average closing price over the 30 days prior to the award with a value at grant of £500,000.

There have been no other changes to the interests shown above between 31 March 2023 and 25 May 2023.

Payments to past Directors and payment for loss of office

No payments were made to past Directors during the year and no payments were made for loss of office during the year.

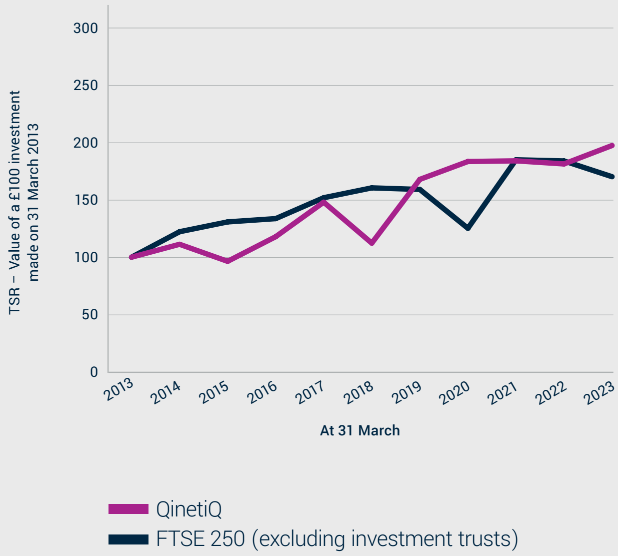
CFO succession

David Smith retired from the role of CFO effective 30 November 2021. The Remuneration Committee determined that Good Leaver status be provided to David as regards BBP and DSP participation as detailed in the FY22 Report. David is required to maintain a shareholding in line with the Directors' Remuneration Policy.

Performance review

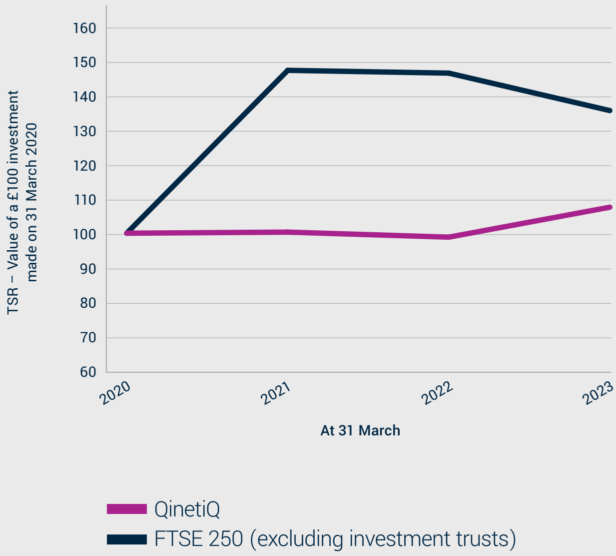
The ten-year and three-year charts show the Company's Total Shareholder Return over the period from 31 March 2013 to 31 March 2023 and 31 March 2019 to 31 March 2023 compared with the FTSE 250 (excluding investment trusts) over the same period based on spot values. The Committee has chosen to demonstrate the Company's performance against this index as it is the index in which the Company is listed.

Ten-year comparator chart



Source: Datastream (Thomson Reuters)

Three-year comparator chart[1]



Source: Datastream (Thomson Reuters)

1 This period is from the beginning of COVID-19 which had a more distorting effect at its outset on the TSR of FTSE 250 companies than on QinetiQ.

CEO remuneration

The table below shows the CEO's remuneration over the same performance period as the Total Shareholder Return chart (31 March 2013 to 31 March 2023):

Year ended 31 March	CEO	Salary/fees	Single figure	Annual bonus (% of maximum)	Long-term incentives (% of maximum vesting)
2023	Steve Wadey	689,125	2,161,990	98.2%	–
2022	Steve Wadey	639,121	2,477,069	71.4%	100.0%
2021	Steve Wadey	511,550	2,695,414	95.7%	100.0%
2020	Steve Wadey	610,357	1,978,247	87.5%	38.4%
2019	Steve Wadey	596,422	2,339,474	94.4%	31.7%
2018	Steve Wadey	582,167	1,522,460	66.7%	–
2017 (restated)	Steve Wadey	568,166	1,829,470	86.4%	–
2016	Steve Wadey	520,219	1,654,546	85.4%	–
2016	David Mellors	455,885	1,423,382	82.9%	–
2015	David Mellors	501,227	1,725,960	88.6%	13.9%
2015	Leo Quinn	469,776	673,979	–	–
2014	Leo Quinn	610,844	2,177,742	77.0%	15.4%

Directors' remuneration report continued

Annual Report on remuneration continued

CEO pay ratio

The calculation below is based on the FY23 single figure for the CEO of £2,161,990 and similar calculations for the UK workforce (i.e. 'Option A' as defined by the Companies (Miscellaneous Reporting) Regulations 2018). The Remuneration Committee chose Option A as it is the approach generally favoured by investors and GC100. The calculations for the UK workforce were performed as at 31 March 2023.

Total remuneration
Ratio of the CEO's pay to UK employees

Year	25th percentile	Median	75th percentile
FY23	53 : 1	40 : 1	31 : 1
FY22	67 : 1	49 : 1	37 : 1
FY21	70 : 1	52 : 1	39 : 1
FY20	56 : 1	41 : 1	31 : 1

The CEO pay ratios have reduced between FY22 and FY23. The primary reason for this is the lower CEO single figure for FY23 due to no DSP award vesting in the year. The Company believes that the median pay ratio for FY23 is consistent with the pay, reward and progression policies for the UK employees as the approach for all QinetiQ employees is monitored and reported to the Remuneration Committee on an annual basis.

Year-on-year movements in the CEO pay ratio are likely to be volatile due to the wide range of incentive outcomes for the CEO single figure, but the Remuneration Committee does note the ratio and will monitor long-term trends.

Total pay of UK employees

£	25th percentile	Median	75th percentile
Total pay and benefits	£40,608	£54,216	£70,569
Salary component[1]	£37,169	£35,660	£57,385

1 The base salary data is impacted by the fact that the employee identified at the Median on a total pay basis had a significant overtime payment.

The Remuneration Committee welcomes the opportunity to provide this information to shareholders. The Company aims to reward all employees fairly for the success and growth they create, hence the inception of the All Employee Incentive Scheme in FY19 which paid at the stretch level of £1,250 to all eligible employees for the level of profit performance delivered in FY23.

Remuneration policy for all employees

All employees of QinetiQ are entitled to base salary, benefits and pension. UK and Australia-based employees are entitled to participate in the QinetiQ Share Incentive Plan. The maximum incentive opportunity available is based on the seniority and responsibility of the role. Participation in the DSP is available to Executive Directors, senior leaders and selected employees throughout the organisation.

In FY19 the Company introduced an All Employee Incentive Scheme (AEIS) whereby every eligible employee has the opportunity to earn a cash bonus based on Company and personal performance. For FY23 the Company element of the AEIS was paid at a stretch level of £1,250 as the profit target was exceeded. The AEIS will be operated again in FY24 and thereafter.

The Committee reviews (but does not decide) the general reward policy for all employees and any significant changes proposed. Alignment with the workforce is delivered through the Rewarding for Performance framework, including a transparent and consistent approach to the annual salary review, the AEIS to drive Company and personal performance, recognition schemes and market competitive benefits in our countries. For FY23 the Company has agreed significant investment in the employee offering across the Group.

Audited information

Single figure total remuneration for the Chairman and each Non-executive Director

Non-executive Directors' remuneration is shown as a single figure to provide an annual comparison between the remuneration awarded during the financial year ended 31 March 2023 and the preceding year.

	Salary/fees £'000		Benefits £'000		Committee Chair fees £'000		US/UK attendance fee £'000		Single figure £'000	
Non-executive Director	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Lynn Brubaker (Resigned 31 December 2022)	41	54	6	5	–	–	13	6	60	65
Michael Harper	55	54	1	1	10	10	3	–	69	65
Shonaid Jemmett-Page	55	54	1	1	12	12	3	–	71	67
Neil Johnson	259	250	4	3	–	–	3	–	266	253
Ian Mason (Resigned 26 April 2021)	–	4	–	–	–	–	–	–	–	4
General Sir Gordon Messenger	55	54	1	–	12	14	3	–	71	69
Steve Mogford (Appointed 01 August 2022)	37	–	1	–	–	–	3	–	41	–
Lawrence Prior III (Appointed 2 August 2021)	55	36	3	2	10	7	13	3	81	48
Susan Searle	55	54	1	1	12	12	3	–	71	67

Benefits include travel and subsistence expenses incurred in relation to the execution of their duties with the Company that are considered by HMRC to be taxable.

The Committee Chair fee paid to General Sir Gordon Messenger in FY22 includes a true-up of £2,000 of unpaid Committee Chair fees for FY21 due to an administrative error by the Company. Lynn Brubaker (resigned 31 December 2022) and Larry Prior are US residents and are entitled to receive a $4,000 fee for attending UK meetings. UK-based Non-executive Directors are entitled to receive a £2,500 fee for attending US meetings. The Committee Chair fees figure for Michael Harper is a payment of £10,000 as Senior Independent Director, and that for Larry Prior is a payment of £10,000 as the senior US Non-executive director.

Percentage change in Directors' remuneration

The following table compares the percentage change in the Director's salary/fees, bonus and benefits to the average percentage change in salary, bonus and benefits for a comparison group (4,000 employees) in the UK business in service between 1 April 2022 and 31 March 2023. The analysis only includes Directors who served for the whole of FY23 and FY22 and is impacted by the temporary salary/fee sacrifice in FY21.

	% change between FY23 and FY22			% change between FY22 and FY21			% change between FY21 and FY20		
	Salary/fees	Benefits	Annual bonus	Salary/fees	Benefits	Annual bonus	Salary/fees	Benefits	Annual bonus
Steve Wadey	3.9%	21.5%	43.0%	24.9%	-4.3%	-22.7%	-16.2%	35.9%	10.3%
Carol Borg	–	–	–	–	–	–	–	–	–
Neil Johnson	3.6%	33.3%	–	14.3%	100%	–	17.1%	-100%	–
Michael Harper	1.6%	0%	–	18.4%	100%	–	-15.9%	–	–
Susan Searle	1.5%	0%	–	21.2%	100%	–	-6.8%	-100%	–
General Sir Gordon Messenger	–	–	–	–	–	–	–	–	–
Lawrence Prior III	–	–	–	–	–	–	–	–	–
Shonaid Jemmett-Page	1.5%	0%	–	–	–	–	–	–	–
Steve Mogford	–	–	–	–	–	–	–	–	–
Average UK employee	4.4%	5.7%	96.2%	2.9%	10.9%	-38.2%	1.2%	-1.2%	62.2%

1 UK employees were chosen in order to avoid the impact of exchange rate movements over the year. QinetiQ Group plc has no employees so QinetiQ Group Ltd employees were used.

The reduction in salary and fees which the Board implemented as a waiver for six months in FY21 impacted the analysis above, as did the reduced travel and physical meeting attendance. The benefits paid to Non-executive Directors are largely travel and subsistence expenses incurred in relation to the execution of their duties with the Company that are considered by HMRC to be taxable.

Directors' remuneration report continued

Annual Report on remuneration continued

Relative importance of spend on pay

The graph below shows actual spend on all employee remuneration, shareholder dividends and buy-backs and any other significant use of profit and cash within the previous two financial years.

Total employee remuneration

Share-based profit distribution

Dividend cash payment plus purchase of own shares (see CFO Review page 42).

Other significant profit distribution

There were no other significant profit distributions in 2022 or 2023.

Gender related pay

QinetiQ is subject to gender pay reporting for UK employees and a copy of our latest report is available on the Company's website.

Service contracts/letters of appointment

The Company's policy is that Executive Directors have rolling contracts which are terminable by either party giving 12 months' notice. The Group Chairman and the Non-executive Directors do not have service contracts but are appointed under letters of appointment. All service contracts and letters of appointment are available for viewing at the Company's registered office and at the AGM.

Non-executive Directors typically serve two three-year terms but may be invited by the Board to serve for an additional period (see table in the Nominations Committee report on page 112).

Director	Date appointed	Arrangement	Notice period
Michael Harper	22 November 2011	Initial term of three years from date of appointment, subject to annual reappointment at the AGM.	–
Shonaid Jemmett-Page	19 May 2020	Initial term of three years from date of appointment, subject to annual reappointment at the AGM.	–
Neil Johnson	02 April 2019	Initial term of three years from date of appointment, subject to annual reappointment at the AGM.	–
General Sir Gordon Messenger	12 October 2020	Initial term of three years from date of appointment, subject to annual reappointment at the AGM.	–
Lawrence Prior III	02 August 2021	Initial term of three years from date of appointment, subject to annual reappointment at the AGM.	–
Steve Mogford	01 August 2022	Initial term of three years from date of appointment, subject to annual reappointment at the AGM.	–
Susan Searle	14 March 2014	Initial term of three years from date of appointment, subject to annual reappointment at the AGM.	–
Carol Borg	11 October 2021	Service contract	12 months
Steve Wadey	27 April 2015	Service contract	12 months

Implementation of Policy for the year ended 31 March 2023

Fees

Non-executive Directors' fees were last reviewed effective 1 July 2021 and are as follows:

- Basic fee £55,000
- Committee Chair fee £12,000
- Senior Independent Director fee £10,000

The Non-executive Group Chair receives a fee of £262,500 per annum which was increased by 5.0% effective 1 July 2022, the first adjustment since appointment. Fees are reviewed in line with Policy.

Executive Directors are permitted to accept one external Non-executive Director position with the Board's approval. Any fees received in respect of these appointments may be retained by the Executive Director. The CEO and CFO do not hold any Non-executive Directorships in other companies.

	Fees effective 1 July 2022 £
Group Chairman	262,500
Basic fee for UK Non-executive Director	55,000
Additional fee for chairing a Committee	12,000
Additional fee to Deputy Chair/Senior Independent Non-executive Director	10,000
Additional fee for attendance at a Board meeting held in US by UK resident Non-executive Director	2,500
Additional fee for attendance at a Board meeting held in UK by US resident Non-executive Director	$4,000

Implementation of Policy for the year ending 31 March 2024

At the 16 May 2023 meeting of the Remuneration Committee, base salary increases of 3.8% (to £695,500p.a.) and 3.9% (to £452,000p.a.) were approved for the CEO and CFO respectively, effective 1 July 2023. Both salary reviews are aligned with the Rewarding for Performance guidance used for all UK employees which included a 4.0% budget for the July 2023 salary review plus 0.5% for in-year salary progression.

Incentives for Executives

The table below shows the measures and relative weighting for the Annual Bonus Plan (subject to July 2023 AGM approval) for the CEO and CFO:

	Performance measure (excluding FY23 acquisitions)	Relative weighting(%)
Annual Bonus Plan	Orders	20.0%
Target performance 100% of base salary	Underlying operating profit	30.0%
Stretch performance 200% of base salary	Underlying net cash flow from operations	20.0%
	Common, ESG and Personal Goals	30.0%

For FY24 the Remuneration Committee agreed to adjust the annual incentive weightings by reducing the orders metric to 20% (previously 25%) and increasing the profit metric to 30% (previously 25%) to support the drive for profitable growth. The increased focus on ESG goals as part of the non-financial metrics continues for FY24 with a 30% weighting.

For FY24, the Remuneration Committee set the target level of performance at 50% of stretch for the financial measures, common and personal goals. Details of specific performance targets for the Annual Bonus Plan have not been provided as they are deemed commercially sensitive. The targets will be disclosed retrospectively in next year's Annual Report on Remuneration.

For FY24 the Committee has set performance measures and targets for the Long-term Performance Award with a clear link to Company strategy and incentivising growth:

- Earnings: organic underlying operating profit on a three year cumulative basis (35% weighting)
  - Designed to deliver consistent operational performance over the longer term
  - Understood, relevant and actionable for QinetiQ senior leaders
- Returns: ROCE (35% weighting)
  - Average EBITA for the three year period divided by average capital employed
  - Designed to drive robust investment selection and delivery
- Value creation through collaboration: total revenue growth (30% weighting)
  - Designed to drive value creation through collaboration and market leverage

For the FY24 LPA the Committee agreed the following targets aligned with our growth ambition (20% of each element vests at Threshold) -

Cumulative earnings targets are deemed commercially sensitive at this time but are consistent with our growth ambition at 11-12% margin.

ROCE	Threshold 15.0%	Stretch 20.0%.
FY26 Total revenue	Threshold £1.9bn	Stretch £2.7bn

Directors' remuneration report continued

Annual Report on remuneration continued

Remuneration Committee meetings, activities and decisions FY23

The following table provides a summary of all the key activities during the year. The attendance at each meeting is detailed on page 103. The membership of the Remuneration Committee in FY23 was Susan Searle (Chair), Michael Harper, Neil Johnson, Lynn Brubaker (resigned 31 December 2022), General Sir Gordon Messenger, Shonaid Jemmett-Page, Lawrence Prior III and Steve Mogford (joined 01 August 2022).

Base salary	Incentives	Share awards	Governance	Salaries and resourcing
May 2022	Review of FY22 Company performance and final results for BBP and DSP	Approval of FY19 DSP Performance underpin and vesting FY22 DSP awards	2023 Directors' Remuneration Policy Approve FY22 Directors' Remuneration Report.	QLT base salary reviews
July 2022			AGM preparation 2023 Directors' Remuneration Policy	
November 2022	FY23 half-year forecast		Review of QLT shareholdings Review of Company reward practices 2023 Directors' Remuneration Policy Review of all-employee remuneration to ensure, inter alia, alignment of incentives and reward with culture	
March 2023	FY23 provisional results FY24 target setting		2023 Directors' Remuneration Policy	

Remuneration Committee effectiveness review

A performance evaluation of the Committee is conducted annually. This process is described further on page 117.

Remuneration consultants

In FY23 the Committee appointed Mercer to replace FIT Remuneration Consultants LLP as independent adviser to the Committee to provide advice on market practice, corporate governance and investors' views. Mercer were selected by the Committee after providing ad-hoc advice in support of the design of the new Directors' Remuneration Policy and based on members' prior experience of working with them.

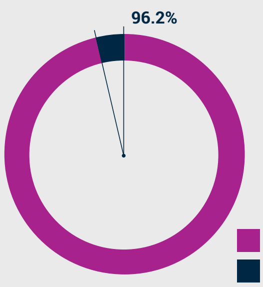
Fees paid during the year for services provided were £57,826 and £48,375 to FIT and Mercer respectively calculated on a time-spent basis at pre-agreed rates. FIT did not provide additional services to the Company during the year. Mercer provides the Company with consulting advice on UK pensions and pay and conditions for employees in the US. The Committee will review the nature of the advice received from Mercer on an annual basis in order to satisfy itself that the advice it receives is independent and objective.

Statement of voting

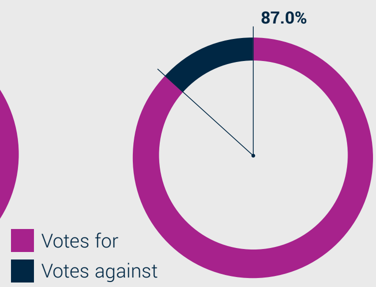
Annual Report on Remuneration – 2022	
Votes for	471,556,509 (96.2%)
Votes against	18,752,069 (3.8%)
Total votes cast	490,308,578 (84.7% of share capital)
Abstained	47,844

Directors' Remuneration Policy – 2020	
Votes for	393,525,108 (87.0%)
Votes against	59,006,721 (13.0%)
Total votes cast	452,531,829 (79.7% of share capital)
Abstained	19,408,696

Directors' Remuneration Report 2022 % of votes (%)



Directors' Remuneration Policy 2020 % of votes (%)



Details on the voting on all resolutions at the 2023 AGM will be announced via the RNS and posted on the QinetiQ website after the AGM.

Susan Searle
Remuneration Committee Chair
25 May 2023

Directors' report

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

Statutory information contained elsewhere in the Annual Report

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

Information	Page
Corporate governance statement	92
Directors' details	96
Directors' conflicts of interest	111
Directors' interests in shares	151
Dividends	46
Employees	66 - 72
Financial instruments: Information on the Group's financial risk management objectives and policies, and its exposure to credit risk, liquidity risk, interest rate risk and foreign currency risk	176
Greenhouse gas emissions	54 - 55
Likely future developments in the business of the Company or its subsidiaries	1 - 89
Results	42 - 47

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

Stakeholder engagement statement	105
Statement in the Directors' Report summarising how Directors have engaged with employees and taken account of their interests	160
Statement in the Directors' Report about the corporate governance arrangements applied by the Company	92 - 94
Publication of the ratio of the CEO's remuneration to the median, 25th and 75th quartile pay remuneration of their UK employees in the Directors' Remuneration report	154
Illustration of the effect of future share price increases on executive pay outcomes in the Directors' Remuneration report	133

Management report

The Strategic report on **pages 1 to 89** and the Directors' report, as detailed on **pages 159 to 162**, including information which has been incorporated into those sections by reference, comprise the management report specified by rules 4.1.5R (2) and 4.1.8R of the FCA's Disclosure Guidance and Transparency Rules (DTRs).

Research and development

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

In the financial year, the Group recorded £328.0m (FY22: £302.1m) of total R&D-related expenditure, of which £313.8m (FY22: £287.5m) was customer-funded work and £14.6m (FY22: £14.6m) was internally funded. Additionally, £2.7m (FY22: £3.4m) of late-stage development costs were capitalised and £3.5m (FY22: £2.1m) of capitalised development costs were amortised in the year.

Political donations

QinetiQ does not make political donations to parties as that term would be commonly recognised. These may include legitimate interactions in making MPs and others in the political world aware of key industry issues and matters that affect QinetiQ, and that make an important contribution to their understanding of QinetiQ, the markets in which it operates and the work of their constituents.

Branches

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

Share capital

As at 31 March 2023, the Company had an allotted and fully paid up share capital of 578,757,121 ordinary shares of 1p each with an aggregate nominal value of £5.8m and one Special Share with a nominal value of £1. The ordinary share total includes 2,341,325 shares held by employee share trusts.

Details of the shares in issue during the financial year are shown in note 29 on **page 208**.

Rights of ordinary shareholders

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

Directors' report continued

Rights of special shareholder

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

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

The Special Share carries no financial and economic value and the Special Shareholder is not entitled to vote at a general meeting of the Company. At any time the Special Shareholder may require QinetiQ to redeem the share at par and, if wound up, the Special Shareholder would be entitled to be repaid at its nominal value before other shareholders. Any variation of the rights attached to the Special Share requires the written approval of the MOD. Further details can be found in note 29 on page 208.

Restrictions on the transfer of shares

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

Employee share schemes

The QinetiQ Group plc Employee Benefit Trust (the Trust) holds shares in connection with QinetiQ's employee share schemes, excluding the Share Incentive Plan. As at 31 March 2023, the Trust held 2,341,325 ordinary shares of 1p each (the Trust Shares). The Trustees of the Trust have agreed to waive their entitlement to dividends payable on the Trust Shares. The Trust holds further ordinary shares in respect of deferred shares held on behalf of participants in the Company's Deferred Annual Bonus Plan. Dividends received by the Trust in respect of the deferred shares are paid direct to the Plan participants on receipt and are not retained in the Trust.

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

Corporate sponsored nominee

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

Major shareholdings

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

Name of shareholder	At 31 March 2023 % of issued share capital*	At 26 May 2023 % of issued share capital*
Klear Kite LLC	10.01%	10.01%
Schroders	9.98%	9.98%
BlackRock. Inc.	7.92%	7.92%

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

Employees

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

Directors' interests in contracts

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

Indemnities

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

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

- The Combined Aerial Target Service contract is a 20-year contract awarded to QinetiQ by the MOD on 14 December 2006. The terms of this contract require QinetiQ Limited to remain a UK company which is incorporated under the laws of any part of the UK, or an overseas company registered in the UK, and that at least 50% of the Board of Directors are UK nationals. The terms also contain change of control conditions and restricted share transfer conditions which require prior approval from HM Government if there is a material change in the ownership of QinetiQ Limited's share capital, unless the change relates to shares listed on a regulated market; "material" is defined as being 10% or more of the share capital. In addition, there are restrictions on transfers of shares to persons from countries appearing on the restricted list as issued by HM Government.
- The Long Term Partnering Agreement (LTPA) is a 25-year contract, which QinetiQ Limited signed on 28 February 2003, to provide test, evaluation and training services to the MOD. This contract contains conditions under which the prior approval of HM Government is required if the contractor, QinetiQ Limited, ceases to be a subsidiary of the QinetiQ Group, except where such change in control is permitted under the Shareholders Agreement to which the MOD is a party.
- The Maritime Strategic Capabilities Agreement Future Arrangement contract is a 10 year contract awarded by the MOD which came into effect on 1st April 2023. The contract terms include a provision requiring that any change of control of QinetiQ Limited requires prior approval from HM Government (with control being defined as the ability to control the Company's affairs by reason of the holding of shares or means of voting or other powers). If such approval is not obtained, the MOD reserves the right to terminate the agreement.
- The Group is party to funding agreements, provided by a consortium of banks: a £275m multi-currency revolving credit facility which will mature on 27 September 2025; a multi-currency floating rate term loan of £340m which has an initial term of 3 years maturing on 27 September 2025, with two one-year options to extend the final maturity to 27 September 2027; and interest rate derivative contracts over 3 and 5 years to fix the floating rate bank borrowings in line with Treasury policy. Under the terms of the agreements, in the event of a change of control of the Company, any lender may give notice to cancel its commitment and require all outstanding amounts to be repaid.

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

Disclosures in accordance with Listing Rule 9.8.4
There are no matters requiring disclosure under the FCA's Listing Rule 9.8.4, other than details of long-term incentive schemes, which are explained further on **page 132**.

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

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

Powers of the Directors: allotment/purchase of own shares
At the Company's AGM held in July 2022, the shareholders passed resolutions which authorised the Directors to allot relevant securities up to an aggregate nominal value of £3,857,994 (£1,928,997 pursuant only to a rights issue), to disapply pre¬emption rights (up to 5% of the issued ordinary share capital) and to purchase ordinary shares (up to 10% of the issued ordinary share capital). The authorities will remain valid until the 2023 AGM.

Resolutions in respect of the allotment of relevant securities, the disapplication of pre-exemption rights and the purchase of own shares will be laid before the 2023 AGM.

Annual General Meeting
The Company's AGM will be held on Thursday 20 July 2023 at 11:00am at the office of Ashurst LLP, London Fruit and Wool Exchange, Duval Square, London E1 6PW.

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

Directors' report continued

Statement of Directors' responsibilities in respect of the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Additionally, the Financial Conduct Authority's Disclosure Guidance and Transparency Rules require the Directors to prepare the Group Financial Statements in accordance with UK-adopted International Accounting Standards.

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

- Select suitable accounting policies and then apply them consistently
- State whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 and UK-adopted International Accounting Standards have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements
- Make judgements and accounting estimates that are reasonable and prudent
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business

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

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

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

Directors' confirmations

Each of the Directors, whose names and functions are listed on **pages 96 to 98** confirm that, to the best of their knowledge:

- The Group financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to UK-adopted International Accounting Standards, give a true and fair view of the assets, liabilities, financial position and profit of the Group
- The Company Financial Statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities, financial position and profit of the Company
- The Going concern statement on **page 85** includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces

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

Scope of the reporting in this Annual Report

The Board has prepared a Strategic report which provides an overview of the development and performance of the Group's business in the year ended 31 March 2023.

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

By order of the Board.

James Field
Company Secretary
25 May 2023

Independent auditors' report

to the members of QinetiQ Group plc

Report on the audit of the financial statements

Opinion

In our opinion:

- QinetiQ Group plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2023 and of the group's profit and the group's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report & Accounts (the "Annual Report"), which comprise: the Consolidated and Company balance sheets as at 31 March 2023; the Consolidated income statement, the Consolidated comprehensive income statement, the Consolidated cash flow statement and the Consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

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

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

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

Our audit approach

Overview

Audit scope

- We conducted full scope audit work in the UK over QinetiQ Limited, in the US over QinetiQ Inc. (C5ISR) and in Australia over QinetiQ Pty Ltd based on their size or risk. This provides significant coverage over all financial statement balances, except inventory.
- We performed a full scope financial statement line item audit over inventory balances at Foster-Miller Inc. (Technology Solutions) and QinetiQ Target Systems Limited to provide sufficient overall Group coverage.
- Additionally in Technology Solutions, we performed full scope financial statement line item audits over revenue and associated balances.
- As a result of the Avantus Federal acquisition during the year, we performed full scope financial statement line item audits over the acquired balance sheet and revenue and associated balances.
- We performed procedures over goodwill, intangible assets, share-based payments, pensions, IFRS 16 lease accounting, taxation, borrowings, derivative financial instruments and testing of the consolidation at a Group level.

Key audit matters

- Long-term contract accounting (group)
- Impairment of goodwill and acquired intangibles (group)
- Acquisition accounting (Avantus Federal) (group)
- Impairment of investments in subsidiary undertakings (parent)

Materiality

- Overall group materiality: £7,950,000 (2022: £6,650,000) based on approximately 4.2% of underlying profit before tax.
- Overall company materiality: £5,000,000 (2022: £5,000,000) based on 1% of total assets.
- Performance materiality: £6,000,000 (2022: £5,000,000) (group) and £3,750,000 (2022: £3,750,000) (company).

The scope of our audit

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

Key audit matters

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

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

Independent auditors' report continued
to the members of QinetiQ Group plc

Acquisition accounting (Avantus Federal) is a new key audit matter this year. Accounting for tax research and development expenditure credits ("RDEC"), which was a key audit matter last year, is no longer included because of management having updated their accounting policy in respect of RDEC, from IAS 12 to IAS 20, and we concur with this treatment. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Long-term contract accounting (Group) Refer to **page 120** (Audit Committee report) and **page 215** (note 36, Significant accounting policies - Revenue from contracts with customers) and **page 176** (note 2, Revenue from contracts with customers and other income). QinetiQ Group plc has a large number of contracts which span multiple periods and are accounted for on a percentage of completion (POC) basis in accordance with IFRS 15. Long term contract accounting requires a number of judgements and management estimates to be made, particularly in calculating the forecast costs to complete the contract. These judgements drive revenue and profit recognition, and together with cash paid by the customer, impact the balance sheet position at the year end. Onerous contract provisions are recorded where there is an expectation that a contract will be loss-making, and judgement is applied to determine the magnitude of any provision. Particular focus is given to contracts which are technologically challenging.	We evaluated the contract governance policies and controls in place within the business and tested the design and operating effectiveness of certain key controls over long-term contracts. We performed risk assessment procedures over the portfolio of contracts to identify higher-risk contracts. These higher risk contracts were selected for detailed contract audits. These detailed contract audits involved meeting with key financial and non-financial personnel throughout the year and at year end to discuss contract performance, as well as obtaining evidence to support contract financials. Specifically, our procedures included the following: We assessed the basis of revenue recognition to ensure it is in line with applicable accounting standards. We agreed overall anticipated revenue to the underlying contract and validated a sample of customer invoices through to cash receipt. We recalculated revenue recognised and agreed revenue, costs and associated balance sheet positions to the underlying general ledger. We obtained evidence to corroborate management estimates and judgements, particularly around forecast costs to complete and risk contingencies. We validated costs incurred allocated to contracts during the year to supporting documentation. For the remaining untested contracts, we selected a sample and performed testing over revenue and costs, agreeing to supporting documentation including customer contracts and validating a sample of customer invoices to cash receipts. We agreed contract loss provisions recorded based on the overall outcome anticipated on the contract through a combination of the procedures above and consideration of recoverability of amounts recoverable on contract. Additional testing was performed, where not sufficiently covered by the above, over the contract asset and liability balance sheet positions to gain assurance over the accuracy of these balances. These have been sample tested and agreed to supporting documentation. No material exceptions were found.

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill and acquired intangibles (Group) Refer to page 120 (Audit Committee report), page 218 (note 36, Significant accounting policies - Impairment of goodwill and tangible, intangible and held for sale assets), page 186 (note 14, Goodwill) and page 188 (note 15, Intangible assets). The Group has a material amount of goodwill and acquired intangible assets (£409.0m and £282.0m respectively at 31 March 2023). There is a risk of impairment where the performance of the cash generating unit is behind expectation and does not support the value held on the balance sheet. Management performed a discounted cash flow analysis based on the Board-approved five-year strategic plan to assess whether the goodwill and acquired intangible assets are supported by future cash flow projections. This annual impairment review was performed as at 31 January 2023. No triggering events have been identified in the period to 31 March 2023 and therefore no additional impairment reviews have been performed. No impairment charge has been recognised during the year. Our audit focused on the risk that the carrying value of goodwill and acquired intangible assets could be overstated. A greater level of testing was performed over the US Technology Solutions and Germany cash-generating units (CGUs), being the CGUs with comparatively lower levels of headroom than the other CGUs.	We assessed the design and implementation of the goodwill impairment processes and related controls; however, we concluded that we would not rely on the controls over financial reporting and therefore we performed only substantive procedures in this area. We have tested the principles and mathematical integrity of the Group's discounted cash flow model used to assess goodwill and indefinite-lived intangible assets for potential impairment. With the assistance of our valuation specialists, we assessed the long-term growth rates and discount rates used in the impairment calculation, by comparing the Group's assumptions to external data. We concluded that the Group's assumptions were materially appropriate. We confirmed that cash flows for the next 5 years, consistent with internal budgeting and strategic planning processes and the long term viability assessment, have been input to the model and that the underlying budgets and strategic plans have been approved by the Board. In respect of US Technology Solutions and Germany, we challenged the cash flow projections used within the model by reference to current cash flows, analysis of management's historic forecasting accuracy, understanding future contract opportunities and through obtaining third party evidence where possible. We held discussions with financial and non-financial personnel, corroborating explanations to supporting evidence. We tested the sensitivity of the impairment calculations, changes in the underlying assumptions and concluded that no impairments are required, and that the sensitivity to key assumptions is sufficiently disclosed. We did not identify any indication of management bias and did not identify any impairment triggers which would require an updated impairment assessment in the intervening period to year end.
Acquisition accounting (Avantus Federal) (group) Refer to page 120 (Audit Committee report) and page 183 (note 12, Business combinations). The Group has completed two acquisitions in the year, the most significant being Avantus Federal in the US. Accounting for acquisitions can be complex, with judgement required in both the identification of assets acquired (including any intangible assets), and the valuation of those assets and the liabilities assumed, in accordance with IFRS 3 'Business Combinations'. The calculation of fair value is subjective due to the inherent uncertainty involved in the valuation of assets and liabilities, and this requires the application of judgement by management and technical expertise. In particular the method of valuation, future forecasts (including cash-flow forecasts) and underlying assumptions that may all have a material impact on the valuation of assets and liabilities, notably the valuation of intangible assets (£209.2m), which represent the most significant assets acquired. The Avantus Federal acquisition has resulted in £264.6m of goodwill recognised, creating a risk that this may be impaired if it is unsupported by the forecast performance of the business acquired.	We have obtained and reviewed the purchase agreement to ensure that all terms have been considered and accounted for appropriately. We have performed audit procedures over both the identification of assets acquired (including any potential intangible assets) and the valuation of assets acquired and liabilities assumed. We have agreed the consideration paid to bank statements and reconciled to the sale and purchase agreements. We involved our specialists in our audit of the valuation of assets acquired and liabilities assumed. Our work included assessment of the appropriateness of the valuation models used, assessment of the discount rate used in the models, and evaluation of future cash flow forecasts. In particular we focused on the valuation of acquired customer relationships and the assumption relating to attrition. We found that the valuation models used, and the judgements and estimates made surrounding the valuation of assets and liabilities acquired to be reasonable. We assessed the completeness of disclosures made in respect of acquisitions against the requirements of the relevant accounting standards and found that there were no omissions of disclosures.

Independent auditors' report continued
to the members of QinetiQ Group plc

Key audit matter	How our audit addressed the key audit matter
Impairment of investments in subsidiary undertakings (parent) Refer to page 228 (Accounting policies - Investments and note 2, Investments in subsidiary undertakings). The Company has investments of £521.2 million in its subsidiary undertakings. Annually, the Directors consider whether any events or circumstances have occurred that could indicate that the carrying amount of the investment in subsidiaries may not be recoverable. If such circumstances are identified, an impairment review is undertaken to establish whether the carrying amount of the investments exceeds its recoverable amount, being the higher of fair value less costs to sell or value in use. Impairment assessments of this nature require significant judgement and there is a risk that a potential impairment trigger may not be identified by management and in the event that there is an impairment trigger identified, there is a risk that the calculation of the recoverable amount of the investment is incorrect and therefore the value of the investment may be misstated. No such indicators of impairment have been identified.	We have evaluated management's consideration of impairment triggers through performing our own independent assessment, which has included; • Considering the market capitalisation of the group at year end and comparing this to the carrying value of the investment. • Assessing the overall financial performance of the group to identify any indicators of impairment as a result of poor financial performance. • Considering other information gathered during the course of our audits of components and assessing whether there are any other indicators of impairment. • Comparing the carrying value of the investment to the carrying value of the underlying net assets. We found that management's conclusion that there are no impairment triggers in the investments in subsidiaries carrying value was reasonable.

How we tailored the audit scope

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

We conducted full scope audit work over QinetiQ Limited, C5ISR and QinetiQ Pty Ltd, with QinetiQ Limited being the only component considered financially significant to the Group. The audit of QinetiQ Limited is performed in the UK and the audit of C5ISR and QinetiQ Pty Ltd are performed by our local PwC component teams based in the US and Australia, respectively. This provides sufficient coverage over all financial statement balances, except inventory and central balances audited by the Group team.

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

We performed additional procedures over revenue and associated financial statement balances at Technology Solutions, located in the US, which was performed by our local PwC component team. Additionally, as a result of the Avantus Federal acquisition during the year, we performed full scope financial statement line item audits over the acquired balance sheet and revenue and associated balances. In addition to the above, we performed analytical procedures on the remaining entities to understand key balances and transactions in the year and performed additional procedures on any unusual balances identified.

The audit procedures performed over the financial information of full scope components, QinetiQ Limited, C5ISR and QinetiQ Pty Ltd, accounted for 82% of consolidated Group revenue and 80% of underlying profit before taxation (on an absolute basis, excluding holding companies and consolidation entities).

The full scope audits plus the additional audit procedures over inventory in two other locations and revenue and associated balance sheet accounts within Technology Solutions and Avantus Federal, resulted in coverage of 93% of consolidated Group revenue and 85% of total Group assets.

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

The Group engagement leader discussed and agreed the audit plan with our component audit teams, in addition to agreeing the format and content of communications. We determined that the level of involvement we were able to have in the audit work at our reporting entities was sufficient, and appropriate audit evidence had been obtained, to enable us to form our opinion on the financial statements as a whole. The Group engagement leader visited our local PwC component team and the local management team in the US as part of our planning procedures. We maintained regular dialogue throughout the audit process with our component audit teams through the use of video conferencing. We also supervised the work performed by all component teams through the review of component team working papers and we are comfortable that sufficient and appropriate procedures have been performed.

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

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the group's and company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. In particular, when carrying out our work over long term contracts we challenged management over the impact of climate change (e.g. flooding at exposed areas) on the forecasted costs to complete as well as any potential risks arising from physical and environmental issues. Our procedures did not identify any material impact as a result of climate risk on the group's and company's financial statements.

Materiality

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

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

	Financial statements – Group	Financial statements – Company
Overall materiality.	£7,950,000 (2022: £6,650,000).	£5,000,000 (2022: £5,000,000).
How we determined it.	approximately 4.2% of underlying profit before tax	1% of total assets.
Rationale for benchmark applied.	We initially set our materiality at the planning stage of the audit using 5% applied to an estimate of underlying profit before tax and before the RDEC credit was included within other income. At the time of planning our audit, underlying profit before tax was one of the primary measures used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark. It is considered appropriate to exclude specific adjusting items due to the nature of these balances as disclosed on note 4 of the financial statements. We determined it appropriate to maintain our overall materiality at £7,950,000 calculated in our audit plan, which equates to approximately 4.2% of underlying profit before tax.	We believe that total assets is the primary measure used by shareholders in assessing the performance of this entity, and is a generally accepted auditing benchmark for a holding company. This materiality relates to the audit of the Parent Company only, as the Parent Company was not in scope for the Group audit.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £5,000,000 and £7,500,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2022: 75%) of overall materiality, amounting to £6,000,000 (2022: £5,000,000) for the group financial statements and £3,750,000 (2022: £3,750,000) for the company financial statements.

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

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £400,000 (group audit) (2022: £332,500) and £250,000 (company audit) (2022: £250,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Independent auditors' report continued
to the members of QinetiQ Group plc

Conclusions relating to going concern

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

- Obtaining management's Board-approved strategic plan for the five year period ended 31 March 2028. We held discussions with management to understand the budgeting process and the key assumptions made in the forecasting processes, particularly in the first 12 months;
- Performing a comparison of the cash flow forecasts used in the going concern assessment to those in the strategic plan and, where applicable, compared these forecasts for consistency to those used elsewhere in the business, including for long-term contract accounting and impairment assessments;
- Assessing whether the stress testing performed by management appropriately considered the principal risks facing the business, and were adequate;
- Using our own knowledge from the audit and assessment of previous forecasting accuracy we calculated sensitivities to apply to management's cash flow forecasts, These procedures confirmed significant headroom in management's forecasts when performing severe but plausible sensitivities;
- Evaluating the feasibility of management's mitigating actions in response to the severe stress testing scenarios; and
- We assessed the adequacy of disclosures in the Going Concern statement on page 85, the Audit Committee report on page 120 and statements in Note 36 of the Financial Statements and found these appropriately reflect our understanding of the process undertaken and the conclusion reached.

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

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

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

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

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information, which includes reporting based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

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

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

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 March 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 group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Directors' Remuneration

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

Corporate governance statement

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

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

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

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

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

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to 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 payroll expense as well as considering management bias in accounting estimates. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work.

Independent auditors' report continued
to the members of QinetiQ Group plc

Auditors' responsibilities for the audit of the financial statements continued

Audit procedures performed by the group engagement team and/or component auditors included:

- Discussions with management at multiple levels across the business, internal audit and the Group's legal counsel throughout the year, as well as at year end. These discussions have included consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Evaluation of management's controls designed to prevent and detect irregularities, in particular their anti-bribery controls;
- Assessment of matters reported on the Group's whistleblowing helpline and the results of management's investigation of such matters;
- Reviewing correspondence with and reporting to relevant regulatory authorities;
- Challenging assumptions and judgements made by management in their significant accounting estimates and judgements, particularly in relation to the key audit matters above.
- Designing risk filters to search for journal entries, such as those posted with unusual account combinations or posted by members of senior management with a financial reporting oversight role, and testing those journals highlighted (if any); and
- Incorporating elements of unpredictability into the audit procedures performed.

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 22 June 2017 to audit the financial statements for the year ended 31 March 2018 and subsequent financial periods. The period of total uninterrupted engagement is 6 years, covering the years ended 31 March 2018 to 31 March 2023.

Other matter

As required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

John Ellis (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton
25 May 2023