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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 123 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 <ul style="list-style-type: none"> Section 172(1) statement – pages 72 to 73 and 87 to 89 Board of Directors – pages 82 to 84 Code principle B <ul style="list-style-type: none"> Our strategy – page 18 Section 172(1) statement – pages 72 to 73 and 87 to 89 Company purpose – page 90 Culture – pages 91 to 92 Code principle C <ul style="list-style-type: none"> Strategic report – pages 1 to 75 Audit Committee report – pages 109 to 114 Risk & Security Committee report – pages 115 to 116 Code principle D <ul style="list-style-type: none"> Social – pages 54 to 59 Stakeholder engagement – pages 92 to 95 Section 172(1) statement – pages 68 to 69 and 87 to 89 Code principle E <ul style="list-style-type: none"> Social – pages 54 to 59 Employee engagement – page 93 Confidential reporting – page 95 	3. Composition, succession and evaluation Sets out key processes, which ensure that the Board and its Committees can operate effectively Code principle J <ul style="list-style-type: none"> Nominations Committee report – pages 100 to 107 Code principle K <ul style="list-style-type: none"> Board of Directors – pages 82 to 84 Nominations Committee report – pages 100 to 107 Code principle L <ul style="list-style-type: none"> Director effectiveness – pages 106 to 107
2. Division of responsibilities Explains the roles of the Board and its Directors Code principle F <ul style="list-style-type: none"> Governance framework – page 81 Division of responsibilities – pages 96 to 97 Code principle G <ul style="list-style-type: none"> Governance framework – page 81 Board of Directors – pages 82 to 84 Division of responsibilities pages – 96 to 97 Code principle H <ul style="list-style-type: none"> Section 172(1) statement – pages 72 to 73 and 87 to 89 Time commitment – page 98 Code principle I <ul style="list-style-type: none"> Board and Committee processes – page 98 	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 <ul style="list-style-type: none"> Audit Committee report – pages 109 to 114 Code principle N <ul style="list-style-type: none"> Fair, balanced and understandable – page 111 Code principle O <ul style="list-style-type: none"> Risk management – page 108 Audit Committee report – pages 109 to 114 Risk & Security Committee report – pages 115 to 116
	5. Remuneration Describes the company's remuneration arrangements in respect of its Directors, how these have been implemented in FY22, and details of our remuneration policy Code principle P <ul style="list-style-type: none"> Directors' remuneration report – pages 117 to 136 Code principle Q <ul style="list-style-type: none"> Directors' remuneration report – pages 117 to 136 Code principle R <ul style="list-style-type: none"> Directors' remuneration report – pages 117 to 136



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.

Board activities

FY22 saw QinetiQ delivering a good underlying operating performance at Group level. In particular the EMEA Services division strongly delivered on its strategy, winning larger long-term contracts, managing complex programmes effectively and delivering for its customers. However, our result was impacted by two short-term issues; a write-down on a large complex project and a weaker performance in the US, negatively impacted our share price in late 2021. The Board took swift actions to mitigate these issues, including a robust plan to ensure the best possible outcome on the large complex project, see page 87. The Nominations Committee was also able to apply the established Senior Management Succession Programme to assure that we appointed the best possible candidate to lead our US business, and in January we announced the appointment of Shawn Purvis as President and CEO of QinetiQ US, see more on page 88.

To navigate through these issues, we have called on the extensive skills and experience of the entire Board. 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

During the year 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 challenging time. A fuller summary of the Board's activity during the year can be found on page 86, further information about the Group's stakeholder engagement can be found on pages 87 to 89, and 92 to 95.

Environmental, Social and Governance (ESG)

QinetiQ is proud to be acting as a catalyst, by driving and leading these important issues within our sector. During the year, the Board and I have had many discussions on how to best keep evolving our approach to ESG matters. As part of our regular business review, we are able to oversee and monitor management of ESG 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 the Group Chair continued

To ensure that the Board can provide the appropriate oversight of ESG issues we have an established Climate Change Steering Committee, chaired by our CFO. In addition, in FY23, our Global Leadership Team will set up a dedicated ESG Committee, which will be chaired by our CEO, with the aim to provide further support to the business in this vital area.

Health and safety

At QinetiQ, safety and wellbeing remain our number one priority and our commitment to look after our people, customers and visitors is at the heart of our culture. The Board has, during the year, supported the management team in launching the Group Safety Improvement Programme, aimed at developing and implementing a robust safety management system that incorporates key lessons identified and improves our safety culture. Further information on this can be found on pages 54 to 59, and 91 to 92.

Culture

Promoting a culture of openness and debate in the boardroom is one of my key responsibilities as Group Chair, and as a Board we play an important leadership role in promoting the desired culture throughout the organisation. By spending time with the business and its people, the Board and I have seen that the culture and values of QinetiQ (integrity, collaboration and performance), are clearly embedded and genuinely lived. In QinetiQ, I have found a culture that is grounded, responsible and humble, where people have confidence in their capabilities and our strategy, with a strong desire to learn and develop. However, our people have found this year challenging, with the continued impact of COVID-19 and the financial performance shock which required a short-term recovery plan. The company has spent considerable time over the last year supporting our people and getting the culture right, and we are continuing this journey.

Board and management succession

There have been a number of changes to the Board since the last Annual Report. David Smith stood down as Chief Financial Officer in November 2021, and we welcomed Carol Borg as his successor. Carol brings extensive financial and operational expertise in driving disciplined strategy execution. In addition, Larry Prior joined the Board as an Independent Non-executive Director in November 2021.

Succession planning for the Global Leadership Team (GLT) is on track, with the onboarding of Shawn Purvis as our US President and CEO, and the internal promotions of Amanda Nelson as Group Human Resources Director and Mike Sewart as Chief Technology and Operating Officer.

Ensuring a diverse culture on the Board and the GLT is crucial to improving effectiveness, encouraging constructive debate, delivering superior performance and enhancing the success of the company. We currently have a Board comprising 44.4% women and 33.3% women on the GLT. We continue to be committed to our gender and ethnic minority diversity targets for the Board, and the GLT.

Evaluating the Board's performance

Central to setting the correct tone is the review of the Board's own performance. This year we carried out an external assessment, which was conducted by Tom Bonham-Carter of The Effective Board LLP. The positive outcomes of this were well received, and in the spirit of continuous improvement, we also identified areas to work on. Please see pages 105 to 107 for further information.

The suite of evaluation actions from the previous year, alongside progress against these are set out on page 106.

Remuneration

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

Annual General Meeting

We are delighted this year to again welcome shareholders to our AGM. The AGM will be held at 11:00 on Thursday 21 July 2022 at the office of Ashurst LLP, London Fruit and Wool Exchange, Duval Square, London E1 6PW. Further details will be provided in the Notice of AGM and on www.QinetiQ.com.

Conclusion

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

Neil Johnson
Non-executive Group Chair

Board leadership and company purpose



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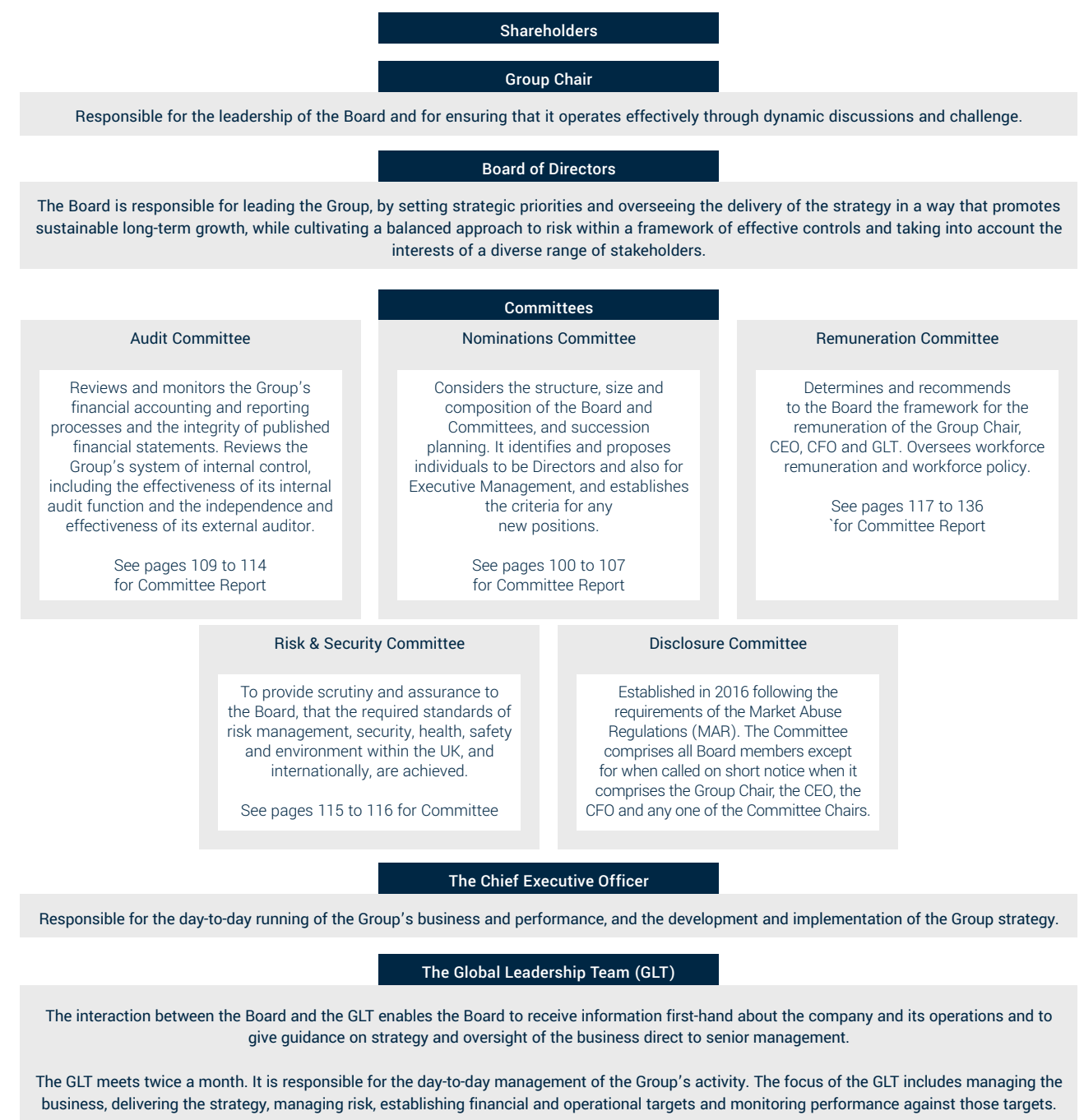
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Board leadership and company purpose

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.



Board leadership and company purpose

Board of Directors – an experienced and balanced Board

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



A N R RS

Neil Johnson
Group Chair
Nationality: British

Skills, competence and experience:
Neil's former CEO experience and current roles as a plc Chair 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 Chair of Motability Operations, Centaur Media plc and Hostmore Group plc.

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



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 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. He was also Chair of the Defence Industry Liaison Board of the UK Department for International Trade, Defence and Security Exports.

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



A N R RS

Carol Borg
Chief Financial Officer
Nationality: Australian

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

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

Other appointments:
N/A

Committee membership key

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



A N R RS

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

Other appointments:
N/A



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

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 Aviva plc.



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.

Other appointments:
UK Member of the international Defence Reform Advisory Board for Ukraine, Board member of the UK Health Security Agency, and Her Majesty's Constable of the Tower of London (designate).



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

Other appointments:
Operating executive for the Carlyle Group, including Non-executive Director of CNSI, Non-executive Director and Chair of the Audit Committee of KLDISCOVERY Inc, and Chair of Two Six Technologies; and independent Director of Shift5.



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

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

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.

Committee membership key

A Audit **N** Nominations **R** Remuneration **RS** Risk & Security



In making decisions, the Board of Directors are cognisant of all their legal duties, including their duty under s. 172(1), see pages 72 to 73, 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. Complex Project – write down

Background – During the year this complex project faced increased risk exposure, as technical issues and a delay on system development arose. In October QinetiQ issued a trading update outlining the issues on the programme. Following this, for the first half-year results we included a write-down associated with this project, reducing orders by £22.5m, revenue by £8.0m and underlying operating profit by £14.5m. We also presented further information on the complex project and QinetiQ's wider contract portfolio in order to provide investors with greater understanding of the discrete nature of this particular project. In January's third quarter trading update, we updated the market that discussions with the customer now indicated contract closure as the most likely outcome, bringing certainty to our exposure, which remained consistent with the £14.5m profit write-down fully contained in our FY22 first half results. Following the trading update in October, the QinetiQ share price reduced by up to 26% (15 December 2021), primarily reflecting market concerns of potential write-down value increases or portfolio contagion. Since then our shares have largely recovered, supported by subsequent trading updates and our full year results which demonstrated closure of the project in-line with the initial £14.5m profit impact given.

Board discussion – During the year the Board was kept up to date on the progress of this project via updates from the CEO at each Board meeting, and from the CFO at each Audit Committee and Risk and Security Committee meeting. By ensuring that QinetiQ's corporate governance framework and governance procedures were adhered to (capturing: risk assessments; financial reviews; and discussions with the customer and suppliers), the Board was able to challenge the management team and provide advice where necessary, and also ensuring that the necessary lessons learned exercises were held and considered.

Board stakeholder considerations and impact

- Shareholders/investors – Trading updates sought to provide increasingly transparent and up-to-date information throughout the year, though full details of the project could not be disclosed due to commercial sensitivities. In addition, the management and investor relation team kept an open and continuous dialogue with investors, helping to restore market confidence by providing clarity, supporting information, and ensuring investor understanding of the remedial steps being taken by the company.
- Customer – The project team kept constant and open dialogue with the customer, ensuring the best possible outcome for both parties.

Outcome and next steps – The contract has now been fully closed and we have mitigated all future risk exposure. The financial impact remains consistent with and contained within the £14.5m write down in our first half results. Our current global order book does not have us working with this supplier nor does this product exist elsewhere in our portfolio. The Board will ensure that lessons learnt from this event are implemented into operational and risk management going forward.

2. M&A – incomplete acquisition

Background – Our M&A work maintains a focus on developing our US inorganic growth strategy, and during the year QinetiQ pursued an opportunity to acquire a sizeable company in the US. Unfortunately this attempt was unsuccessful.

Board discussion – The Board held several phone calls and meetings throughout the process, providing guidance and challenge on the opportunity's strategic fit, investment returns and integration considerations. A summary of the lessons learned from the outcome was also presented to the Board.

Board stakeholder considerations and impact – The Board was regularly kept up to date of the potential transaction's impact on investors, customers, and employees.

- Employees – integration; incentivisation; development and succession issues for management and staff
- Customers – business development opportunities with existing and new customers
- Investors – implications for the Group's forward funding, capital structure and forecast investor returns

Outcome and next steps – Following this unsuccessful bid, we have further refined our strategy to accelerate our future growth. As a result, we have reinforced our M&A pipeline development activity to explore further opportunities to grow our US market position. As a business, we learned an extraordinary amount through this process and have demonstrated that we can credibly contemplate a deal of equivalent scale.

3. Health and Safety

Background – QinetiQ’s Environment, Health and Safety (EHS) strategy sets the direction for how we look after ourselves, each other and the world around us. One of the areas on which it focuses on is ensuring that we continuously improve; learning from experience and strengthening our approach to safety and wellbeing. In achieving this we place an emphasis on leadership. Our most senior people are required to lead the way and role model the behaviours we expect of ourselves and each other. However, the MOD Pendine incident (see more on page 55), has demonstrated that we need to do more.

Board discussion – The Board, led by the Risk & Security Committee, gave the action to the Global Leadership Team to establish a Safety Improvement Programme (SIP) to drive a step-change in our safety culture. As such we developed a new risk assessment process and supporting material, which will improve the way safety risk assessments are carried out across the company.

Board stakeholder considerations and impact – The Risk & Security Committee, led by its Chair Gordon Messenger, closely monitored and guided the management team throughout the process.

Employees – The Committee gave the action to engage safety experts DuPont, to give an independent view of QinetiQ’s safety arrangements and culture, and to advise on best-practice improvements. The feedback will be used to define our refreshed approach to our safety culture where we will be involving all our people at every step of the process, and establishing an environment where it is safe to take a proactive approach, raising issues and concerns and owning the solution (psychological safety).

Outcome and next steps – Changing a culture takes time and we are taking a systematic approach, doing it properly, learning as we go, drawing on external expertise and adapting our plan as needed. We are committed to making the necessary change “stick”. The SIP is the mechanism by which we are driving this improvement across the whole company. The two primary outcomes of the SIP will be a revised QinetiQ Safety Management System (SMS) and a programme of continuous safety culture improvements.

In the short-term, we are focusing on areas where we can make an immediate impact:

- Our risk assessment process.
- Introducing a new global incident reporting tool.
- Continued learning and improvement from our Safe for Life culture surveys.
- Undertaking an in-depth review of our global systems, processes and culture.

4. US – leadership reorganisation operational performance challenges and customer focus shift

Background – US foreign policy has shifted significantly in recent years, which has been amplified by recent events to counteract the near-peer adversaries of the West and NATO allies. The US administration is in the process of responding to challenges that remain and are growing regarding China and also from an increasingly assertive Russia. These changes follow what has been a challenging time within the US defence and security market. The challenging situation with the US defence budget through 2021 and 2022, coincident with the rapid draw-down from Afghanistan, created delays and uncertainty in funding, especially in the areas of research, development and prototyping, where QinetiQ US is particularly strong as an innovation partner to several US customers. As a consequence, these delays, compounded with residual supply-chain issues related to COVID-19, created operational performance challenges for the US business, and impacted its ability to contract and deliver products and services to the US armed forces.

Board discussion – The CEO and CFO provided ongoing direct support to the US management team by way of regular visits to the US office throughout the year. The Nominations Committee oversaw the process of recruiting a new US management team, specifically selected to enhance organic and acquisition-based approach to growth.

Board stakeholder considerations and impact

Employees – Due to the challenges the US business went through a necessary employee rationalisation programme was implemented.

Outcome and next steps – With the recruitment of Shawn Purvis as US CEO and President, and a revised leadership team, the US business is well placed to solidify the current business through further corporate integration, expand business with current customers and partners, and dock in strategically aligned acquisitions.

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

Background – During FY22 the Board confirmed priorities to support the objectives of our Corporate Responsibility and Sustainability (CR&S) Strategy, addressing the key Environmental, Social and Governance (ESG) aspects.

Board discussion – A key aspect of our evolved strategy is a strong and increasing focus on ESG factors. The Board seeks to grow the company in a responsible and sustainable way for the benefit of all stakeholders. Our CR&S strategy is designed to meet stakeholder expectations across ESG themes, aligned with our business strategy. There has been particular focus on climate change this year to meet new requirements, including:

- Net-Zero Plan – Good progress during the year, with candidate targets developed. Underpinning this we mapped our Scope 3 emissions, developed a new carbon calculator and undertook significant employee engagement, including blogs, webinars and the “December Climate Change Challenge”, where employees from across the company shared their ideas in daily blogs, ranging from e-waste, travel and lighting to radiator reflectors.
- TCFD (Taskforce on Climate-Related Financial Disclosures) – A risk assessment was performed during the year, aimed at working with key stakeholders to identify any material risks, and also to develop a sustainable methodology, so that this approach, to understand our resilience to climate change, becomes embedded in our standard risk processes.
- Defence Suppliers Forum (DSF) Climate Change Steering Group – Under DSF QinetiQ have taken a leading role in delivering the first phase of the programme, including producing a Code of Practice for the Defence Sector and some research papers, through three joint industry MOD working groups.
- Publication of our first Carbon Reduction Plan.
- The strategy also addresses other key areas such as diversity and inclusion (Inclusion 2025 strategy, see more on page 56), ethics, and community investment.

Board stakeholder considerations and impact – The Board was continuously kept up to date of investors’, customers’, and employees’ views. A summary of the key considerations which informed the Board’s decision making were:

- Climate change and Net-Zero – The transition to Net-Zero is of material interest to society (with particular focus by investors, customers and employees). The Board supported a new Net-Zero strategy (see page 47), which will be implemented in FY23, and see programmes to reduce our greenhouse gas emissions across our business and embedded in our strategy.
- Customers – Our customers, including the UK MOD, has clearly indicated the importance of climate change, and so we have actively engaged directly, via the DSF programme, to understand how we can support their wider objectives by way of leading (Steve Wadey acting as the industry Chair) and mobilising across the sector.
- Employees – Through COVID-19 we have changed the way we work and have engaged with employees to understand how we can best deliver for our customers. We have developed an adaptive working model, to support our performance and inclusive culture.
- Shareholders and debt providers – QinetiQ’s ESG strategy has been transparently reported and subject to discussions and support in investor meetings.

Outcome and next steps – As part of the 2021 strategy review, the Board agreed the importance of continuing to identify and invest in sustainable solutions for defence and commercial customers, and also in ESG matters as a whole for our employees and shareholders. A dedicated team has been established to ensure the delivery of our Net-Zero plan, and we will continue to engage with stakeholders to ensure they are informed and involved.

Board leadership and company purpose

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 FY22.

Board and Committee attendance – 1 April 2021 to 31 March 2022

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

- 1 Carol Borg was appointed to the Board on 11 October 2021.
- 2 Michael Harper was unable to attend the Audit Committee, Remuneration Committee and Risk & Security Committee meetings on 8 November 2021 due to a conflict with a prior commitment.
- 3 Shonaid Jemmett-Page was unable to attend the Remuneration Committee meeting on 26 January 2022 due to a conflict with a prior commitment.
- 4 Larry Prior was appointed to the Board on 2 August 2021.
- 5 David Smith resigned from the Board on 30 November 2021.

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	>

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 groupA more personal touch through giving someone a Thank Q cardNominate someone or a team for a Thank Q award to receive a voucher for going above and beyond

Board leadership and company purpose

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 continuous 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 give us insights into what the company does well and what could be improved, as well as any particular areas of concern

- The employee interaction with the Global Employee Voice (GEV), discussing the issues which matter most to our employees
- Directors' attendance at various company events, such as:
 - Quarterly virtual Global Employee Roadshows
 - Monthly virtual Global Engagement Network (GEN) events, delivered by the 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 culture

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

Stakeholder engagement

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

- How the decision would align with the Group's over-reaching purpose

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

This section 172(1) statement on pages 72 to 73 explains how the Directors have had regard to the matters set out in section 172(1)(a) to (f) Companies Act 2006, when performing their duty under section 172. The Board aims to promote the success of the company for the benefit of its shareholders as a whole, taking into account the long-term consequences of its decisions while giving due consideration to the interests of the company's stakeholders (including employees, customers, suppliers, shareholders, as well as the environment and local communities which are impacted by our operations), while also considering the importance of maintaining our reputation for high standards of business conduct. Examples of what that has looked like in practice over the past year can be found as follows:

Shareholders	Pages 26, 94, 95
Employees	Pages 26, 93
Customers/suppliers	Pages 26
Environment	Pages 44 to 53
Social	Pages 54 to 59

Further information about how the Directors have accounted for stakeholders in their decision making is set out on pages 87 to 89.

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 26, 54 to 59, and 93.

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 the safety measures associated with the COVID-19

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

How we engage with our employees

Dedicated Non-Executive Director	Neil Johnson is the dedicated Non-executive Director for gathering the views of the employees	<ul style="list-style-type: none">• Two meetings with the Global Employee Voice (GEV)• Attends the Global Recognition Gala and also Global Employee Roadshows• Reports back to the Board
Global Employee Voice (GEV)	The GEV is a global forum that acts as the collective voice of all QinetiQ employees. 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 pages 57 to 58	<ul style="list-style-type: none">• Regular contact with Neil Johnson• Two meetings with Susan Searl, the Chair of the Remuneration Committee• Regular meetings with the Group Function Director Human Resources, who reports to the Board on culture, employee and people strategy, and employee engagement
Global Employee Roadshows	Delivered quarterly by the Global Leadership Team, the Global Employee Roadshows give an update on the progress we are making against our vision and strategy, and provide an understanding of our key priorities for the future	<ul style="list-style-type: none">• Employees have the opportunity to ask questions, either in writing or live• Reported back to the Board by the CEO
Monthly virtual Global Engagement Network (GEN) events – delivered by the Global Leadership Team	The GEN includes approximately 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	<ul style="list-style-type: none">• The members of the GEN feedback to their teams by way of Q-Talks, team meetings and one-to-one meetings
Monthly virtual Q-Talks	Delivered by Business or Function Global Engagement Network leaders, with the purpose of keeping employees up-to-date with what is currently important across QinetiQ	<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	Quarterly surveys enabling the Board and the Leadership team to immediately assess employees' engagement throughout the Group See more on pages 57 to 58	<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	A platform where all employees can access our policies and be kept fully informed of the latest Group news	<ul style="list-style-type: none">• Enables employees to ask questions and discuss topics internally
Confidential Reporting	Our confidential reporting includes an anonymous reporting line for employees to raise any concerns with escalations to the Board as necessary	<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	

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 Group Chair and other Non-executive Directors make themselves available to discuss matters such as governance, ESG factors, remuneration and other relevant topics. The Board is also kept up to date on shareholders' views and concerns through regular Board papers, presentations and feedback from the Investor Relations team.

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

Activities during the year

During FY22 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 with shareholders ahead of the AGM on remuneration matters.

This year has seen increased investor engagement, with many seeing our share price weakness in late-2021 and overall market sentiment towards defence stock improving in early-2022 as a good opportunity to invest. We continue to be proactive in investor engagement, both with our existing shareholders and prospective new shareholders.

Constructive use of the Annual General Meeting (AGM)

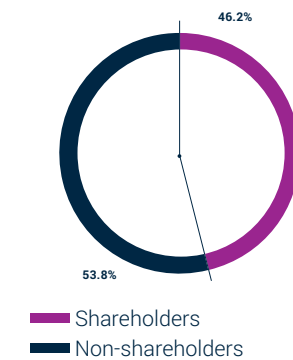
The Notice of AGM and related papers will, unless otherwise noted, be sent to shareholders at least 20 working days before the meeting. For those shareholders who have elected to receive communications electronically, notice is given of the availability of the documents via www.QinetiQ.com. This year's AGM will be held at 11am on Thursday, 21 July 2022 at the offices of Ashurst LLP, London Fruit and Wool Exchange, 1 Duval Square, London E1 6PW.

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

Confidential reporting process

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

Investors met: By type



Investors met: By investor location



Division of responsibilities

Role of the Board

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

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

Roles and responsibilities

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

Group Chair Neil Johnson	<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 each Non-executive Director makes an effective contribution
Deputy Chair Michael Harper	<ul style="list-style-type: none"> • Maintains a close dialogue with the Group Chair and CEO • Supports and deputises for the Group Chair 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 Carol Borg	<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 and governance, insurance and internal audit functions, and climate-change initiatives • Communicates (with the CEO) the Group's financial performance and strategic progress to investors and analysts

Composition, succession and evaluation

Composition of the Board

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

Independence

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

As part of this process, the Board keeps under review the length of tenure of all Directors, as this is a factor when assessing independence. The independence of Michael Harper, Susan Searle and Lynn Brubaker, who all have served on the Board for more than six years, was subject to a rigorous review by the Nominations Committee in March 2022. 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 all continue to demonstrate integrity and independence in their advice and challenge. Michael, Susan and Lynn 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.

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

Shonaid Jemmett-Page holds appointments in four other companies, two of which she is the Chair, i.e. Greencoat UK Wind plc and Cordiant Digital Infrastructure Limited, both of which are investment trusts rather than full operating companies. In addition, the latter and ClearBank Limited are non-listed companies. Therefore by their nature, the time requirements for these roles are not as significant as at a FTSE 250 operating company such as QinetiQ. In December 2021 Shonaid was appointed as a Non-executive Director of Aviva plc. Before her appointment the Group Chair reviewed her current commitments and contribution to the QinetiQ Board, and he confirms that during the year Shonaid has provided significant input and advice at QinetiQ's Board and Committee meetings, in particular in her role as the Audit Committee Chair. He is therefore confident and satisfied that Shonaid has the time and availability to commit fully to her role on the QinetiQ Board.

Board and Committee processes

The Board has a formal schedule of matters reserved for its approval, which includes (but is not limited to) : strategy; risk appetite and review of Group-wide principal and emerging risks; major M&A, contracts and bids; share capital, debt financing and other liquidity matters; financial results and budgets; key policies; Board and Committee membership; and governance. Other matters, responsibilities and authorities have been delegated by the Board to its standing Committees, comprising Nominations, Audit, Risk and Security, Remuneration and Disclosure. Any matters outside of the schedule and the responsibility of the Committees, fall within the authority of the CEO and/or CFO. The schedule of matters reserved 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 Group Chair and the Company Secretary are responsible, in consultation with the CEO and the Chairs of the Committees, for maintaining a scheduled 12-month programme of business for the Board and its Committees, with flexibility for additional business to be discussed as required. The programme ensures that all necessary matters are covered and appropriate time is given for discussion and, if thought fit, approval of relevant business. At each scheduled Board meeting, the Board rigorously reviews updates from the Executive Directors on Group and divisional safety, operating and financial performance, investor relations, and from the Group General Counsel and Company Secretary on legal compliance and corporate governance. Other regular Board agenda items include strategic proposals (including those relating to M&A, major contract bids and capital allocation), transformation and digital programme, risk management (including reviews of risk appetite and Group-level risks), tax and treasury updates, pension updates, human capital updates (including on employee relations, talent development and diversity promotion), and stakeholder engagement. Senior management and external advisers regularly attend both Board and Committee meetings, where detailed discussions on specific matters on which their input or advice is needed. The Board also seeks to hear external viewpoints inside and outside the Boardroom, including from customers, suppliers and experts in areas relevant to the company's strategy.

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

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

Conflict of interest

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

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



Nominations Committee report

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 Chair and Senior Independent Director. Further information about Michael's independence assessment review can be found on page 98.

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 Chair

Key responsibilities:

- Keep under review the structure, size and composition of the Board
- Succession planning for Directors and other senior Executives
- Keep under review the leadership needs of the organisation, both Executive and Non-executive, with a view to 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

FY22 activity highlights:

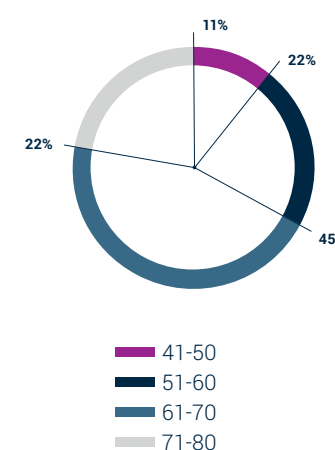
- Reviewed the structure, size and composition of the Board and its Committees, including the skills, experience, independence and diversity of its members, in anticipation of Non-executive Director changes to the Board and its Committees
- Led the process to recruit a new CFO and a new Non-executive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

Skills and experience

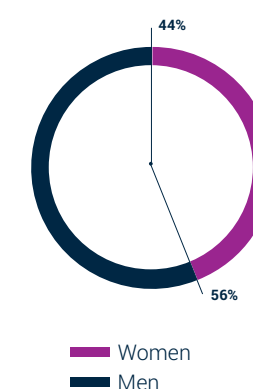
The below bar chart demonstrates the skills and experience of the Board members:



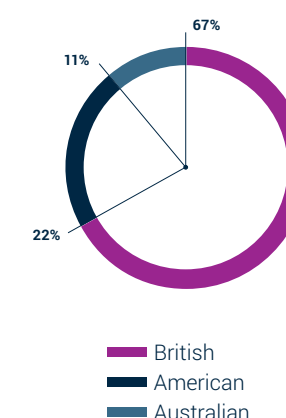
Board members – Age



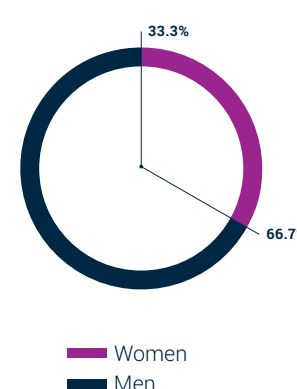
Board members – Gender balance



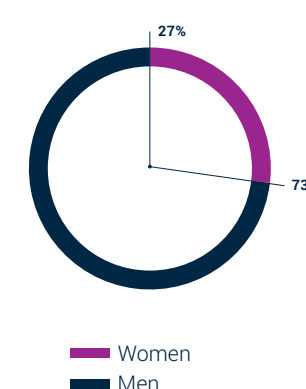
Board members – Nationality



Global Leadership Team – Gender balance



Direct reports to the GLT – Gender balance



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

Composition, succession and evaluation

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 2022, 2023 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 page 101)• Background, professional skills and experience (see more on pages 82 to 85 and 101)• The number and balance of Executive and Non-executive Directors• Length of tenure (see more on page 103)• Independence (see more on page 98)	<ul style="list-style-type: none">• The appointment of Carol Borg as CFO. Carol's appointment to the Board brought vast experience of both operational and financial management, including extensive experience as a strategic business partner in diverse and complex international organisations• The appointment of Larry Prior to the Board' increased the Board's general maturity by way of Larry's wealth of experience as an executive and non-executive from a breadth of sectors including aerospace, defence and government services, IT, and cyber and security. This, combined with his global and US focus, make him ideal to support QinetiQ's progress in becoming an integrated global defence and security company
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. In addition, we pick the best suited agency for the specific role currently recruited for.	<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 Carol Borg, and Russel Reynolds Associates (who has no other connection to the Group) was used for the recruitment of Larry Prior.
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 105 to 107• Annual review of the Group Chair's performance led by the Senior Independent Director. See more on page 107• Annual independence review of the Non-executive Directors. See more on page 107• Continued assessment of the Non-executive Directors' time commitment. See more on pages 98• Policy on Board members' appointments to other Boards• Annual performance review of the CEO and CFO, supplemented by the Group Chair's and Non-executive Directors' continual assessment of their performance. See more on page 106 to 107• A thorough induction programme for new Directors. See more on page 107• Annual training for the Board as a whole and on an individual basis. See more on page 107	<ul style="list-style-type: none">• The FY22 Board effectiveness review concluded that the Board has been effective, engaged with and helpful to the organisation• A summary of the Board's decision making, considering s. 172(1) can be found on 87 to 89
<ul style="list-style-type: none">• The effectiveness of the Committee's succession plans is demonstrated by the new Director appointments in FY22, having enhanced the Board's experience and skills, and increased the Board's gender diversity from 37.5% to 44.4%		

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

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

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

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

Background, skills and experience

Independence and other commitments

Diversity to complement the company's own diversity

Other individual attributes to widen the Board's overall knowledge, providing challenge and further support

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

Interviews between other Board members, including the CEO and CFO, and the preferred candidates

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

Non-executive Directors' length of service

Name	Appointment date	6-year date	9-year date
Michael Harper	22 Nov 2011	22 Nov 2017	22 Nov 2020
Susan Searle	14 Mar 2014	14 Mar 2020	14 Mar 2023
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 Oct 2020	12 Oct 2026	12 Oct 2029
Larry Prior	2 Aug 2021	2 Aug 2027	2 Aug 2030
% of Directors	1 – 3 years: 43%	4 – 6 years: 14%	7 – 9 years: 43%

Composition, succession and evaluation

Senior management succession planning programme

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

The programme includes an annual review of such senior managers' experience and skills and their progress and notable achievements to ascertain their potential for further career progression. The Committee also keeps the performance of potential successors to Executive Director roles under regular review throughout the year during Board interactions and 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 through a formal process of annual reviews, and continual feedback and support. This programme enables the Committee to identify any gaps in the senior management succession pipeline and any requirements for senior managers' further development.

The Board's senior management succession plans were put into action through the promotion of Amanda Nelson to Group Functional Director of Human Resources, and Mike Sewart as Chief Technology and Operating Officer. In January Shawn Purvis was appointed President and CEO of QinetiQ US. She has vast experience in the US defence and intelligence industry, and a long track record of transformational and inspirational leadership, driving performance in complex organisations and delivering large scale acquisition integration.

In FY23, with effect from 1 July 2022, a new smaller QinetiQ Leadership Team (QLT) will be implemented, which will be fundamental in QinetiQ delivering the next phase of sustainable growth and to create a safe and secure environment for employees to thrive in. As part of the implementation of the new QLT, the Committee was delighted to oversee the internal promotion of Mike Sewart to Chief Technology and Operating Officer.

Board and company commitment to diversity

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

- Improve decision-making at all levels of the business by ensuring diverse perspectives
- Attract and retain the best talent 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 90), 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 and Inclusion Policy, of which the key points are:

- To 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

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

- Female representation on the Board has increased from 37.5% in 2021 to 44.4% in 2022
- Female CFO
- Two female Committee Chairs
- Female representation on the GLT has increased from 27% in 2021 to 33.3% in 2022
- Female representations of the direct reports to the GLT has increased from 24% to 27%, and remains a key area of focus
- A member of the GLT comes from an ethnic minority background

Currently all members of the Board are from a white background, however the Committee continues to be dedicated to accomplish the targets set by the Hampton Alexander Review, Parker Review and the new Listing Rules in relation to gender and ethnic diversity at board and executive management level. The Committee will continue to keep this under review to ensure progress against the targets, as set out in the Board Diversity Policy. We believe that our established and effective process, as outlined above, will help us achieve and maintain these important targets in the near future. The company's mandatory requirement for a diverse candidate pool ensures that we continue to have the opportunity to recruit candidates from all gender, cultural and ethnic backgrounds, while we remain focused on recruiting the best candidate for any role based on merit.

BACK FORWARD PREVIOUS HOME



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The employee Diversity & Inclusion (D&I) policy

Pages 56 to 57 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 KPIs 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 2023 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, FY22 was the first year of the cycle and an external evaluation was undertaken by Tom Bonham Carter of The Effective Board LLP. Neither has any other connection to the Group.

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

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

Year 3
FY24 Internal
Evaluation to focus on reviewing
the effectiveness of new initiatives
and progress on areas identified for
development from the Year 2 internal
evaluation

Directors' effectiveness

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

The questions were designed to understand whether the Directors have thoroughly discussed and agreed the use of the shareholders' funds (what, where, when, how and why) to ensure the company is successful while managing the risks inherent in the strategy, plans and the operating environment. This was then augmented by an assessment of how effective the Board is in ensuring that the executive team implements the strategy and plans and manages all the other activities of the company including engaging with all the stakeholders.

For the individual Directors, there were questions on each directors contribution, the manner in which he or 'she contributes and any suggestions for improvements. Finally, there were questions on the effectiveness of the Board's four

Committees which included asking if each Committee fulfilled its terms of reference and how each Committee could improve.

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

The Company Secretary, in consultation with the Group Chair and Committee Chairs, analysed the results of the evaluation by reference to the scores given 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 FY22 Board and Committee evaluation are shown below.

Key strengths	Areas for further attention
Effective implementation of the strategy	To review its programme of monitoring each business unit
Clarity of the company's purpose, vision, and mission as well as its strategy	In light of section 172, to review the company's suppliers and how the company engages with them
The Board works well as a unit, with Board discussions being constructive and the Executive Directors being transparent to the Board and open to advice.	To continue to monitor, oversee and challenge the company's safety culture

When comparing the outcome of the FY22 evaluation against the principal areas identified for further attention in the FY21 evaluation, the following progress can be noted:

Areas for further attention	Progress during the year
By way of using Board briefing meetings to aid understanding and focus discussion, and constructive challenge during scheduled Board meetings	The Board has successfully held a number of discussions between Board meetings
The ESG strategy	The ESG strategy has evolved significantly during the year, see more on pages 44 to 61
Further support to management in its work on the Digital and Data Transformation Programme	This has been and continues to be an area of focus for the Board. Major progress has been achieved, and the implementation process is continuing to plan

The Group Chair's individual performance

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

The Directors' individual performances

The Group Chair, Neil Johnson, held performance meetings with each Board member to discuss their individual contribution and performance over the year, and their future training and development needs. Following these meetings, Neil Johnson confirmed to the Nominations Committee that 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 Group Chair, 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.



Visiting MOD Butec

During the year Shonaid Jemmett-Page and Gordon Messenger visited MOD Butec as part of their induction. The experience provided Shonaid and Gordon with an opportunity to understand the day-to-day work of the business and to gain a real insight into the company's culture and values in an operational setting, outside of the Boardroom.

Ongoing Director training

The Directors have the opportunity to participate in an ongoing training programme organised by the Company Secretary. This 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.

Frameworks for risk management and internal control

The Board is responsible for promoting the long-term success of the company for the benefit of shareholders, as well as taking account of other stakeholders including employees and customers. This includes ensuring that an appropriate and proportionate system of internal control is in place throughout the Group. To discharge this responsibility, the Board has established frameworks for risk management and internal control using a Three Lines Model, see page 63, and reserves for itself the setting of the Group's risk appetite. In-depth monitoring of the establishment and operation of prudent and effective controls in order to assess and manage risks associated with the Group's operations is delegated to the Audit Committee, complemented by the work by the Risk & Security Committee. However, the Board retains ultimate responsibility for the Group's systems of internal control and risk management and has reviewed their effectiveness during the year.

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

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

Enterprise Risk Management

Our Enterprise Risk Management (ERM) is designed to consistently identify, measure, manage, monitor and report the principal risks to the achievement of the Group's business objectives and is embedded throughout the Group. It is codified through risk policies and business standards which set out the risk strategy, appetite, framework and minimum requirements and controls for the Group's worldwide operations. Group reporting manuals in relation to International Financial Reporting Standards (IFRS) reporting requirements and a Financial Reporting Control Framework (FRCF) are in place across the Group. The ERM relates to the preparation of reliable financial reporting, covering both IFRS, and local statutory reporting

activity. The ERM process follows a risk-based approach, with management identification, assessment (documentation and testing), remediation (as required), reporting and certification over key financial reporting related controls.

Board oversight of risk management

The Board's delegated responsibilities regarding oversight of risk management and the approach to internal controls are set out on pages 63 to 70. There are good working relationships between the Board committees, and they provide regular reports to the Board on their activities and escalate significant matters where appropriate. The responsibilities and activities of each Board committee are set out in the committee reports.

Self assessment and certification model

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

Internal financial controls

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

The main elements include:

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



The main tasks of the Audit Committee continue to be the oversight of a robust system of internal controls and risk management across the business."

Audit Committee report

Dear Shareholder,

I am pleased to present the report of the Audit Committee on the work carried out by the Committee during FY22. These pages outline how the Committee discharged the responsibilities delegated to it by the Board over the course of the year, and the key topics it considered in doing so.

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

We foster an ethos of continuous improvement and I am proud of the progress we have made this year in building an integrated risk and control framework across the business, aligning the activities under the Three Lines Model in response to major risks, see page 63 for further details. This has meant a close working relationship between the risk management function and internal audit, the second and third lines. Matt Guy, our Head of Internal audit, explains how he reviewed the Three Lines Model in relation to fraud risk across the business in the Internal Audit section below on page 112.

During the year, a large and complex project ran into difficulty and required provisioning and disclosure. The Committee kept this matter under constant review to ensure provisioning and disclosure were appropriate. The year-end position is discussed in detail in the Significant Judgements section on pages 110 to 111. In addition, we will ensure that lessons are learned from this event.

The US is an area of focus for the business and therefore for the Committee, and this year has seen the appointment of two strong leaders in the senior positions of President and CEO of QinetiQ US, and also its CFO. We need to ensure that there is a robust system of internal control and risk management which is commensurate with our growth ambitions. To this end, the Group Audit Committee is working closely with the US Audit Committee, with the Group Chair speaking regularly, and the internal audit plan includes a review of the US control environment.

Finally the Committee has embraced the relevant aspects of the quickly evolving ESG agenda, including target setting, assurance and reporting. The TCFD reporting, on pages 50 to 53, was reviewed and challenged by the Committee.

I would like to thank David Smith, the former CFO, who gave great support to this Committee over many years, and I welcome Carol Borg who is already bringing fresh perspectives to the work of the Committee and more widely.

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

Shonaid Jemmett-Page
Audit Committee Chair

Audit, risk and internal control

continued

The Audit Committee risk management responsibilities

The Group's system of internal control has been in place for the year under review and is up to the date of approval of the Annual Report. Over the year the Audit Committee has discharged its commitment to monitor the integrity of the of the Group's published financial information, providing the appropriate challenge to any significant judgements and estimates made by management. Furthermore, the Committee has evaluated the adequacy, robustness and effectiveness of the Group's internal financial and other controls. In addition, the Committee has provided support to 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. Finally, the Committee has reviewed 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 and has approved the activities, reviewed the findings and assessed the effectiveness of the Group's internal audit function.

Report from US on internal controls

During the year Internal Audit commissioned a review of the internal financial controls relating to several business cycles and an assessment of the control environment in QinetiQ's US businesses. The review found that, as is common with many growing business at this stage of maturity, additional formality in respect of evidencing and documentation of controls is required. Management has accepted the findings and Internal Audit will monitor progress of implementing the remediation actions.

Task Force on Climate-related Financial Disclosures (TCFD)

QinetiQ has committed to implement the recommendations of TCFD in full, and this is our first disclosure of these important issues. We are devoted to developing a business model that is consistent with the objectives of the Paris Agreement, and therefore reduce our Scope 1 and 2 emissions by 2050. Further details can be found on page 48. The Committee reviewed the proposed disclosures and challenged assumptions and judgements therein.

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 discusses with the internal and external auditors any findings on the quality of the organisation's anti-fraud systems and controls. At each Committee meeting during the year, the Committee members individually confirmed that they were not aware of any case of fraud within the Group at that point in time.

Treasury strategy and compliance

The Group 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 Group'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.

Quality of income

The Committee reviewed the quality of income generated during the year. This entailed assessing the sustainability of income or whether it was generated from one-off items such as provision releases. The assessment informs the Committee's work on whether the accounts are fair, balanced and understandable, and whether any adjustments should be considered in remuneration calculations.

Internal audit

The Group Internal Audit function is independent of the business, operating under the third line as part of QinetiQ's adoption of the Three Lines Model (see page 63 for further details). Internal Audit work closely with other functions providing assurance to help develop a robust system of risk management and internal control, and also to ensure there remains a collaborative approach to assurance across the business and that plans are complementary.

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

The audit plan for the year was built around a number of priorities including the development of an internal controls framework, assessing the progress of key change programmes, and a focus on some specific elements of IT and security, including software licences. In addition, there has been a review of key operational and financial controls in the US businesses.

As commonly happens the audit plan was updated throughout the year, including changes to reflect risks that were identified or concerns which were raised. This led to reviews over purchasing cards and staff expenses being added to the FY22 audit plan.

Based on the results of the audit and assurance activity in the year the control environment is considered to be effective, with an open culture of continuous improvement demonstrated by the business.

Internal Audit will also continue to develop the assurance map of the business, reporting twice a year to the Audit Committee on specific risk areas in order to build the Group wide view of assurance and the effectiveness of the assurance activities. During the year there was a deep dive on fraud risk across the Group, reviewing and assessing the assurance provided under the three lines.

The Audit Committee has assessed the effectiveness of the Group Internal Audit function by way of an annual survey and questionnaire completed by members of the Audit Committee, the external auditors, and a selection of management across the business. The outcome was that the function remains effective, with a number of scores improving over the year. There were also opportunities identified to develop the team with specialist knowledge needed for specific audit assignments.

Looking forward to the forthcoming financial year there are priorities for the audit plan that include delivering assurance over key improvement programmes in the areas of safety and IT, as well as focusing efforts to ensure all businesses within QinetiQ have a common base level of effective internal financial controls.

External audit

PwC audit scope

Reflecting the changing composition of the Group, the FY22 Audit Scope also included QinetiQ Australia, contributing £94.3m to the Group revenue in FY22. The scope also includes full scope reporting from QinetiQ Inc. (C5ISR) and QinetiQ Limited, which remains consistent with the historic audit scope. The scope for Foster Miller Inc. (Technology Solutions) also remains consistent with the prior year with audit procedures being performed over Inventory, Revenue and associated balances only. The Committee viewed it appropriate for the audit scope to be updated to provide sufficient audit coverage over the consolidated financial statements.

Non-audit work and 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 2019 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.

Consideration of breach of 70% rule on auditors' fees

During the year PwC assisted on the Group work connected to the M&A incomplete acquisition, further details can be found on page 87, resulting in that PwC's fees for non-audit services in FY22 exceeded the permitted 70% fee cap. In advance of providing support on this M&A project, PwC had obtained a waiver from the FRC along with approval from the Audit Committee Chair. The Committee considered that PwC's independent advice on the matter would support and enhance QinetiQ's approach to risk management and due diligence which would lead to the creation of shareholder return and value.

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 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.

Audit, risk and internal control

continued

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

	2022 £'000	2022 £'m	% of audit fee	2021 £'000	2021 £'m	% of audit fee
Audit fees	1,112	1.1		1,087	1.1	
Non-audit:						
Audit-related assurance services	91	0.1	8%	84	0.1	8%
Other assurance services	570	0.6	51%	40	0.0	3%
Total non-audit fees	660	0.7	59%	124	0.1	11%
% of three year average audit fees		77%				

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. Since then the external audit engagement partner has been Julian Gray, Senior Statutory Auditor, who has now concluded his fifth year as the Group's audit lead partner. As the time line for the mandatory appointment of a new external audit lead partner is five years, John Ellis of PwC has been identified and appointed as the new PwC lead partner to manage the external audit team going forward. The external audit contract will be put out to tender at least every 10 years, and the Committee considers that it would be appropriate to conduct an external audit tender by no later than 2028.

The Committee and the Board will be recommending PwC's re-appointment at the 2022 AGM.

Audit Committee structure

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

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

The Audit Committee 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.

Audit Committee effectiveness review

The evaluation of the effectiveness of the Committee was conducted alongside the Board effectiveness review. See more on pages 105 to 107. 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 continuing to monitor the developments following the consultation published by the Government in March on proposals for significant reform of audit and corporate reporting.

Statutory audit services compliance

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

Risk & Security Committee report

Dear Shareholder,

I am pleased to present our Risk & Security Committee report for FY22, which describes our activities and areas of focus during the year.

The Risk & Security Committee risk management responsibilities

The Risk & Security Committee provides further scrutiny, and assurance to the Board, that the required standards in risk management, security, health and safety, within the UK and internationally, are achieved. This includes driving continuous improvement ensuring that the organisation fulfils its statutory requirements and duty of care. This assists the Board in reviewing and assessing the Group's risk management systems.

Risk profile of the Group

During the year, the Committee has focused on reducing the Group's risk profile. The review of the Group Risk Register, which is described further on pages 62 to 70, continues to be fundamental for the Committee to undertake its duties. The Risk Register contains details of the company's principal risks and uncertainties, their impact on the company and how they are managed.

Security profile of the Group

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

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 and Services, Group Director Security, the Business Services Director and Group Director Risk and 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. World events have potentially heightened our risk, particularly in cyberspace, and we must be vigilant and innovative to ensure we remain ahead of the ever-evolving threats.

FY23 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
- Continue the implementation of a Global Security Strategy to emphasise the importance of security and to drive a culture of heightened security awareness across the Group
- Continue to ensure that we are recruiting, building and retaining the right workforce skills and talent to drive our physical and non-physical security focus

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

General Sir Gordon Messenger
Risk & Security Committee Chair



The safety and wellbeing of our employees, customers and partners, remains the company's number one priority."

Audit, risk and internal control

continued

Key highlights FY22

- A key initiative during the year in our Integrated Strategic Business Plan (ISBP) FY22 was to improve our cyber incidence resilience
- Launch of the Safety Improvement Programme (SIP) to drive a step-change in our safety culture; ensuring we have the right processes, tools and systems; the skills-set and mind-set needed (physical safety). Moreover, to establish an environment where it is safe to take a proactive approach, raising issues and concerns and owning the solution (psychological safety)
- Focused on the risk management processes in the Group's international businesses

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 62 to 70)
- 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 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.

Risk & Security Committee 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 and Services, the Group Director Security, the Group IT Services Director, the Group Director Risk and Governance and the Group Head of Internal Audit attended all Committee meetings by invitation.

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

Risk reporting is incorporated into the management of the business through the 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 and 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.