

Section 172 (1) statement

We welcome our responsibilities to promote the success of the company in accordance with section 172 of the 2006 Companies Act.

Our Board ensures that all decisions are taken for the long term, and collectively and individually aims to always uphold the highest standard of conduct. Similarly, our Board acknowledges that the business can only grow and prosper over the long-term if it understands and respects the views and needs of the company's investors, customers, employees, suppliers and other stakeholders to whom we are accountable, as well as the environment we operate within.

Typically in large and complex companies such as QinetiQ, the Directors fulfil their duties partly through a governance framework that delegates day-to-day decision making to the employees of the company. The Board recognises that such delegation needs to be part of a robust governance structure, which covers our values, how we engage with our stakeholders, and how the Board assures itself that the governance structure and systems of controls continue to be robust.

Our Chairman, with the assistance of the Company Secretary, sets the agenda for each Board meeting to ensure that the requirements of section 172 are always met and considered through a combination of the following:

Board papers ensure that stakeholder factors are addressed where judged relevant.

Standing agenda points and papers presented at each Board meeting: for example, the CEO presents updates on the financial overview, strategic progress, investor relations, businesses development, and operational progress. The Company Secretary also presents at each Board meeting relevant corporate governance and compliance matters.

A rolling agenda of matters to be considered by the Board throughout the year, including a two-day strategy review, which considers the purpose and strategy for the Group, supported by a budget for the following year and a medium-term (five-year) financial plan. Agenda items for the following year are set based on the discussions held and decisions taken by the Board throughout the year.

Consistent approach to minute taking with details as to when section 172 factors are being considered.

Formal consideration of any these factors which are relevant to any major decisions taken by the Board throughout the year.

Review of many of these topics through the risk management process and other standard Audit Committee, Risk & CSR Committee and Remuneration Committee agenda items.

 For more information see pages 72 to 81.

Regularly scheduled Board presentations and reports, by way of example: customer engagement, risk register reports, health & safety reports, whistle blowing reports (if relevant), defence process review, dividend policy and people and culture strategy and developments.

The discharge of Directors' duties and oversight of these duties, of which further details are included in the Governance section.

 See pages 62 to 71.

Engagement with the company's stakeholders.

 See pages 48 and 49.

Corporate responsibility, including business ethics, anti-bribery and corruption, human rights, environmental stewardship and use of resources, sustainable solutions, greenhouse gas emissions and energy management, investing in our local communities and our commitment to the armed forces.

 For more information see pages 44 to 47.

Effect and impact – principal Board decisions and how the Board considered stakeholders views:

1. Response to COVID-19

With significant uncertainty created by the COVID-19 pandemic the Board oversaw the Group's response with the aim of ensuring we emerge from the crisis well positioned for long-term success, whilst supporting our employees and their safety and continuing to deliver for our customers. For more details on our priorities in response to the crisis, please see page 10.

Consideration	Outcome/impact
Employees	
<p>Considered the health, safety and wellbeing of all QinetiQ employees. In particular, for those still required to be on-site to support customer delivery, the Board deliberated the safety measures to protect their wellbeing. For those able to work from home the Board considered the infrastructure to support this and their working efficiency. Given the increase in homeworking consideration was also given to the increased risk of cyber-attacks and data breaches and how to mitigate this.</p> <p>A range of scenarios whereby QinetiQ experiences subdued demand or inability to deliver for a period of time were debated, with consideration given to how QinetiQ could manage the workforce to match this, whilst protecting our employees' interests and engagement and retaining their expertise within the business for the long-term.</p>	<p>The Board was satisfied that sufficient measures were in place to protect the health, safety and wellbeing of our people and continue to monitor the situation.</p> <p>Additional security measures were deployed to enhance the security of our networks further, in light of homeworking.</p> <p>Actions were taken to reduce costs and minimise the impact on employees, with discretionary costs being reduced, Non-Executive Directors agreeing to lower their fees and the senior leadership community agreeing to pay cuts.</p>
Customers	
<p>Considered continuity plans and our ability to continue delivering for our customers in the event of a significant proportion of the workforce being unable to work due to sickness. The Board also considered near-term demand and how customers' priorities might change over a longer period of time.</p>	<p>The Board were satisfied with the continuity plans in place to ensure the continued delivery of mission-critical work were a large proportion of the workforce to be absent. Particular attention was given to how we will respond to changing customer priorities over a longer time horizon.</p>
Shareholders	
<p>Considered the current liquidity and financial position of the business and various scenarios whereby cash flow deteriorates.</p>	<p>Concluded that the Group was in a strong financial position, but given the considerable uncertainty it was prudent to reduce discretionary cash outflows where possible, to ensure that the Group emerges well positioned to deliver long-term sustainable growth for shareholders. In addition to a range of actions taken to reduce cash outflows detailed on page 11, the Board took action to delay the decision around the dividend payment until there is more clarity around the true liquidity requirements over the coming months.</p>
Suppliers	
<p>Considered the financial health of suppliers, in particular SMEs and their ability to continue supporting QinetiQ in delivering for our customers over the long-term.</p>	<p>The Board supported the acceleration of supplier payments to SMEs to help minimise the impact of the pandemic on their financial health to ensure they can continue supporting us in delivering for our customers over the long-term.</p>

Section 172 (1) statement continued

2. Acquisition of MTEQ

In December 2019 we completed the acquisition of US-based Manufacturing Techniques Inc. (MTEQ). The Board concluded that this acquisition would promote the success of the Group over the long-term by substantially growing our US business and enhancing our capabilities in sensing technology, positively contributing to overall growth.

Consideration	Outcome/impact
Customers	
The Board considered the impact on customer offering and the quality of delivery for both MTEQ and QinetiQ customers. The Board also considered the impact of operating under a Special Security Agreement (SSA), this being a new and amended US governance structure to the previous Proxy regime.	The Board concluded the combination of existing robotics and autonomy capabilities with the advanced sensing solutions of MTEQ would enhance our customer offering in the US. The Board recognised that the new governance structure would enable us to better leverage Group-wide capabilities and that with the right retention plans in place to retain key individuals, the acquisition will benefit customers over the long-term.
Shareholders	
Considered the strategic fit, financial merits and valuation of MTEQ as well as our ability to successfully integrate MTEQ over a long period of time.	Concluded there was a strong strategic fit and the deal should deliver attractive returns in excess of our cost of capital over the long-term.
Employees	
Considered the retention of key MTEQ & QinetiQ employees and approved an integration plan, detailing the Groups strategy to retain key employees. Also considered the cultural fit of MTEQ and the type of work the combined entities could deliver and whether employees will have the required skills to deliver such projects.	Concluded the two organisations were culturally aligned and that the addition of MTEQ's focus on mission-led innovation will enhance our high performance customer focused culture. The Board was satisfied that the combined entities have the skills to deliver the sort of work the combined entities could win.
Suppliers	
With an ambition to move MTEQ towards larger production volumes, the ability of MTEQ's existing supply chain to support larger orders was considered.	The Board was satisfied that the existing supply chain could deliver larger quantities with adequate planning and within reason.
Governance	
The Board considered the importance of the governance structure under which MTEQ would operate for all stakeholders. This extended to considering the environmental credentials of MTEQ.	The move to a 'Special Security Agreement' was concluded to be a positive to our ability to effectively govern our US operation.

3. QinetiQ pension scheme buy in

The QinetiQ Pension Scheme completed a bulk annuity insurance buy-in with Scottish Widows for £690m, covering approximately 33% of the Scheme's liabilities. The Board concluded that a buy-in would remove risk and better position the Group for future long-term success.

Consideration	Outcome/impact
Shareholders	
The Board considered the potential liabilities arising from the pension scheme.	Concluded that the buy-in would reduce possible future calls on the company and therefore strengthen our financial profile, having a positive long-term effect on the company.
Members of the pension scheme	
The Board considered the impact of a buy-in on the members of the pension scheme and the security of the benefits promised.	Concluded that the buy-in represents a significant step in securing the benefits promised to the scheme's members as Scottish Widows, as a large insurance provider, is better positioned to manage risks associated with the pension scheme.

Note: The QinetiQ Pension Scheme buy-in was announced on 10 April 2019. Therefore whilst the transaction took place in FY20, the Board discussions around its approval actually occurred in FY19. However, given the impact of the transaction on stakeholders in FY20 it has been included in the above statement.

4. Acquisition of Newman & Spurr Consultancy Limited (NSC)

In February 2020 we acquired NSC. The members of the Board were satisfied that the acquisition would result in a long-term positive effect for the company with the combination of live and virtual training environments creating further opportunities for growth.

Consideration	Outcome/impact
Customers	
The Board considered the impact of QinetiQ ownership on NSC relationships and also considered the impact on overall customer value proposition.	Concluded that the combination of live and virtual training environments supports our customers in achieving value for money from their training programmes. Given our existing relationships with many NSC customers the Board concluded there to be limited risk as a consequence of QinetiQ's ownership of NSC.
Shareholders	
The Board considered the strategic fit, financial merits and valuation of NSC and our ability to integrate and leverage NSC's capabilities over a long period of time.	Concluded that the acquisition would enhance our offering in the training domain, a key area of growth for QinetiQ, ultimately resulting in value creation for our shareholders.
Employees	
Considered the retention of key NSC employees as well as the cultural fit of NSC and impact of our ownership on NSC employees.	The Board approved the integration plans and concluded a strong customer focus meant the businesses were culturally aligned, with our existing employee engagement strategies likely to continue to motivating NSC employees.
Environment	
Considered how the use of NSC's expertise in virtual training could potentially reduce the use of live training.	The Board concluded this to be a net benefit to the environment, with lower carbon emissions resulting from virtual training.