Directors' remuneration report continued

Directors' remuneration policy

Introduction

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

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

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

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

The review process

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

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

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

Scope of Policy

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

Changes to the Policy

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

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

Discretion

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

UK Corporate Governance Code

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

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

Executive Directors' Remuneration Policy

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

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

Directors' remuneration report continued

Directors' remuneration policy continued

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

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

Directors' remuneration report continued

Directors' remuneration policy continued

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

Notes to the policy table

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

Remuneration policy for all employees
All employees of QinetiQ are eligible to base salary, benefits and pension.

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

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

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

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

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

Service contracts

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

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

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

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

Directors' remuneration report continued

Directors' remuneration policy continued

Loss of office and change of control policy

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

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

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

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

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

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

'Good leaver' is a person whose cessation of employment is for one of the following reasons:
- Death; ill-health; injury or disability; redundancy; retirement; employing Company ceasing to be a Group Company; transfer of employment to a Company which is not a Group Company; and where the person is designated a good leaver at the discretion of the Committee (as described above).

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

Directors' remuneration report continued

Directors' remuneration policy continued

Malus and clawback

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

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

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

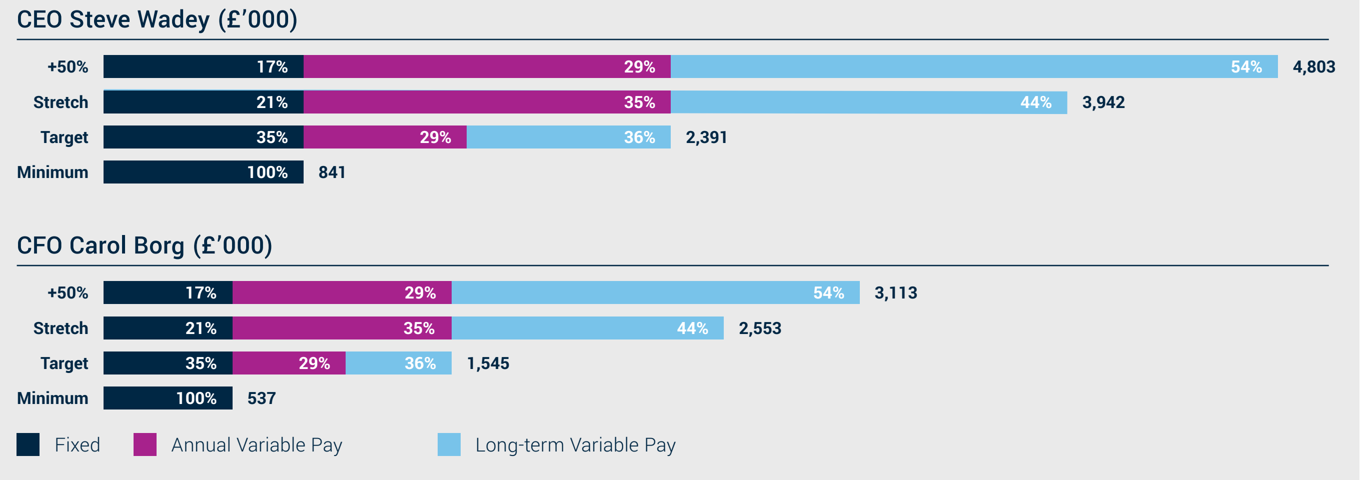
The following table sets out the periods during which malus and clawback may be effected.

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

Pay and performance scenario analysis

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

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



Policy for the Chairman and the Non-executive Directors

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

Chairman and Non-executive Directors

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

Consideration of shareholder and employee views

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

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

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

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