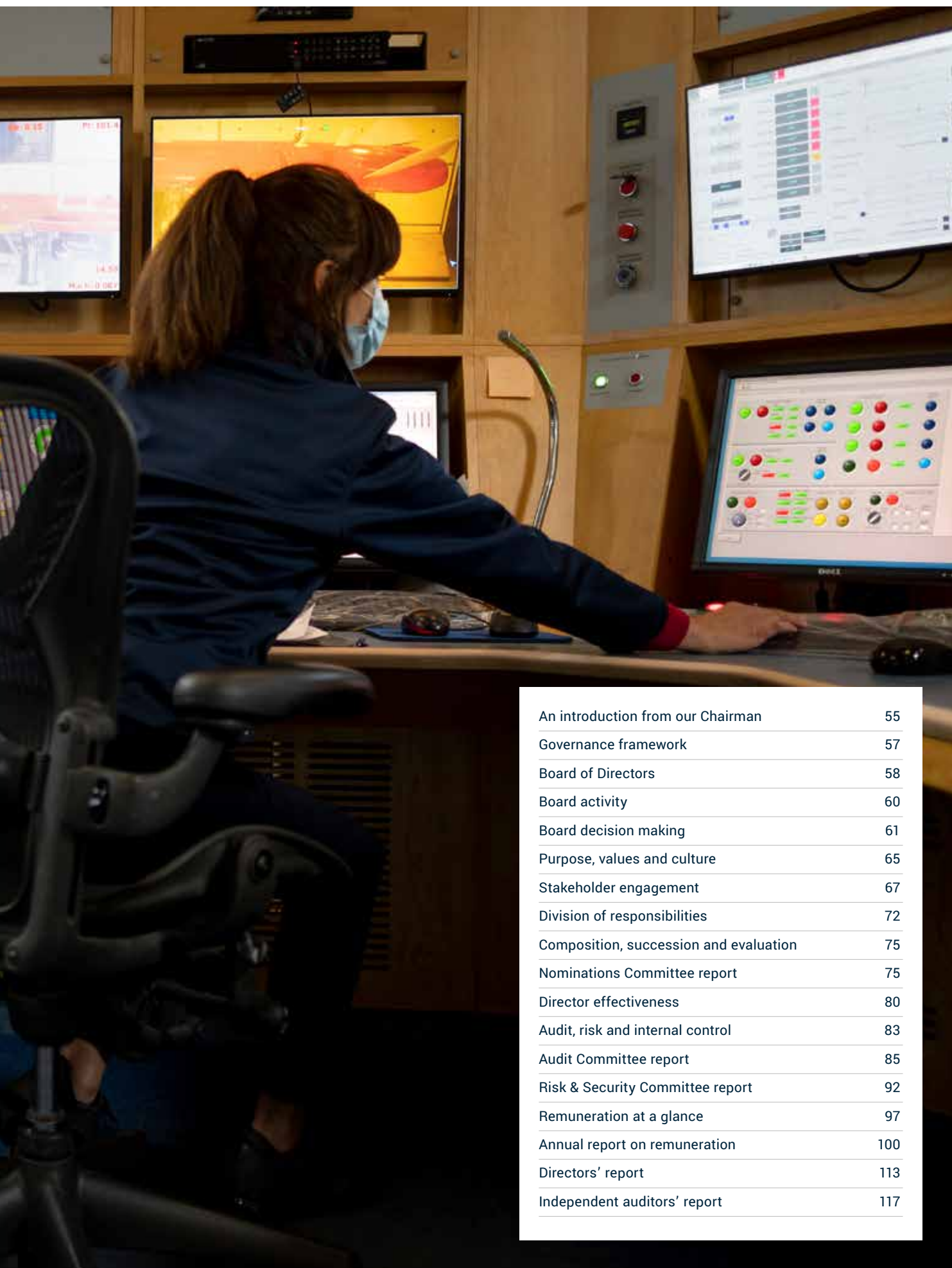




Corporate Governance



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Corporate Governance

Statement of compliance with the 2018 UK Corporate Governance Code (the Code)

The Board is accountable to shareholders for its standards of governance and throughout the year the Board has applied and been compliant with the principles and provisions set out in the Code, with the exception of Provision 38 (alignment of Executive Directors' pension with those available to the employees). See page 99 for further information. The Code is publicly available at www.frc.org.uk.

Listed below are the Code principles, and details of where we have addressed them in this Annual Report.

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 s. 172(1) responsibilities and its governance framework

Code principle A

- Section 172(1) statement – pages 48 to 49 and 61 to 64
- Board of Directors – pages 58 - 59

Code principle B

- Our growth strategy – page 16
- Section 172(1) statement – pages 48 to 49 and 61 to 64
- Company purpose – page 65
- Culture – pages 66 to 67

Code principle C

- Strategic report – pages 2 to 51
- Audit Committee report – pages 85 to 91
- Risk & Security Committee report – pages 92 to 94

Code principle D

- Our people and communities – pages 42 to 45
- Stakeholder engagement – page 38 and 67 to 71
- Section 172(1) statement – pages 48 to 49 and 61 to 64

Code principle E

- Our people and communities – pages 42 to 45
- Employee engagement – pages 67 to 69
- Confidential reporting – page 84

2. Division of responsibilities

Explains the roles of the Board and its Directors

Code principle F

- Governance framework – page 57
- Division of responsibilities – pages 72 to 74

Code principle G

- Governance framework – page 57
- Board of Directors – pages 58 to 59
- Division of responsibilities pages – 72 to 74

Code principle H

- Section 172(1) statement – pages 48 to 49 and 61 to 64
- Time commitment – page 73

Code principle I

- Board and Committee processes – page 74

3. Composition, succession and evaluation

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

Code principle J

- Nominations Committee report – pages 75 to 82

Code principle K

- Board of Directors – pages 58 to 59
- Nominations Committee report – pages 75 to 82

Code principle L

- Director effectiveness – pages 80 to 82

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

Code principle M

- Audit Committee report – pages 85 to 91

Code principle N

- Fair, balanced and understandable – page 89

Code principle O

- Risk Management – pages 30 to 36
- Audit Committee report – pages 85 to 91
- Risk & Security Committee report – pages 92 to 94

5. Remuneration

Describes the Company's remuneration arrangements in respect of its Directors, how these have been implemented in FY21, and details of our remuneration policy

Code principle P

- Directors remuneration report – pages 95 to 112

Code principle Q

- Directors remuneration report – pages 95 to 112

Code principle R

- Directors remuneration report – pages 95 to 112

An introduction from our Chairman



“As a Board, we have focused on taking the essential decisions and steps to successfully navigate QinetiQ through this unprecedented period of time, while protecting all of our stakeholders.”

Dear Shareholder,

I am pleased to present this year’s corporate governance statement. This report provides a summary of the system of governance adopted by the Company and will enable our shareholders to evaluate the manner in which the Code’s principles and provisions have been applied by the Company (Listing Rule 9).

Board activities and response to COVID-19

The year has been dominated by the COVID-19 pandemic and the unprecedented challenges it has presented. At the outset of the pandemic, we as a Board worked quickly and decisively with the senior management team in developing a Group-wide strategic framework to focus on three main priorities:

1. Protecting our employees’, and their families’, health and wellbeing
2. Continuing to deliver for our customers, to support national defence and security
3. Sustaining our company for the long term

This framework has remained relevant and important throughout the pandemic and has allowed us to focus on delivery and response to the challenging environment in which we continue to operate.

During the year we have called on the extensive skills and experience of the entire Board when navigating through this period. Our robust governance framework, and how this is implemented, has been fundamental to our ability to do this successfully.

Stakeholder engagement – more important than ever

As a result of the pandemic, the Board had to make a number of challenging decisions, which affected all our stakeholders in different ways, and we have sought to balance the needs of our many stakeholders throughout the year, be they employees, customers, suppliers, shareholders or regulators, while taking steps to secure the Group’s longer term success. There has been a constant dialogue with all of the main stakeholder groups, and on behalf of the Board, I would like to take this opportunity to thank them all for their partnership during this very challenging time.

The 2018 UK Corporate Governance Code emphasises the need for boards to develop effective relationships with all stakeholders, including understanding their views. My fellow Directors and I have worked extensively on our approach to these important matters, to ensure that all voices – those of shareholders, employees, customers, suppliers and communities – find their way to the Boardroom.

Environmental, Social and Governance (ESG)

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 issues, which are being delivered through our Corporate Responsibility and Sustainability function. We are proud of the significant progress made to date on our ESG strategy, and we continue to support the business in its ambition to embed this further into corporate strategy and decision making.

An introduction from our Chairman continued

We recognise and welcome the growing focus by our shareholders, customers and employees on these important matters, the need for us to reflect our stakeholders' expectations, and the added value in areas such as business opportunities, employee engagement, and energy efficiency. This approach has informed and guided our response to the COVID-19 pandemic, with a focus on caring for our employees, supporting the communities and customers we serve, and help protect and restore the economies we operate within.

To ensure that the Board can provide the appropriate oversight to ESG issues we have established a new Climate Change Steering Committee, chaired by our CFO. The Climate Change Steering Committee is placed underneath the Global Leadership Team, with the CFO providing a direct link to the Board.

Culture

Promoting a culture of openness and debate in the boardroom is one of my key responsibilities as Chairman, 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 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, and with a strong desire to learn and develop. The Company has spent considerable time over the last few years getting the culture right and we are continuing this journey.

Board and Management Succession

In April 2021 we announced with great sadness that Ian Mason had passed away suddenly. Ian had been a Non-Executive Director on the QinetiQ Board since June 2014. He was a trusted and valued colleague and friend, and our thoughts are with his family.

We welcomed Shonaid Jemmett-Page to the Board in May 2020. She took on the position as Audit Committee Chair when Paul Murray stepped down from the Board in July 2020. Shonaid has a strong financial background and is an experienced Non-Executive Director in the energy and financial sectors, which has served to strengthen the Code's requirement that at least one member of the Committee has recent and relevant financial experience. During the year she has provided the Audit Committee with a fresh perspective, suitable challenge and scrutiny of the external auditors, and her input to the Board discussions has been invaluable.

In October 2020 Gordon Messenger was appointed to the Board and in January 2021 he succeeded James Burnell-Nugent, who retired from the Board in December 2020, as the Chair of the Risk & Security (formerly Risk & CSR) Committee. Gordon's unique operational experience from the Defence sector has already enabled him to steer the Risk & Security Committee successfully in its new direction.

Ensuring a diverse culture on the Board and the Global Leadership Team (GLT) is crucial to improving effectiveness, encouraging constructive debate, delivering superior performance and enhancing the success of the Company. We currently have 37.5% women on the Board and 27% women on the GLT. We continue to be committed to our gender and ethnic minority diversity targets on the Board, the GLT and the Group as a whole.

Restructuring our Committees

In order to simplify the scope and to better align with the evolving skills and experience profile of the Board and the operational focus of the GLT, the Board decided that it would be most appropriate to oversee the very important matters of ESG and Corporate Responsibility & Sustainability at Board level, by the Board as whole, by way of a regular and in-depth agenda item.

Through our many discussions, we also agreed that Risk management and Security are such important matters, as part of our corporate strategy and our Governance framework, that these two items would be best overseen by a Committee of their own. Therefore, during the year, the Risk & CSR Committee evolved into the Risk & Security Committee.

Remuneration

This year was the first year of the Directors' Remuneration Policy that was approved by shareholders at the AGM in 2020 (the Policy). The Board's Remuneration Committee has focused during the year 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 aligned with the interests of, and returns delivered to, shareholders.

Annual General Meeting

We are delighted this year to for the first time offer shareholders the opportunity listen to the AGM via a secure telephone line. Further details will be posted in the Notice of AGM and on www.QinetiQ.com.

Conclusion

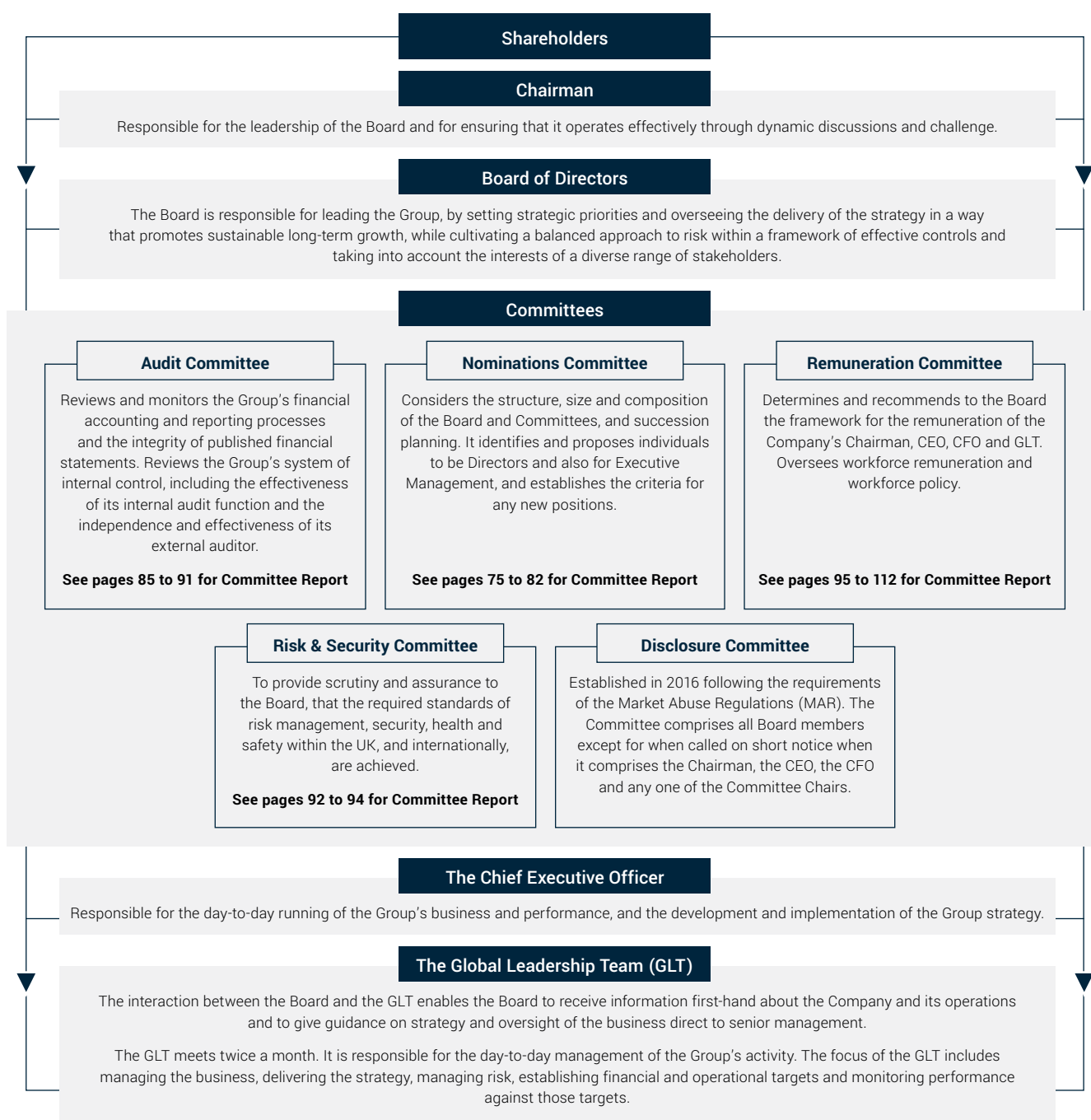
I would like to take this opportunity to express my gratitude to all employees of QinetiQ, the CEO and his executive team and my fellow Directors for all their hard work during this challenging time. All the people of QinetiQ have shown incredible resilience, coming together to deliver critical outputs to our defence and security customers against the backdrop of a global pandemic.

Neil Johnson
Non-Executive Chairman

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. The Company's success depends on the Board's continued commitment to high standards of corporate governance and a strong, positive culture across the business, while managing effectively the risks and uncertainties of the markets in which it operates.



Board Leadership and Company purpose continued

Board of Directors - an experienced and balanced Board

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



A N R RS

Neil Johnson Chairman

Nationality: British

Skills, competence and experience: Neil's former CEO experience and current roles as a plc Chairman and Non-Executive Director brings 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 Chairman of Motability Operations and Centaur Media plc.

Other appointments: Chairman of Electra Private Equity plc and Senior Independent Non-Executive Director of the Business Growth Fund.



A N R RS

Steve Wadey Chief Executive Officer

Nationality: British

Skills, competence and experience: Steve's proven track record of driving growth, and his in-depth experience of defence and technology industries is 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 Co-Chair of the UK Defence Growth Partnership, 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. Steve has held various roles with MBDA, including as Managing Director, MBDA UK. Previously he held various roles with Matra BAE Dynamics and British Aerospace.

Other appointments: Chair of the Defence Industry Liaison Board of the UK Department for International Trade, Defence & Security Exports.



A N R RS

David Smith Chief Financial Officer

Nationality: British

Skills, competence and experience: David provides significant expertise to the Group from his broad and comprehensive executive experience in blue-chip companies and work in the aerospace and defence, technology, and automotive sectors.

David is an Associate of the Chartered Institute of Management Accountants and a member of its Advisory Panel. He was previously the CFO of Rolls-Royce Holdings plc, having joined as CFO of its Aerospace Division. Prior to that, David was CFO of Edwards Group and CEO of Jaguar Land Rover, having previously been its CFO. He has also held a variety of roles with the Ford Motor Company, and was previously a Non-Executive Director of Motability Group plc.

Other appointments: N/A



A N R RS

Michael Harper Deputy Chairman and Senior Independent Non-Executive Director

Nationality: British

Skills, competence and experience: Michael brings to the Board a wealth of 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 Chairman of Ricardo plc, Vitec Group plc, and BBA Aviation plc, having previously been its CEO. Michael previously served as Senior Independent Director of Catlin Group Limited, as a Non-Executive Director of Williams plc and the Aerospace Technology Institute, and as CEO of Kidde plc.

Other appointments: N/A



A N R RS

Lynn Brubaker Independent Non-Executive Director

Nationality: American

Skills, competence and experience: Lynn's experience from a number of senior Board positions at various US-based companies, in particular in the aerospace sector, makes her a valuable member of the Board and enables her to provide insightful advice on matters such as strategy and customer stakeholder management.

Lynn has held positions as Non-Executive Director of Force Protection, Inc., Seabury Group, Graham Partners, Cordiem, the Nordam Group, the Flight Safety Foundation (as Chair), the Hexcel Corporation and as a member of the Management Advisory Council of the Federal Aviation Administration. Lynn was also the Vice President and General Manager of Commercial Aerospace at Honeywell International.

Other appointments: Non-Executive Director of FARO Technologies Inc.



A N R RS

General Sir Gordon Messenger Independent Non-Executive Director

Nationality: British

Skills, competence and experience: Gordon brings vast 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.

His 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.

Committee Membership Key

A Audit **N** Nominations **R** Remuneration **RS** Risk and Security **Chairman of Committee**



A **N** **R** **RS**

Susan Searle
Independent Non-Executive Director

Nationality: British

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



A **N** **R** **RS**

Shonaid Jemmett-Page
Independent Non-Executive Director

Nationality: British

Skills, competence and experience: Shonaid brings to the Board a wealth of experience from previous roles as an Executive and Non-Executive Director from a breadth of sectors, including industrial and technology based businesses with international operations. This, combined with her extensive financial experience, enables her to successfully chair the Audit Committee.

Previously Shonaid 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 Origo Partners plc and MSAmIn plc, and Non-Executive Director roles at GKN plc, Close Brothers Group plc and APR Energy plc.

Other appointments: Non-Executive Chair of Greencoat UK Wind plc and Cordiant Digital Infrastructure Limited, Senior Independent Director of ClearBank Ltd and Non-Executive Director of Caledonia Investments plc.



A **N** **R** **RS**

Jon Messent
Company Secretary and Group General Counsel

Nationality: British

Skills, competence and experience: Jon joined QinetiQ from Chloride Group plc where he held a similar role. He has a background in legal private practice as well as General Counsel and Company Secretary.

Board Leadership and Company purpose continued

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

Topic	Key activities
Strategy and operations	<ul style="list-style-type: none"> Reviewed and considered the Company's purpose, values and strategy. See more on pages 16 to 17 and page 65 Approved the FY22 component of the Group's five year Integrated Strategic Business Plan (ISBP). See more on page 16 Approved the Group's overall five-year ISBP. See more on page 16 In-depth reviews of business strategy and performance 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 <ul style="list-style-type: none"> Received updates from each of the Group's Business and Function Units 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, legislative and geopolitical landscape, particularly as regards to the COVID-19 pandemic, the Brexit negotiations, the U.S. election and change of administration
Financial performance	<ul style="list-style-type: none"> Approved the Company's annual budget, business plan and KPIs, and monitored performance against them. See more on pages 26 to 29 Reviewed and approved the Group's full and half year results and interim trading updates Decision to postpone and pay the full year dividend, owing to the COVID-19 pandemic, and approved the payments of the interim dividends. See more on page 25 Approved the Company's Annual Report, including its fair, balanced and understandable nature <ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Reviewed and approved the Group's risk appetite and reviewed the Group's principal and emerging risks, and the processes for identifying, 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 <ul style="list-style-type: none"> 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 (of which the process is further described on page 84)
Leadership, people and culture	<ul style="list-style-type: none"> 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 <ul style="list-style-type: none"> Received reports from the Chair of the Remuneration Committee on its activities, recommendations regarding remuneration strategy and decisions regarding the Chairman, 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 enhancement initiatives
Engagement, environment and community	<ul style="list-style-type: none"> Undertook an annual review of the Group's stakeholders - who they are, methods of engagement, outcome and feedback. See more on pages 4, 38 and 67 to 71 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 Chairman's workforce engagement activities <ul style="list-style-type: none"> Reviewed a detailed report on our approach to ESG issues, and approved a new non-financial ESG KPI, focused on climate change. See more on pages 26 to 27 Reviewed the activities of, and approved a financial commitment to, the Company's charitable and community initiatives Reviewed and approved the Group Modern Slavery Statement, published on www.QinetiQ.com
Governance and Legal	<ul style="list-style-type: none"> Approved the Group's s. 172(1) statement. See more on pages 48 to 49 and 61 to 64 Approved the Notice of the AGM Undertook an annual compliance review of the Code and DTR7 <ul style="list-style-type: none"> Reviewed the results of the internal Board and Committee effectiveness evaluations Reviewed and approved matters reserved to the Board and its Committees' terms of reference Approved the Group's annual Modern Slavery and Human Trafficking statement
COVID-19 pandemic	<ul style="list-style-type: none"> Received reviews and updates on impact on the business of COVID-19 and on the planning and activities taken to mitigate

Board decision making

In making decisions, the Board of Directors are cognisant of all their legal duties, including their duty under s. 172(1), see pages 48 to 49, in the way that is most likely to promote the success of the Company for the benefit of its members as a whole and to have regard (among other matters) to the factors set out therein. 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. Response to COVID-19

At the very beginning of the pandemic, the Board approved a prioritised approach to working through the pandemic, namely: resilience, recovery and renewal – that centred around:

- Protecting the health and wellbeing of our employees and their families
- Continuing to deliver critical work for our customers, essential for national defence and security
- Sustaining the strength of our company for the long-term

Throughout the pandemic, the Board has focused its strategic response to the pandemic by way of:

- Guidance for Group performance throughout the year
- Robust actions to boost resilience to immediate challenges
- Partnering with our customers to deliver evolving priorities
- Engaging our employees to adapt our ways of working
- Accelerating capabilities to meet the needs of a new world and enable our future growth
- Investing in our core capabilities and connecting our skills globally

Once these priorities were stable, the Company entered into a renewal phase, as part of its evolved corporate strategy. In addition, fair, balanced and proportionate measures taken by the Board increased the resilience of our Company, allowing us to maintain a strong position for future growth while being mindful of the potential risk of further impacts from to the pandemic.

Consideration	Outcome/impact
Employees	<ul style="list-style-type: none"> • With an 80% "home" and 20% "site" working environment, the Board focused on supporting the business in accelerating the Group's digital transformation so that our employees were able to continue to work safely and effectively. • The Board supported the Company in implementing a range of safeguarding measures including social distancing, additional cleaning services and the provision of PPE, ensuring that our working environments are safe and clean for those employees who need to work on our sites to enable delivery of critical defence and national security programmes. • Due to the uncertainty that the pandemic brought, the Board initially made some difficult choices which impacted our employees, including leadership salary reductions; cost control measures; the release of contractors; no salary increases; a requirement to use 40% of holiday by June 2020; and FY20 employee incentives paid in shares. When assessing our half-year performance, the Board felt confident to approve the release of the majority of our temporary measures in the second half of the year. • Our employees rose to the challenge of developing agile ways of working, enabled by our accelerated digital transformation, and improving our skills and processes to enhance business winning, and deliver quality performance. • The Board continued to focus on supporting the Company's core capabilities and connect skills globally, ensure that critical skills and capabilities were retained within the Company to drive long-term, profitable growth.
Customers	<ul style="list-style-type: none"> • The Company continued to work closely with customers to enable the delivery of the capabilities of defence, security and critical national infrastructure, including the emergency services. • The Company collaborated with customers to understand how their long-term needs would evolve and advise on upgrading existing capabilities to respond to the latest threats and changing customer requirements to deliver medium to long-term, profitable growth.
Shareholders	<ul style="list-style-type: none"> • At the outset of the pandemic, the CEO and CFO volunteered a salary reduction of c. 33% and the wider Board volunteered a 25% reduction in fees. • The Board made the appropriate decision to postpone the final dividend as part of the robust short-term actions to boost resilience and preserve the strength of the balance sheet, however following a strong start to the financial year a deferred dividend was paid in November 2020. • The continuation of our All Employee Incentive Scheme, paid to each employee in QinetiQ shares, has been a key enabler for growth by aligning employee and shareholder interests.
Suppliers	<ul style="list-style-type: none"> • We have continued to work closely with our suppliers to accelerate our digital transformation strategy and global growth. • Throughout the pandemic, we have supported our suppliers to help them navigate the challenges of COVID-19, including prompt payment of invoices, in particular to smaller suppliers.

Board Leadership and Company purpose continued

2. Postponed the payment of the full year dividend

The Board decided to reinstate the FY20 final dividend at a level that represented the FY20 total by way of an interim dividend equal to the prior year, as well as an additional dividend of 4.4p per share representing the deferred final dividend from FY20, resulting in a total dividend for the year ended 31 March 2020 of 6.6p per share. The Board intends to honour the progressive dividend policy for FY21, with the interim and final dividend in line with the normal financial calendar.

Consideration	Outcome/impact
Shareholders	<ul style="list-style-type: none"> The postponement of the full year dividend enabled us to emerge from the crisis in a strong position. We have restored the confidence of our shareholders in our resilience as a company and our evolved strategy going forwards.

3. Supported a new focus on Environment, Social and Governance issues and approved a new associated non-financial KPI

A key aspect of our evolved strategy is a strong and increasing focus on environmental, social and corporate governance (ESG) factors. The Board seeks to grow the Company in a responsible and sustainable way for the benefit of all stakeholders.

Our Corporate Responsibility and Sustainability (CR&S) strategy is designed to meet stakeholder expectations across ESG themes, aligned with our business strategy. During FY21 we have been focusing on improving how CR&S is embedded in the strategic planning process and a review was undertaken during the year, focusing at our core non-financial KPIs.

- The Board fully supported this evolution of approach and the designation of more formal leadership sponsorship, with a Global Leadership Team owner for each of "E", "S" and "G".
- The Board approved the addition of a new non-financial KPI, which now ensures that we are considering climate change as part of our core indicators.
- The Board also fully supported the company to develop a new net zero strategy to address greenhouse gas emissions to replace our current target.

Consideration	Outcome/impact
Employees	<ul style="list-style-type: none"> Our employees have provided feedback that they welcome our commitment to being a responsible and sustainable business. Our employees are continuing to develop services and products to ensure the operational safety of our armed forces, the security of information for our sovereign nations, and the protection of environment through the use of innovative technologies and sustainable solutions.
Customers	<ul style="list-style-type: none"> We have been working with the UK MOD during FY21 to support the development of their climate change strategy and have taken on new leadership roles in industry (Aerospace Defence and Security and Defence Suppliers Forum) to drive the sustainability agenda within our sector and with our peers and customers. We have delivered positive solutions for our customers by protecting our troops; developing novel solutions to improve efficiency and emissions; improving the safety, reliability and accuracy of our solutions; and delivering safe virtual training resulting in cost savings and reduced emissions. We have collaborated with our customers to deliver effective solutions, including developing and providing technology to solve policing and security threats quickly and efficiently; and safely managing the multi-national Formidable Shield exercises.
Shareholders	<ul style="list-style-type: none"> We have communicated our commitment to ESG to our shareholders in one to one meetings and in the March investment webinar, which was positively received. We are continuing to embed ESG into our strategy, and improve culture and behaviours to further assure our shareholders that we are building a responsible and sustainable Company.
Suppliers	<ul style="list-style-type: none"> We are working closely with our suppliers to ensure our supply chain is diverse, responsible and sustainable. We have implemented programmes to ensure we are a responsible customer, including our collaborate programme, delivery of our modern slavery action plan, and being signatories to the prompt payment code.

4. Environment, Health & Safety strategy

The Board approved an Environment, Health & Safety strategy three years ago. Since then we have achieved significant progress, however, we recognise that there is still more to be done.

Our enhanced strategy is to take a global approach. We intend to share our expertise across the whole of our Company to strengthen the positive impact we can have on health, safety and the environment.

By creating a culture focused on a positive commitment to health, safety and environmental matters, we aim to strengthen our brand with employees, improve retention, attract quality talent and secure new business. The Board will continue its commitment to our people, investors and regulators, being a priority for our Company when driving improvement in this area.

Consideration	Outcome/impact
Employees	<ul style="list-style-type: none"> We continue to put an emphasis on leadership, with the Board and our senior leaders paving the way and role modelling the behaviours we expect of ourselves and each other. We are committed to create a motivated, flexible and committed workforce through the development of a culture and environment that fosters employee wellbeing and environmental sustainability. We continue to build a community of strong, active and visible leaders who have a clear commitment to safety, employee wellbeing and environmental matters. The Health, Safety and Environment strategy has significantly reduced the number of safety incidents and contributed towards driving a new level of safety culture within QinetiQ.
Customers	<ul style="list-style-type: none"> We continue to focus on delivering safely for our customers. We continue to be committed to understanding the risks that have the potential to affect customers and visitors and we have measures in place to protect their safety.
Shareholders	<ul style="list-style-type: none"> We have strengthened our reputation with our people, future employees, customers and investors by demonstrating our commitment to our Health, Safety and Environmental strategy.
Suppliers	<ul style="list-style-type: none"> We have worked with our suppliers to ensure we embed our strategy, values and behaviours in our supply chain.

5. Portfolio optimisation: divestments of Boldon James Limited, Commerce Decisions Limited and OptaSense Limited; and acquisition of Naimuri Limited

The Board approved the divestments of Boldon James, Commerce Decisions and OptaSense, and the acquisition of Naimuri. These portfolio optimisation decisions were strategy-led choices, generating capital from non-core assets and reinvesting in our core capabilities to drive profitable growth and building an integrated global defence and security company.

Consideration	Outcome/impact
Employees	<ul style="list-style-type: none"> For those businesses which were disposed, the Board considered the interests of employees throughout the sale process, including the smooth transition of those employees once a sale was agreed in principle. As part of the acquisition of Naimuri, the Board considered the Group's ability to attract and retain talent in that area as part of the wider investment programme.
Customers	<ul style="list-style-type: none"> Following the acquisition of Naimuri, the Board plans to invest and build upon Naimuri's strong capabilities in data analytics, data intelligence and agile software development to meet customer requirements for more solutions in this area. We are continuing to put the mission of our customers first and are developing sustainable and innovative solutions to deliver for our customers' advantage.
Shareholders	<ul style="list-style-type: none"> Our evolved strategy to meet the needs of the changing defence and security world, and accelerate our global growth will deliver even greater returns for our shareholders. The Board intends to ensure that our capabilities are strategically aligned and highly complementary to support long-term growth and create shareholder value.

Board Leadership and Company purpose continued

6. Approved the Group's five-year Integrated Strategic Business Plan (ISBP)

The Board has approved the Group's five-year ISBP which will inform our investment and business priorities as we seek to grow. Our customer focused growth strategy requires responsible and sustainable investment in three key areas:

- Global leverage: build an integrated global defence and security Company
- Distinctive offerings: co-create products and services to offer exceptional value
- Disruptive innovation: focus on disruptive business models, digitisation and advanced technologies

Consideration	Outcome/impact
Employees	<ul style="list-style-type: none"> • Our employees will continue to focus on disruptive innovative solutions for our customers. • We will continue to harness and retain the best talent and skills to maintain quality and efficient performance for our customers' advantage.
Customers	<ul style="list-style-type: none"> • We are striving for a customer base of c. 50% UK, 25% US and 10% Australia to enable our global growth.
Shareholders	<ul style="list-style-type: none"> • Our evolved strategy to build an integrated global defence and security Company, delivering continued growth, will provide greater benefit to all our stakeholders.
Suppliers	<ul style="list-style-type: none"> • We will work with our supply chain to ensure we obtain the best products and services to enable us to offer distinctive products and services.

Supplementary information

The Board has seven scheduled meetings, held 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 FY21.

Board and Committee attendance – 1 April 2020 to 31 March 2021

Members	Board	Audit Committee	Nominations Committee	Remuneration Committee	Risk & Security Committee
Lynn Brubaker	7/7	4/4	5/5	4/4	4/4
Admiral Sir James Burnell-Nugent ¹	5/7	3/4	4/5	3/4	3/4
Michael Harper	7/7	4/4	5/5	4/4	4/4
Shonaid Jemmett-Page	7/7	4/4	5/5	4/4	4/4
Neil Johnson	7/7	–	5/5	4/4	4/4
Ian Mason ²	7/7	4/4	5/5	4/4	3/4
General Sir Gordon Messenger ³	4/7	2/4	2/5	2/4	2/4
Paul Murray ⁴	2/7	1/4	1/5	2/4	4/4
Susan Searle	7/7	4/4	5/5	4/4	4/4
David Smith	7/7	–	–	–	4/4
Steve Wadey	7/7	–	–	–	4/4

1 James Burnell-Nugent stepped down from the Board on 31 December 2020.

2 Ian Mason was unable to attend the Risk & CSR Committee meeting on 9 November owing to the Company making late meeting date changes, resulting in a conflict with a prior commitment.

3 Gordon Messenger was appointed to the Board on 12 October 2020.

4 Paul Murray stepped down from the Board on 14 July 2020.

The significance of our purpose, values and culture

The Board has reviewed and articulated the Company's purpose to ensure it captures the Board's current view of the Company and its role in society. Our purpose communicates the Group's strategic direction and intentions to our employees, occupiers and wider stakeholders. Owing to its importance, it is reconfirmed on an annual basis to ensure it continues to reflect our strategy, values and desired culture.

Our Vision	to be the chosen partner around the world for mission-critical solutions, innovating for our customers' advantage.	
QinetiQ's ethos is defined within Our Purpose	to protect lives, defending sovereign capabilities and securing the vital interests of our customers.	
This is demonstrated through our dedication and commitment to Our Mission	through responsible and ethical leadership we strive to be a good employer and partner, while applying our unique technical expertise across the product lifecycle helping our customer to create, test and use defence and security capabilities.	
Underpinned by Our Values	Integrity, Collaboration and Performance	
Re-imagined through Our Culture	A high performance and inclusive work environment where employees are engaged, empowered and clear about how they can contribute to Our Purpose.	

Board Leadership and Company purpose continued

Our culture

Our Values make clear our priorities and form the foundations of the Company's culture.

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. We know that working together is the best way to meet our customers' 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.

The annual Recognition Gala and Thank Q Awards are strong evidence of how we live by our values:

The Recognition Gala	An annual event where people from across the global business have nominated their colleagues for demonstrating behaviours which exemplify our values. The exceptional number and quality of nominations received each year is a testament to how our people live by our values. The nominations process, award event and publication of awards winners across the Group also serve to remind people of our values and what they mean in practice.
Saying Thank Q	Thank Q recognises the efforts of our people that reflect our values, behaviours and capabilities for going above and beyond and making a difference. This can be done by: <ul style="list-style-type: none"> • Saying Thank Q via our Global Portal community group • A more personal touch through giving someone a Thank Q card • Nominate someone or a team for a Thank Q award to receive a voucher for going above and beyond

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 input 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 Global Leadership Team of safety and operational KPIs to enable management to monitor and drive continually improvements in safety, reliability and efficiency of our services
- The work of Group support functions 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 team, 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 gives 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 Global 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

Always at the forefront, and particularly so during the pandemic, safety continues to be our one priority. This year we updated our Environment, Health and Safety (EHS) strategy, see more on pages 39 to 47, which is aligned to our Company strategy and vision. We, as a Board, believe, through the activities we have undertaken to understand the Company's culture, that our people are truly living by this and our values.

Stakeholder engagement

The Board is aware that its actions impact all stakeholders of the Company and the communities we operate within. Effective engagement strengthens the business and helps to deliver a positive result for all stakeholder groups. The Board is committed to engage closely with the Company's diverse range of stakeholders and to take their views into account. During the year the Board undertook a rigorous review of the Company's current stakeholder activities. The review considered:

- Who the Group's key stakeholders are
- The Board's engagement activities with each key stakeholder and the appropriateness of this engagement
- The information the Board receives on the Group's stakeholders, including details on the outcome of the engagement activities
- Whether appropriate stakeholder feedback loops are in place
- Whether there was a need for greater engagement with any stakeholders at Board level
- The outcome and effect of stakeholder engagement

Employee Engagement

We have experienced, diverse and dedicated employees which are recognised as a key asset 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 42 to 46 and 67 to 69.

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 the employees in person. However, this has not been possible during the year due to restrictions associated with the COVID-19 pandemic. The process on page 68 describes how the Board continued to be able to effectively gain the views of the employees throughout the year.

Board Leadership and Company purpose continued

How we engage with our employees

Dedicated Non-Executive Director	<p>Neil Johnson is the dedicated Non-Executive Director for gathering the views of the employees</p>	<ul style="list-style-type: none"> • Two meetings (virtually during the pandemic) with the Global Employee Voice (GEV) • Attends the Global Recognition Gala and also Global Employee Roadshows (both virtual during the pandemic) • Reports back to the Board
Global Employee Voice (GEV)	<p>The GEV is a global forum that acts as the collective voice of all QinetiQ employees. All businesses and functions each have a member of the GEV, acting as their own representative. Australia, Belgium, Canada, Germany and the US also have their own GEVs, with a direct link to the UK See more on page 43</p>	<ul style="list-style-type: none"> • Regular contact with the Chairman • Two meetings with the Chair of the Remuneration Committee • Meets with the Group Function Director Human Resources, who reports to the Board on culture, employee and people strategy, and employee engagement
Global Employee Roadshows	<p>Delivered quarterly by the Global Leadership Team, the Global Employee Roadshows give an update on the progress we're making against our vision and strategy, and provide an understanding of our key priorities for the future</p>	<ul style="list-style-type: none"> • Employees have the opportunity to ask questions, either in writing, or live during closing Q&A sessions • Reported back to the Board by the CEO
Monthly virtual Global Engagement Network (GEN) events – delivered by the Global Leadership Team	<p>The GEN includes 400 senior leaders from across the Group, selected for their sphere of influence and critical role within our Company. The sessions provide a monthly leader's update and the opportunity to discuss employees' wellbeing and topics critical to driving high performance and growth</p>	<ul style="list-style-type: none"> • The members of the GEN feed back to their teams by way of Q-Talks, team meetings and one-to-one meetings
Monthly virtual Q-Talks	<p>Delivered by Business or Function Global Engagement Network leaders, with the purpose of keeping employees up-to-date with what's currently important across QinetiQ</p>	<ul style="list-style-type: none"> • 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	<p>Quarterly surveys enabling the Board and the Leadership team to immediately assess employees' engagement throughout the Group</p>	<ul style="list-style-type: none"> • After each survey, the Director of Organisation Development 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	<p>A platform where all employees can access our policies and be kept fully informed of the latest Group news</p>	<ul style="list-style-type: none"> • Enables employees to ask questions and discuss topics internally
Confidential Reporting	<p>Our confidential reporting includes an anonymous reporting line for employees to raise any concerns with escalations to the Board as necessary</p>	<ul style="list-style-type: none"> • Reported to the Board at each Board meeting
How does it work?	<ul style="list-style-type: none"> • By using a number of different employee engagement mechanism 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 	

Statement from William Bowers, GEV Chair:

As part of the Group Chairman's role as the Non-Executive Director designated for employee engagement, he met with members of the Global Employee Voice (GEV) on two occasions during the year. Each time he was accompanied by Susan Searle, the Remuneration Committee Chair, who provided engagement on Executive Director remuneration. The Chairman was interested in how the GEV has become a global network of individuals who represent employees in all home countries. The GEV is concentrating on supporting greater employee engagement through working closely with the leadership to ensure the employee impact and perspective. We explained how the proposed sizeable investment in technology was seen as very positive, in particular for those at the front end of delivery who need the functionality to improve collaboration and increase the customer experience. We talked about the growth targets in the next round of the Integrated Strategic Business Plan, and as part of this process, the GEV have been asked to collaborate with the Group Chairman and the members of the Board, to ensure that the employees are effectively represented in any decisions that are made.

Ensuring our employees' wellbeing throughout a pandemic

- With so many people working from home, keeping our employees engaged and passionate about the business for the long-term has never been more important
- The Board's number one priority through the pandemic has been to protect our employees', and their families, health and wellbeing
- A Group wide COVID-19 SAFETY STOP was introduced, providing a flexible mechanism for how to best support all employees, working from home or at site, regardless of personal circumstances, during the pandemic
- Continuing these important conversations, both at a Company level and an individual level, so that looking after our health and wellbeing, remains the normal way of working

Shareholder Engagement

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 Chairman 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.

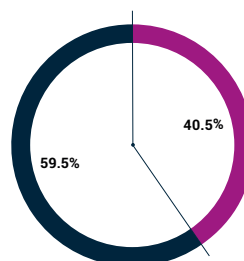
The AGM provides an opportunity for shareholders to engage directly with the Board and receive an update on business performance. The Company's results presentations and other investor events are also webcast live, and made readily available on the Company's website, enabling a wider audience to access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

Activities during the year

During FY21 the CEO, CFO and Investor Relations team collectively met with over 50% 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 extensively with shareholders ahead of the remuneration policy vote in July 2020.

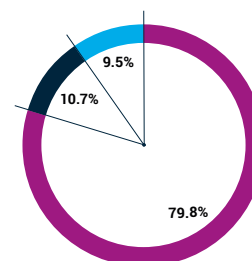
In March 2021, we hosted a virtual investor seminar, which was well attended. This seminar provided greater clarity around the Group's ESG credentials, our approach to the US market and the Digital & Data Transformation Programme we are currently pursuing.

Investors met: By type



■ Shareholders
■ Non-shareholders

Investors met: By investor location



■ UK
■ Europe (ex. UK)
■ North America

Board Leadership and Company purpose continued

Common shareholder topics

Some of the common topics shareholders are asking questions on include:

1.

Growth opportunities

Where the growth opportunities lie and how we will continue to grow in varying budgetary environments is a key topic of discussion with shareholders.

2.

Margin performance

Having guided to an operating margin of 12–13% over the longer-term, shareholders are keen to understand how this will be achieved and what risks and opportunities may prevent us from meeting this guidance or allow us to exceed it.

3.

Investment

Shareholders are often keen to understand more about the currently elevated levels of capital expenditure and what benefits this will deliver, as well as the Digital & Data Transformation Programme.

4.

M&A

Our approach to M&A and how this supports the wider strategy, as well as the integration and performance of recent acquisitions is commonly discussed.

5.

ESG / sustainability

Our ESG credentials have become increasingly important to investors over the past year and our shareholders are eager to understand more.

Timeline 2020



May

- Full year results announcement
- Analyst briefings
- UK Conference (UBS)



June

- Full year results roadshow (UK & US)
- US conference (Barclays)



July

- Governance meetings ahead of AGM
- Trading update and analyst briefings
- Virtual AGM



August



September

- Pre-close trading update



October



November

- Interim results announcement
- Interim results roadshow (UK & US)



December

- Conferences (Goldman Sachs and Credit Suisse)

2021



January

- Trading update and analyst briefings
- Conference (Bank of America)



February



March

- Investor seminar (virtual)

Customer Engagement

One of the Group's key priorities during the year has been to foster closer relationships with customers at all levels. This helps QinetiQ provide value for money and high performance technical solutions to our customers. Customer engagement is underpinned by related, intelligent and persistent communication through a variety of means, building a position of mutual understanding and genuine trust between the Company and its customers. QinetiQ prides itself on building such relationships, taking the time to understand our customers' strategic vision and needs in order to provide timely, effective and affordable solutions that tie into their organisational goals. Given that effective engagement is as much about attitude and behaviour as it is about delivering messages, QinetiQ's customer engagement is affirmed by the timely delivery of programmes, and acting as a genuine, flexible and helpful partner that demonstrates the desire to address customer issues as soon as possible.

Managed by the Strategic Engagement Team, QinetiQ's engagement matrix nominates a GLT-level sponsor and business relationship lead to each customer. The sponsor and business lead engage with their nominated customer(s) as business dictates or, as a minimum, at the frequency determined by the engagement matrix to gain a full understanding of any business opportunities or issues, and to ensure consistency of the Company's messaging.

Community Engagement

At QinetiQ we recognise that it is important that we interact positively with the wider community and environment in which we operate. See more on pages 38 and 46.

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 10am on Wednesday, 21 July 2021 at Portsmouth Technology Park, Southwick Road, Portsmouth PO6 3RU.

The Board encourages shareholders to participate in the AGM and to ask questions. We are delighted this year to for the first time offer shareholders the opportunity to listen remotely to the AGM. Further details of this can be found in the Notice of AGM or www.QinetiQ.com. Shareholders can still be formally represented at the AGM by appointing the Chairman as their proxy and giving instructions on how they wish the Chairman to vote on the proposed resolution. We strongly encourage shareholders to do this. See your Notice of AGM for further details.

Shareholders can ask questions in advance of the AGM by emailing InvestorRelations@QinetiQ.com by no later than 5pm on Monday 19 July 2021. Any questions posted via this format will be answered at the AGM.

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

Division of responsibilities

Role of the Board

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

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

Roles and responsibilities

The Board has agreed a clear division of responsibilities between the Chairman 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:

Chairman Neil Johnson	<ul style="list-style-type: none"> • 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 the each Non-Executive Director makes an effective contribution
Deputy Chairman Michael Harper	<ul style="list-style-type: none"> • Maintains a close dialogue with the Chairman and CEO • Supports and deputises for the Chairman as required
CEO Steve Wadey	<ul style="list-style-type: none"> • Develops the Group's strategy for consideration and approval by the Board and provides effective leadership of the Global Leadership Team in its delivery of strategy • Develops the Group's business model and manages the Group's operations • Oversees the development and implementation by the Global 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 • Ensure the Board is kept fully apprised of the Group's operational and safety performance, risks and opportunities that may affect or contribute to the delivery of the strategy
CFO David Smith	<ul style="list-style-type: none"> • 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 & governance, insurance and internal audit functions • Communicates (with the CEO) the Group's financial performance and strategic progress to investors and analysts
Senior Independent Non-Executive Director Michael Harper	<ul style="list-style-type: none"> • Acts as sounding board for the Chairman and a trusted intermediary for the other Directors • Available to shareholders to discuss any concerns that cannot be resolved through the normal Chairman or CEO channels • Leads the Board in the annual performance evaluation of the Chairman and in developing the long-term plans for the Chairman succession • Meets with the Non-Executive Directors without the Chairman present at least annually, and as required, to discuss Board matters

<p>Independent Non-Executive Directors Lynn Brubaker, Michael Harper, Shonaid Jemmett-Page, Gordon Messenger and Susan Searle</p>	<ul style="list-style-type: none"> • 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 collective broad experience and individual expertise and insights • Monitor and assesses the Group's culture, use appropriate and effective means to engage with the employees and acquire an understanding of other stakeholders' views • Assesses the effectiveness, support and constructively challenge the Executive Directors • Play a lead role in the functioning of the Board's Committees
<p>Company Secretary Jon Messent</p>	<ul style="list-style-type: none"> • Provides advice and support to the Board, its Committees, the Chairman and other Directors individually as required, primarily in relation to corporate governance matters, and Non-Executive Directors' training and development needs • Responsible with the Chairman 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 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 Global Leadership team during the year.

Independence

A majority of the Board is comprised of independent Non-Executive Directors, as is required by the Code. 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 Code. The Chairman was independent upon his appointment in April 2019 and continues to use objective judgement in his Chairmanship.

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, both of whom have served on the Board for more than six years, was subject to a rigorous review by the Nominations Committee in March 2021. When making this assessment, in particular for Michael, who has served on the Board since November 2011, the Nominations Committee based its decision on the fact that both continue to demonstrate integrity and independence in their advice and challenge. Michael and Susan were not 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.

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. Prior to undertaking an additional external role or appointment, the 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. See more on pages 80 to 82.

The Chairman 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 four other companies, two of which she is the Chair. Three of these, Greencoat UK Wind plc, Cordiant Digital Infrastructure Limited and Caledonia Investments plc, are investment trusts rather than full operating companies, and ClearBank Limited is a non-listed 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 Chairman confirms that during the year Shonaid has contributed considerably to QinetiQ's Board and Committee meetings, in particular in her role as the Audit Committee Chair, and she has joined all Board interactions between the scheduled meetings. He is therefore confident and satisfied that Shonaid has the time and availability to commit fully to her role on the QinetiQ Board.

Division of responsibilities continued

Board and Committee processes

The Board has a formal schedule of matters reserved for its approval, which include: 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 these fall within the responsibility and authority of the CEO and/or CFO. The schedule of matters reserved to the Board and the terms of reference of each Committee, which are reviewed and approved by the Board annually, can be found on the Company's website at www.QinetiQ.com.

The Chairman 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 the Group General Counsel & 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 Chairman 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



“QinetiQ aims to have the best people governing our business today and a competitive and diverse talent in the pipeline able to govern the business tomorrow”

Dear fellow shareholder

I am pleased to present the Nominations Committee Report. The Committee’s ambition is to ensure we have the best people governing our business today and a competitive diverse talent in the pipeline able to govern the business tomorrow. The best people will have the necessary experience and skills to shape and support the Company’s strategy, including bringing diverse perspectives on strategic decisions in a way that complements and reflects the knowledge and skills of the Company’s business.

This was a busy year for the Committee as we continued implementing the succession plans we have previously developed to maintain the effectiveness of the Board and its Committees, having regard to the Company’s strategic priorities.

You can read more further down in this report about the appointment process of the Directors appointed during the year and also about the development of our talented senior management team.

Michael Harper has served on the Board since November 2011. During the year he has been instrumental to the Board in his roles as Deputy Chairman and Senior Independent Director. Given the recent changes to the Board, and the tragic passing of Ian Mason, I have asked Michael to stay on a little longer to provide consistency while the new Board members are settling in. The Nominations Committee will during the year identify a suitable candidate to succeed Michael. Further information about Michael’s independence assessment review can be found on page 73.

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.

Neil Johnson
Committee Chairman

Nominations Committee report

Key responsibilities:

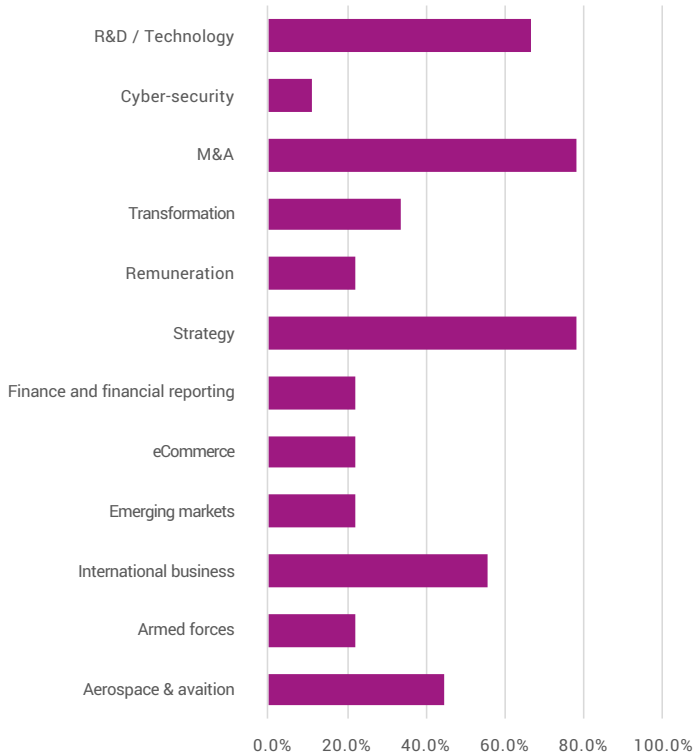
- Keep under review the structure, size and composition of the Board
- Succession planning for Directors and other senior Executives
- Keep under review the leadership needs of the organisation, both Executive and Non-Executive, with a view to ensure the continued ability of the organisation to compete effectively in the marketplace
- Be responsible for identifying and nominating, for the approval of the Board, 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

FY21 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 new Non-Executive Directors with relevant skills and experience to the Board and certain of its Committees, thereby enhancing their strength and diversity
- 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 & Inclusion Policy and the Company’s inclusion initiatives

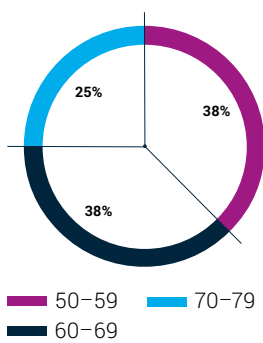
Composition, succession and evaluation continued

Skills and experience

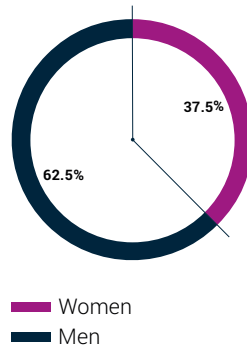


Board

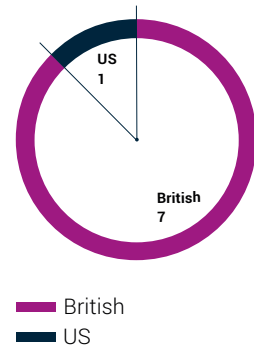
Age



Gender

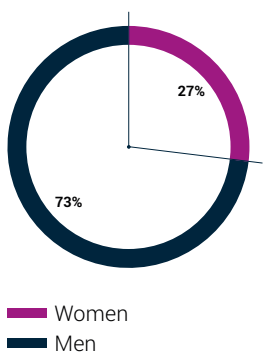


Nationality

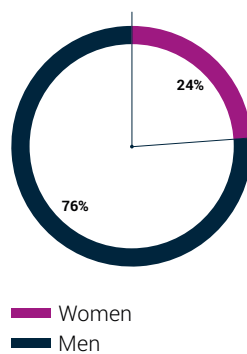


Global Leadership Team

Gender



Direct reports to GLT members



Succession Planning

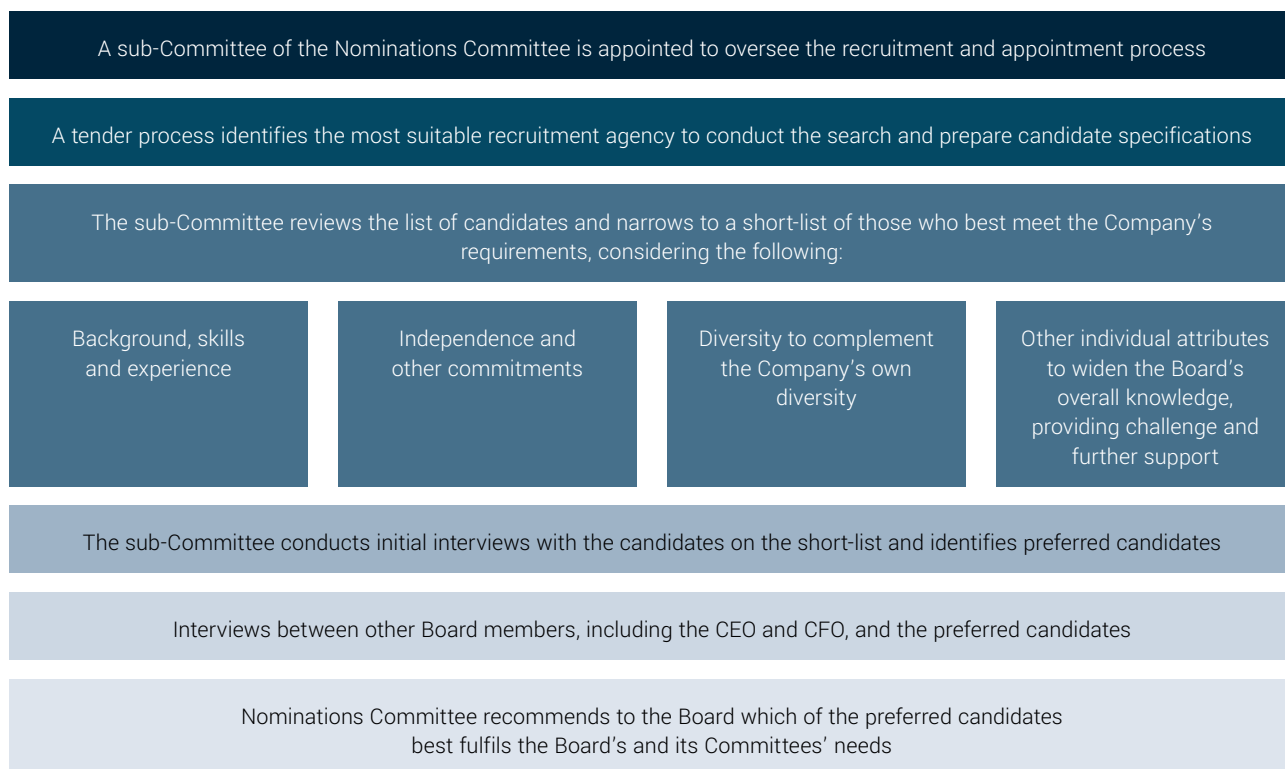
Board and Committees

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 2021, 2022 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	<p>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.</p> <p>The matrix considers the following:</p> <ul style="list-style-type: none"> • Diversity, including age, gender and ethnicity (see more on pages 79 to 80) • Background, professional skills and experience (see more on pages 58 to 59 and 76) • The number and balance of Executive and Non-Executive Directors • Length of tenure (see more on page 78) • Independence (see more on page 73) 	<ul style="list-style-type: none"> • The appointment of Shonaid Jemmett-Page maintained the Board's experience and knowledge in the financial sector • The appointment of Gordon Messenger has brought fresh knowledge and perspective to the Board's risk and security thinking
Ensuring that we get access to the best candidates	<ul style="list-style-type: none"> • Regularly reviewing the recruitment agencies that we use and ensure that they are best placed to find QinetiQ the right mix of candidates capturing the clear benefits of greater diversity 	<ul style="list-style-type: none"> • MWM Consulting Ltd (who has no other connection to the Group) was appointed to assist with the recruitment of the new Audit Committee Chair, which ultimately led to the appointment of Shonaid Jemmett-Page
Ensuring accountability and success of the Board's performance	<ul style="list-style-type: none"> • Annual Board effectiveness and performance evaluation, using an external provider every three years. See more on pages 80 to 82 • Annual review of the Chairman's performance led by the Senior Independent Director. See more on page 82 • Annual independence review of the Non-Executive Directors. See more on page 73 • Continued assessment of the Non-Executive Directors' time commitment. See more on pages 73 • Policy on Board members' appointments to other Boards • Annual performance review of the CEO and CFO, supplemented by the Chairman's and Non-Executive Directors' continual assessment of their performance. See more on page 80 - 82 • A thorough induction programme for new Directors. See more on page 82 • Annual training for the Board as a whole and on an individual basis. See more on page 82 	<ul style="list-style-type: none"> • The FY21 Board effectiveness review concluded that the Board has been effective, engaged with and helpful to the organisation <p>A summary of the Board's decision making, considering s. 172(1) can be found on pages 61 to 64.</p>
	<ul style="list-style-type: none"> • The effectiveness of the Committee's succession plans is demonstrated by the new Non-Executive Director appointments in FY21, having filled the potential gaps in experience and skills, and increased the Board's gender diversity from 22% to 37.5%. 	

Composition, succession and evaluation continued

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.



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
Lynn Brubaker	27 Jan 2016	27 Jan 2022	27 Jan 2025
Neil Johnson	2 April 2019	2 April 2025	2 April 2028
Shonaid Jemmett-Page	19 May 2020	19 May 2026	19 May 2029
Gordon Messenger	12 October 2020	12 October 2026	12 October 2029
% of Directors	1 – 3 years: 50%	4 – 6 years: 17%	6 – 9 years: 33%

Senior management succession planning programme

During the year, the Board, led by the Committee, has also undertaken its usual programme of senior management succession planning. Senior management for these purposes includes the members of the Global Leadership Team (GLT) who are direct reports to the CEO as well as all 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 a detailed annual review of such senior managers' experience and skills and their progress and notable achievements during the year to ascertain their potential for further career progression, including potential succession as Executive Directors. I and my fellow Non-Executive Directors also keep the performance of potential successors to Executive Director roles under regular review throughout the year when they present to the Board and when we visit the Company's operations. This gives us the opportunity to observe senior managers' working practices and relationships with their stakeholders first-hand. Our review complements the Executive Directors' assessment of these individuals' performance in their employment through a formal process of annual reviews, and continual feedback and support. This programme enables the Board to identify any gaps in the senior management succession pipeline and any requirements for senior managers' further development.

During the year, the Board's senior management succession plans were put into action through the promotion of Vicky Weise to Group Functional Director of Business & Transformation. Her promotion was in recognition of her development under the CEO as Chief of Staff and Group Transformation Director. Mary Williams was appointed President QinetiQ U.S., heading up the Company's North American division, and in addition, Sam Lewis joined QinetiQ in May 2021 as the Group Function Director of Business Development.

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), both 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 by developing 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 6), 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 & Inclusion Policy, of which the key points are:

- To achieve and then maintain at least 33% female representation on the Board
- To ensure that its membership 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

These initiatives have resulted in improvements in gender diversity at a number of levels of the business, including:

- Female representation on the Board is currently 37.5%
- Female representation on the GLT has increased from 13% in 2020 to 27% in 2021
- Female representations of the direct reports to the GLT is currently 24%

While we have been successful in achieving the Board's objective of having at least one third female representation on the Board, we have yet not achieved this for our Global Leadership Team, currently at 27%, and their direct reports, currently at 24%. In addition, the Committee continues to be dedicated to accomplish the targets set by the Parker Review (2024 for FTSE 250 companies) to increase the representation of people from ethnic minorities to our Board, the GLT, the GLT's direct reports, and the Company as a whole. The Committee will continue to keep this under review and continue to implement our succession plans in 2021, 2022 and beyond. 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 Board is committed to progress against the targets as set out in the Board Diversity Policy. 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.

Composition, succession and evaluation continued

The employee Diversity & Inclusions (D&I) policy

Page 45 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 KPI with monthly oversight by our executive, and is underpinned by our Inclusion Strategy to be delivered by 2025. To help us reach our goals we have put 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. The D&I champions and network leads meet regularly and the aim of the forum is:

- Promoting the core themes as well as the wider aspect of diversity across QinetiQ
- Encouraging education and awareness among our employees
- Providing support for our colleagues
- Creating an environment where we can all be our true selves at work
- Contributing to and influence policy on D&I

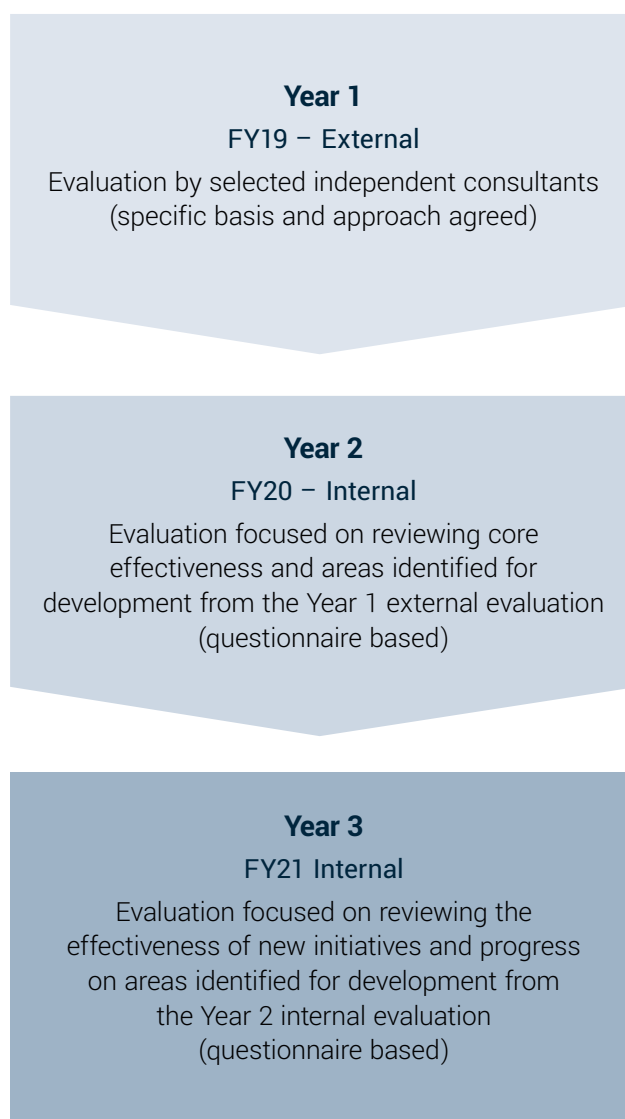
The role of the champions is to:

- To be a focal point and leader on D&I for our Businesses and functions
- To actively lead the internal D&I Steering Group in our functions
- To be a role model and to promote and raise awareness of the benefits of D&I in our business or functions
- To promote D&I as an integral element of business planning
- To be the representative from the business or function on the Group D&I Council
- To engage regularly with the CR&S Director (the Group lead on D&I) to discuss progress and agree plans
- To support corporate initiatives, e.g. – communicating notable dates, data gathering and reporting
- To promote the benefits of mandatory and additional D&I training
- To be the contact point for D&I ideas, issues, concerns and to escalate appropriately
- To identify and challenge any barriers and resistance to embracing the D&I programme
- To facilitate sharing of best practice both internally and externally
- To promote and celebrate good behaviours and ideas

During the year we have already seen significant increase in employee activity and engagement around D&I. We are confident that this will continue in 2021 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 within a three-year cycle, by an external evaluation in the first year of the cycle, followed by two successive internal evaluations. As illustrated by the chart below, FY21 was the third year of the cycle so a second internal evaluation was undertaken ahead of a planned external evaluation at the commencement of a new cycle in FY22. The external evaluation in 2019 was undertaken by Duncan Reed of Condign Board Consulting. Neither has any other connection to the Group.



In line with the cycle illustrated, this year's internal evaluation was conducted by way of the Directors completing anonymous online questionnaires regarding the Board and those Committees of which they are members, and was supplemented by one-to-one discussions between the Chairman and individual Directors. Regular invitees to the Board and the Committees also completed the online questionnaires.

The questionnaires surveyed various topics relating to effectiveness, the leadership and composition of the Board and its Committees, the quality of information and support provided to them, how well the Board and its Committees were considered to have achieved their objectives, how good the opportunity for debate and challenge in Board and Committee meetings was, and how well Directors considered that the Board and its relevant Committees had oversight of the Group's strategy and its management of risk. In addition, specific questions addressed the approach taken by the Board and its Committees during the year to the 2018 Code, in particular as regards to employee engagement and understanding stakeholder views, and how the Directors had managed their responsibilities throughout the COVID-19 pandemic. 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 internal evaluation.

The Company Secretary, in consultation with the Chairman of the Board and Chairs of the Committees, analysed the results of the evaluation by reference to the scores given and the specific observations made, commendations given or improvements suggested, following which such results were presented to and discussed by the Board and its Committees.

The overall outcomes of the evaluations were positive, 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 engagement outside of meetings. The key strengths and areas for further attention identified by the FY21 internal Board and Committee evaluation are shown in below:

Key Strengths

The Board is focused on the long-term strategy, representing the Company's shareholders and increasing the Company's value

New Board members have brought fresh thinking and new perspective to the Board's thinking and processes

Areas for further attention

By way of using Board briefing meetings to aid understanding and focus discussion, and constructive challenge during scheduled Board meetings

The ESG strategy

Further support to management in its work on the Digital & Data Transformation Programme

Composition, succession and evaluation continued

When comparing the outcome of the FY21 evaluation against the principal areas identified for further attention in the FY20 evaluation, the following progress can be noted:

Areas for further attention	Progress during the year
Implementation of the Board's succession plans and review the composition and membership of the Committees	On the recommendation of the Nominations Committee, the Board appointed new independent Non-Executive Directors
Committees to ensure they each comprise the right mix of skills and experience	
Continue to consider and implement the Board's and Committees' plans to address the changes introduced by the 2018 Code, particularly regarding employee engagement and taking account of stakeholder views in the Board's decision-making processes	The Board's and Committees' plans to respond to the 2018 Code have been implemented in all areas, particularly regarding employee engagement and taking account of stakeholder views in the Board's decision-making processes

The Chairman's individual performance

As part of our annual evaluation process, Michael Harper, as Senior Independent Director, led a review of the Group Chairman's performance. At a private meeting, the Non-Executive Directors, with input from the Executive Directors, assessed the Chairman ability to fulfil his role as such. It was concluded that 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 Chairman 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, the Chairman confirmed to the Nominations Committee that all Directors, have during the year demonstrated 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 Chairman, for the two new Non-Executive Directors who joined the Board since the last publication of the last Annual Report, is illustrated by the diagram below:



Ongoing Director training

The Directors have the opportunity to participate in an ongoing training programme organised by the Company Secretary. This include the Company Secretary keeping the Board briefed on relevant regulatory changes, and external training. During the year PwC briefed the Board twice on forthcoming changes to the external audit and governance environment.

Audit, risk and internal control

Accountability

The Board has established processes to ensure that all reports and information, which 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. Details of the process for ensuring that this is the case, are set out on page 89. The Board considers that the Annual Report 2021, 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.

The going concern statement and viability statement are included on page 37, and a summary of the statements of Directors' responsibilities in respect of the Annual Report and the financial statements is set out on page 116.

Risk Management and Internal Control

The Board oversees the systems of risk management and internal control through the Audit Committee and the Risk & Security Committee in conjunction with the risk management and assurance processes detailed in this report. These processes are underpinned by an appropriate mix of techniques used to obtain the level of assurances required by the Board. All Board members attend these Committee meetings, either as a Committee member or as a guest, so as to receive at first-hand the findings of the Committees. Matters of particular concern are escalated for presentation at Board meetings.

The internal audit function, which is independent of the business and has a clear reporting line to the Audit Committee, provides assurance to the Board and its Committees over the effectiveness of the internal control environment. The internal audit function prioritises its work according to risk, including those risks identified by the Group through its risk management processes. Additionally, regular discussions are held between the internal audit function and the external auditor regarding internal audit reports, internal audit plans and the wider control environment.

The Board routinely challenges management to ensure that the systems of internal control are constantly improving in order to maintain their effectiveness. At its meeting in March 2021, the Board reviewed the effectiveness of the systems of internal control that were in operation during the year. Further to this meeting, the Board confirms that it has carried out a robust risk assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity.

The Strategic Report contains details of the Company's principal risks and uncertainties (see pages 1 to 51), their impact on the Company and how they are managed, including the Company's Three Lines Model (see page 31).

Three Lines Model

The Company's system of internal control is based on a three lines model. The assurance activity under the three lines includes the following activities:

- Regular Board, Audit Committee and Risk & Security Committee meetings throughout the year, to consider a structured programme of agenda items determined by reference to Board reserved matters and the Committees' Terms of Reference, and the needs of the business
- Annual strategy review by the Board, performed following detailed input from the Group and Business functions, and development and implementation of divisional plans to deliver against Group strategy
- Annual and monthly budget reviews, performed at Group and functional levels
- Bi-monthly Global Leadership Team meetings at which all Group functional Directors report on key successes, challenges, developments in the months and their performance to KPIs
- Approved delegated authorities to ensure that all major decisions relating to business change, M&A and bids, and significant capital and operating expenditure are taken at the appropriate level
- Group policies and procedures regarding tax and treasury compliance, anti-bribery and corruption, modern slavery and human trafficking, and data usage and protection
- Audits by the Group Internal audit function. The Internal Audit function is independent of the business and has a direct link to the Audit Committee
- Group-wide confidential reporting procedures
- Global Safety Policies and Operating Procedures to set high standards of safety and operation across the Group, and achieve safe and efficient operating outcomes

Board risk management responsibilities:

- Consider and approve the Group's risk appetite
- Review and approve the Group's principal risk register and its processes (upon recommendation by the Audit Committee and the Risk & Security Committee) to identify such risks and actions to manage them appropriately
- Review and approve the Group's emerging risk register and its processes risks (upon recommendation by the Audit Committee and Risk & Security Committee) to identify such risk and actions to manage them appropriately

Audit, risk and internal control continued

Audit Committee management responsibilities:

- Overseeing the control of risk – second line
- Review and approve the financial Group risk register and inform the Board
- Review internal audit reports on the effectiveness of Group risk management controls

Risk & Security Committee management responsibilities:

- Review and approve the Group risk register and inform the Board
- Risk deep dives
- Overseeing risks and risk processes – second line

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.

In addition, the Board reviewed the effectiveness of the Group's confidential reporting process. The Board assessed the current process in place, which was presented by the Group CSR Director and Group Head of Internal Audit. The Board provided challenge and advice on the matter, and was satisfied that the process in place is fit for purpose.

Audit Committee Report



“The Committee’s focus on the integrity of the Company’s financial reporting and robustness of its internal controls, has been crucial in giving assurance in the context of the Company’s control environment during the COVID-19 pandemic.”

Dear Shareholder,

I am pleased to present the report of the Audit Committee on the work carried out by the Committee during FY21, my first as the Chair of the QinetiQ Audit Committee. 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 Committee continues to operate on the basis of an open but challenging dialogue with management and with the internal and external auditors, and the application of an appropriate level of scrutiny. The Committee fulfils a vital role in the Company’s governance framework, providing valuable independent challenge and oversight across the Company’s financial reporting and internal control procedures. Ultimately, it ensures that shareholder interests are protected and the Company’s long-term strategy is supported, which is an ever more crucial task as we continue to navigate through and move beyond the COVID-19 pandemic.

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. I am also available for questions in the meantime via InvestorRelations@QinetiQ.com.

Shonaid Jemmett-Page
Audit Committee Chair

Primary role

To assist the Board in fulfilling its oversight responsibilities by reviewing and monitoring the integrity of the Group’s published financial information, the adequacy and robustness of the Group’s system of internal control and risk management, and the quality and effectiveness of its internal and external audit processes.

Key responsibilities

- Monitor the integrity of the Group’s published financial information and review and challenge where appropriate any significant judgements and estimates made by management
- Evaluate the adequacy, robustness and effectiveness of the Group’s internal financial and other controls
- Support the Board in evaluating the adequacy, robustness and effectiveness of the Group’s risk management systems, for identifying, managing and mitigating principal risk, and identifying and mitigating, where possible, emerging risks
- Review the Group’s policies, processes and controls for the detection and prevention of fraud and for compliance with applicable laws, regulations and codes of conduct
- Approve the activities, review the findings and assess the effectiveness of the Group’s internal audit function
- Monitor the activities, review the findings and assess the independence and effectiveness of the external auditor
- Review the contents of the Company’s Annual Report and Accounts, and advise the Board whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company’s position and performance, business model and strategy

Audit Committee Report continued

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 Committee to be independent and, in accordance with the Code, the Board concludes that the Committee as a whole possesses competence relevant to the Company's sector, having a range of financial and commercial experience in the industry and the commercial environment in which QinetiQ operates. The Group Chairman, CEO, CFO, Group Financial Controller, Group Head of Internal Audit, Group Director Risk & Governance and representatives of PwC attended all Committee meetings by invitation during the year.

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

Three Lines Model

The Company's system of internal control and risk management is based on a three lines model. The Committee's key roles in the three lines model are:

- To oversee, review and challenge the work of the independent assurance functions, principally internal and external audit, thereby adding assurance that the three lines are well designed and operating effectively
- To review and challenge management in relation to the financial reporting of the Group, ensuring its integrity and completeness

Financial reporting process

The Committee regularly reviews the effectiveness of the financial risk management framework, including reviewing key financial risks and assessing the effectiveness of management's remedial action plans.

The Company operates a financial management and control framework, comprising a system of targets, reporting (external and internal), and controls, that is embedded throughout the businesses and on which progress is reported to the Audit Committee and to the Board. The finance function consists of various financial reporting teams who report to the CFO. The Group Finance team comprises qualified and experienced accountants, and is responsible for the preparation of the half-year and annual reports, and for internal financial reporting to senior management and the Board. To ensure consistency of approach and accuracy in financial reporting, the team provides advice on accounting and financial reporting issues to QinetiQ's businesses and sets the Group's accounting policies, which are contained in the Finance Accounting Manual. The team also liaises with the external auditor.

The internal control and risk management systems described on pages 83 to 84 apply to the Company's process of financial reporting and the preparation of consolidated accounts. The activities of the internal audit team and auditor, and the reviews by the Audit Committee and the Board, provide a structured approach to the review and challenge of financial information and financial reporting.

Internal controls

The Committee confirms its view that it has received sufficient, reliable and timely information from management in the last financial year to enable it to fulfil its responsibilities.

The Committee assists the Board in fulfilling its responsibilities relating to the adequacy and effectiveness of the control environment and risk management systems. The Group's system of internal control has been in place for the year under review and up to the date of approval of the Annual Report.

The Committee, on behalf of the Board, undertakes an annual review of the effectiveness of the Group's system of internal control and did so again for the year under review. This system is consistent with the FRC's guidance on the internal control requirements of the Code. The review covered all material controls, including financial, operational and compliance controls, and risk management systems. The Committee and Board receive regular risk management reports and together they ensure that there are adequate internal controls in place and that these are functioning effectively. The Directors consider that the Group's system of internal financial control provides reasonable, but not absolute, assurance in the following areas: that the assets of the Group are safeguarded; that transactions are authorised and recorded in a correct and timely manner; and that such controls would prevent or detect, within a timely period, material errors or irregularities. The system is designed to mitigate and manage risk, rather than eliminate it, and to address key business and financial risks.

Management of US subsidiaries

QinetiQ Inc is a wholly owned company within the QinetiQ Group and manages the Group's US Global Product business. The US Global Products business contributed approximately £208.1m to the Group's revenue in FY21.

QinetiQ's US defence and security business interests, through QinetiQ Inc, are operated in accordance with the terms of a Special Security Agreement (SSA) as required by the US National Industry Security Program. The SSA between QinetiQ Group, QinetiQ Inc. and the US Department of Defence (DoD) (acting through the US Defence Counterintelligence & Security Agency (DCSA)), was entered into in July 2020. The prior QinetiQ North America Proxy agreement, which governed QinetiQ's US defence and security business interests, was terminated on the same day and superseded by the new SSA.

Specifically, the SSA ensures effective management of main facility security clearances; creates an insulation from undue foreign ownership, control or influence; and sets out how the rest of the QinetiQ Group interfaces, collaborates and works with QinetiQ Inc. 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 ultimate foreign owner of QinetiQ Inc. The three types of Directors are Outside Directors, Inside Directors and an Officer Director. These appointments are approved by the DCSA.

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

The Officer Director is responsible for the day-to-day operations of QinetiQ Inc and serves as a liaison between the wider QinetiQ Group and QinetiQ Inc. This position is held by Mary Williams, President of QinetiQ Inc. The Officer Director must ensure that the procedures and requirements of the SSA are effectively implemented, and has an obligation to maintain the security of classified and export-controlled information entrusted to QinetiQ Inc, as well as QinetiQ Inc's ability to perform on classified contracts and participate in classified programmes. This individual must be a resident US citizen who either has or is eligible to possess personal US security clearance.

Outside Directors must be resident US citizens who are objective individuals, have had no prior relationship with QinetiQ that could cause conflict with their objectivity, and possess personal US security clearance. The 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 that is in place to ensure US national security interests are upheld.

During the year, the framework of internal controls in respect of QinetiQ Inc, was realigned with the SSA. The Audit Committee Chair, the Group CEO and the Group CFO regularly communicated with the Audit Committee Chair of QinetiQ Inc, who is also the Chairman of the QinetiQ Inc Board. In addition, the internal audit function worked closely with US management to gain assurance that an effective control environment was in place. The Committee was satisfied that the Group's internal controls were effective and applied as far as possible within the terms of the SSA.

Work of the Audit Committee during FY21

The Audit Committee has assessed whether suitable accounting policies have been adopted and whether management has made appropriate judgements and estimates. Throughout the year, the Finance team has worked to ensure that the business is transparent and provides the required level of disclosure regarding significant issues considered by the Committee in relation to the financial statements, as well as how these issues were addressed, while being mindful of matters that may be business-sensitive.

The preparation of the Consolidated Financial Statements requires the application of certain judgements and estimates. This section outlines the main areas of judgement that have been considered by the Committee, the Committee has reviewed and challenged these items and the Committee's conclusion.

Audit Committee Report continued

Activities during the year

Financial Reporting:

Key uncertainties and judgements/estimates

Specific issues addressed by the Committee for the year ended 31 March 2021 include the following items of significant judgement.

Items of significant judgement	The Committee's review, challenge and conclusion
<p>Long-term contract accounting</p> <p>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.</p> <p>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.</p>	<p>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).</p> <p>The Committee concluded that management's best estimates were reasonable.</p> <p>Two specific onerous contracts were discussed in Committee meetings and a further contract was challenged as to whether or not it is likely to be loss-making and require a provision to reflect this. Following a robust discussion and review of supporting evidence, it was agreed that while there was a risk of the contract in question being onerous that was not the most likely outcome and does not require to be accounted for as such.</p>
<p>Provisions and contingent liabilities</p> <p>The Group holds provisions in respect of legal, regulatory and environmental issues. Judgement is required in determining whether provisions are required.</p> <p>Where a provision is not deemed to be required but a contingent liability exists, judgement is also required in respect of appropriate narrative disclosure.</p>	<p>The Committee reviewed a detailed analysis of provisions provided by management and questioned the completeness and adequacy of such provisions.</p> <p>During the year, the Committee reviewed and assessed management's disclosures in respect of contingent liabilities generally and considered whether any specific disclosures were required in respect of the incident at the Pendine range (an MOD site managed by the Group under the LTPA contract). The contingent liabilities note (excluding any disclosure of potential liabilities that are merely deemed to be remote) are set out in note 32.</p>
<p>Impairment of goodwill and acquired intangibles</p> <p>The Group has a material amount of goodwill and associated intangible assets relating to acquisitions. There is a risk of impairment where the latest view of future business performance is less optimistic compared to the view as at the time of recognition of the assets.</p> <p>An impairment charge has been recognised in the QinetiQ Germany CGU during the year.</p>	<p>The Committee reviewed the outputs of management's annual impairment testing exercise, noting the use of external advisors to prepare the technical assumptions (discount rates, long-term inflation) which have also been verified as appropriate by the external auditors.</p> <p>The Committee had lengthy discussions with management and the external audit team, specifically challenging the revenue and profit estimated to be delivered from key opportunities not yet under contract. The Committee acknowledged that there was a wide range in outcomes to the impairment test which is very sensitive to outer year cash flows. On challenging management, and review of challenge presented by the external auditors, the Committee concluded that the £25.4m impairment recorded in the year was appropriate.</p> <p>The Committee also assessed the Group's disclosures regarding sensitivity of the outcome of the impairment assessment to changes in key assumptions. These were also deemed to be appropriate.</p>
<p>Accounting for tax research and development expenditure credits</p> <p>The Group benefits from significant levels of Research and Development Expenditure Credit ('RDEC') in the UK and accounts for these under IAS 12, rather than as a government grant within IAS 20.</p>	<p>The Committee reviewed management's accounting policy for RDEC (page 170) and disclosure of its impact on the Group's underlying effective tax rate (page 137). The Group's external auditors reassessed the continued application of management's judgement that RDEC should be accounted under IAS 12.</p> <p>The Committee noted that the external auditors deemed the Group's accounting to be appropriate (though other companies do adopt an alternative accounting policy).</p> <p>We have reviewed the disclosures made in respect of tax, in particular around estimates and uncertainties and are satisfied that the disclosures made are appropriate.</p>
<p>Impact of COVID-19</p> <p>The COVID-19 pandemic has caused significant global disruption and economic uncertainty. This could have potential internal control and financial reporting implications for the Group (e.g. asset impairments, longer-term viability assessments).</p>	<p>The Committee received regular reporting throughout the year on the impact of COVID-19 on the Group and noted the strong resilience shown during the last year (together with the favourable impact of key management actions to mitigate any impact). The Committee monitored the continuing effectiveness of the system of internal control and risk management during this period. The Committee concluded that COVID-19 no longer merited disclosure as a Principal Risk and there was no impact on the Directors' assessment of the longer-term viability of the Group.</p>

Going concern and viability statements

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. The Committee also 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 37, including the process on how the process was conducted.

Fair, balanced and understandable

The Board has established processes to ensure all reports and information, which it is required to present in accordance with regulatory requirements, represents 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 FY21 Annual Report & 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 process established and reported on in previous years, and in forming its opinion, 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.

Following its review, the Committee was of the opinion that the FY21 Annual Report & Accounts were representative of the year and present a fair, balanced and understandable overview, providing the necessary information for shareholders to assess the Group's position and performance, business model and strategy.

Prevention and detection of fraud

The Committee reviews the effectiveness of the control environment annually, which includes considering the risk of fraud. In addition, the Committee discuss 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.

Treasury strategy and compliance

The Company maintains a treasury policy which sets the approved level and nature of the Group's debt and hedging facilities, and the headroom to be maintained under them. The Committee regularly reviews the treasury policy, approved changes to it where appropriate and monitored the Company's compliance with it.

Tax strategy and compliance

The Committee reviewed and approved the Company's tax strategy to ensure that it remained appropriate. The Committee also received updates from management about the Group's tax affairs, including the status of any tax audits and tax compliance matters.

Audit Committee Terms of Reference

The Committee reviewed and approved updated Terms of Reference, which are available at www.QinetiQ.com.

Internal audit

The internal audit function is independent of the business and has a clear reporting line to the Audit Committee. The Group Head of Internal Audit reported on four occasions to the Committee on the operation of internal control and risk management processes. The Committee approved the annual internal audit plan, providing input to it and ensuring it was focused on key risk areas and provided appropriate coverage across Group. The audit plan was formally reviewed during the year by the Committee to ensure that resources were adequate and that the plan itself remained risk-based. Any changes to the plan are approved by the Committee.

The annual plan is structured to ensure that all significant financial and non-financial risks are reviewed within a rolling three-year period. The audits cover financial systems, programmes and projects, as well as reviews of specific risks identified through the Group's risk management processes.

During the year, the internal audit function audited the controls in place over a range of key functions across the Group in line with the risk-based internal plan for the year. Specific areas of focus were overseas subsidiaries, internal transformation programmes, contractor management, project management, and payroll.

Significant issues resulting from the audits completed were reported to the Committee, who supported the findings and questioned management over the issues identified. Action plans were put in place and progress of the agreed actions and closures thereof were reviewed by the Committee.

The Board Assurance Map continues to provide further assurance to the Committee, and is based on the three lines model published by the Institute of Internal Auditors (set out on page 31). It is used to identify relevant compliance and assurance providers across the Group, and helps highlight potential gaps in coverage when compared to key business processes and risk areas. As we look ahead, with anticipated changes within UK Corporate Governance on the horizon and global transformation programmes in progress, the Board Assurance Map will be integral to monitoring Group wide assurance and helping to inform future plans within the three lines.

The results of the Internal audit activity in the year continued to indicate that, overall, an effective control environment was in place, with an open culture of continuous improvement being demonstrated by regular management requests for internal audits to be undertaken.

Audit Committee Report continued

External audit

PwC Audit Scope

Reflecting the changing composition of the Group and its expansion in the US, the FY21 Audit Scope was increased to also include QinetiQ Inc. (MTEQ). QinetiQ Inc. contributed £135.5m to the revenue in FY21, as such representing a significant part of the total revenue of the Group, and the Committee viewed it appropriate to extend the audit scope to reflect this.

Non-audit work and auditor independence

The Audit Committee is responsible for QinetiQ'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 auditor.

In order to safeguard the auditor's independence and objectivity, and in accordance with the FRC's ethical standard, QinetiQ 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 Company's policy for the engagement of the auditor 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 Company's own policy.

The Audit 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 auditor require the prior consent of the CFO or the Chair of the Audit Committee, and any services exceeding £50,000 in value require the prior consent of the Audit Committee as a whole. For work that is permissible by type, the Audit Committee will take into consideration the size of the contract in proportion to QinetiQ'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 QinetiQ's policy that no former PwC employee may be appointed to a senior position within the QinetiQ Group without the prior approval of the CFO.

Review of non-audit work during the year

The Committee reviews the cost and nature of non-audit work undertaken by the external auditor 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 had 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 work.

The following auditors' remuneration has been charged in arriving at profit before tax:

All figures in £ million	2021	2020
Fees payable to the auditor and its associates		
Audit of the Group's annual accounts	0.6	0.6
Audit of the accounts of subsidiaries of the Company	0.5	0.2
Total audit fees	1.1	0.8
Audit-related assurance services	0.1	0.1
Total non-audit services	0.1	0.1
Total auditor's remuneration	1.2	0.9

Review of the effectiveness and the independence of the external auditor

At its September meeting the Committee reviewed the results of an effectiveness survey of the previous year's audit process, which allowed learnings to be fed into the current year's planning process. This took the form of questionnaires completed by members of the Group and divisional finance teams, and was supplemented by feedback from the Executive Directors and members of the Committee, together with consideration of the FRC's latest Audit Quality Inspection Report on PwC. The evaluation 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 2018 AGM following a tender process. The current external audit engagement partner is Julian Gray, Senior Statutory Auditor, who has now concluded his fourth year as the Group's audit lead partner. The time line for the mandatory appointment of a new external audit lead partner is five years, and during FY22, the Committee Chair will be working closely with PwC and Julian to identify the next PwC lead partner to manage the external audit team. The external audit contract will be put out to tender at least every 10 years. The Committee considers that it would be appropriate to conduct an external audit tender by no later than 2028.

The Committee and the Board will be recommending PwC's reappointment at the 2021 AGM.

Audit Committee effectiveness review

The evaluation of the effectiveness of the Committee was conducted alongside the Board effectiveness review and carried out by way of a questionnaire. See more on pages 60 to 62.

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

Looking ahead, the Committee is cognisant of a number of key recommendations from the BEIS consultation "Restoring trust audit and corporate governance for companies, audit committees and auditors", noting in particular the strengthening of the role and responsibilities of Audit Committees, but also being subject to more regulatory scrutiny and potential inspection and observation of their activities.

From 2022, all premium listed companies must report in line with the Task Force on Climate-related Financial Disclosures (TCFD) Recommended Disclosures on climate-related reporting, on a comply or explain basis, and include a statement in their annual report to that effect. The Audit Committee will during the year, be working closely together with the Board to ensure compliance with these important areas.

Risk & Security Committee



“The safety and wellbeing of our employees, customers and partners, have remained the Company’s number one priority throughout the pandemic”.

Dear Shareholder,

I am pleased to present our Risk & Security Committee report for FY21, my first as its Chair, which describes our activities and areas of focus during the year.

Risk profile of the Group

The Group has been operating through a period of uncertainty further to the COVID-19 pandemic and the role of the Committee during this period has been to assure the Board that management are proactively preparing for all situations that may impact the Group. Despite the uncertain times, the Group has taken several initiatives to reduce its risk profile. The review of the Group Risk Register, which is described further on pages 30 to 36, 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.

This year the Committee spent further time ensuring that the Group Risk Register remains relevant and accurate. “Red” risks are made the subject of a report to the Committee or become the subject of a deep-dive review as part of the Company’s risk management processes.

Security profile of the Group

During the year, the Committee transitioned into a Risk & Security Committee with one of its core responsibilities now being to also oversee the Group’s physical and non-physical security systems. 2020 and 2021 have been extraordinary with numerous security challenges manifesting themselves either directly or indirectly as a result of COVID-19, and the Group has faced an increased number of security challenges as a result.

Now more than ever, the Committee understands that emphasis has to be placed on the need for a robust, international security capability, which leverages our Group wide capability and experience.

The Committee members and I have, together with the Group Functional Director Business Transformation & Services, Group Director Security and Group Director Risk & Governance, 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.

FY22 Action plan

- Continue to monitor progress of the Company’s wider technology and cyber security transformation
- Continue to increase focus on risk reporting and accountability for risk throughout the Group, both for its UK businesses as well as its global businesses
- Publish a Global Security Strategy to emphasise the importance of security and to drive a culture of heightened security awareness across the Group

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

Risk & Security report

Key highlights FY21

- Reshaping the purpose of the Committee to also focus on physical and non-physical security
- Approved the updated Terms of Reference and the annual schedule of agenda items
- Received frequent updates on health and safety matters, in particular in relation to COVID-19, and the measures put in place to allow employees' safe working, from site or at home, and employees' wellbeing
- Monitored the impact of the COVID-19 pandemic on our business and supply chain
- Focused on the risk management processes in the Group's international businesses.

Primary role

Alongside the Audit Committee, to provide scrutiny, and assurance to the Board, that the required standards in risk management, security, health and safety, within the UK and internationally, are achieved, including driving continuous improvement ensuring that the organisation fulfils its statutory requirements and duty of care.

Key responsibilities

The Committee 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 32 to 36)
- To oversee the Group's physical and non-physical security systems, including monitoring security exposures and security culture, and considering emerging security issues
- Continue 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 & Security structure

All members of the Board are members of the Risk & Security Committee, which is chaired by Gordon Messenger. The Group Functional Director Business Transformation & Services, the Group Director Security, the Group IT Services Director, the Group Director Risk & Governance and the Group Head of Internal Audit attend all Committee meetings by invitation. The Committee met on four occasions during the year.

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 the impact of COVID-19.

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 Global 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	<ul style="list-style-type: none"> • Review risk management structures and reporting lines (i.e. effectiveness of control environment) • Effectiveness of risk reporting processes • Review effectiveness of risk identification processes • Consideration of external auditor recommendations relating to risk management
Risk monitoring	<ul style="list-style-type: none"> • Review of risk register and key exposures • Health, Safety & Environmental Performance • Internal Audit reports • International business governance • Anti-bribery and corruption

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.

Risk & Security Committee continued

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.

FY21 has seen a number of security challenges manifesting themselves, either directly or indirectly, as result of COVID-19. Numerous threat actors have taken the pandemic as an opportunity to target businesses and employees as they adapt to new ways of working and to exploit the vulnerabilities that working remotely introduce. This has been overlaid by more aggressive physical and technical security threats at a strategic level and increasingly sophisticated cyber attacks. Further emphasis has therefore been placed on the need for a robust international security capability, which leverages Group wide capability and experience, shares global risk and threat information and is capable of proactively managing across the full security spectrum.

The Committee regularly receives reports from the Cyber Security team and the Group IT team 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.

Our IT team is continuously testing the effectiveness of our ongoing security awareness programme by sending fake phishing emails to employees and monitoring their response. Any employee who clicks on the links contained in the test emails, or enters their credentials, is provided with further training on the dangers and tips on how to identify phishing emails.

All employees have to complete mandatory information security training each year, which focus on our policies and procedures, cyber and personal security. Our Group intranet also includes a “tips and tricks” section for our employees with guidance on issues such as cyber security, social media and general security awareness.

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).

Health and safety

The Group is committed to providing a safe environment at all Company sites for the benefit of our employees, contractors, tenants and visitors. At each Committee meeting, a detailed update is provided on health and safety matters.

In March 2021 there was an incident at the Pendine range, an MOD site managed by the Group under the LTPA contract, which resulted in one of our employees sustaining life-long injuries. Our focus will remain on supporting our colleague and their family over the coming months, as well as those who work at Pendine and anyone across the business who has been affected by what has happened. We are continuing to support the external investigations into the incident and we have launched our own, to better understand what happened and any lessons we can learn and apply.

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 have 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 47.

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

The evaluation of the effectiveness of the Committee during FY21 was conducted internally, by way of a questionnaire. See more on pages 60 and 62. The performance of the Committee was rated highly overall, and the Committee agreed it would continue to focus on the COVID-19 pandemic, and cyber risk and security in FY22.