

People and relationships

Our employees and their relationships with others are at the heart of our vision to be the chosen partner.

At the heart of our vision is partnership, innovation and a vision-led strategy. Our people are critical to this and they make QinetiQ a truly unique organisation. Our values and the strong relationships we have with our people, customers, suppliers, business partners and communities are core to our business success. By harnessing these relationships, we can also create value for society by developing the skills of the next generation and contributing positively to the communities where we work.

to support change. One such approach will be to introduce 'Rapid Improvement Events' to remove barriers and support team collaboration.

➔ **Page 19** Non-financial KPIs: Employee engagement and Employee turnover

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.

Collaboration

The chosen partner for customers and industry colleagues, we are a diverse and inclusive community with a common purpose; every contribution is valued.

Performance

Customer focused and highly responsive, providing operational excellence and assuring safe and secure delivery.

Our people

People strategy

In FY17, we created a new people strategy to support our vision and strategy, that is values-led and balances the needs of employees and other stakeholders. The strategy is based on four integrated elements that work together to develop 'Engaged People in Winning Teams'. The elements are 'Right People', 'Right Culture', 'Right Learning' and 'Right Reward'. We will drive the development of the key elements in FY18.

Engaging our people

Engaged employees are vital to a successful business. The Employee Engagement Group (EEG) is an independent consultative forum which provides a trusted and effective two-way dialogue between the Company and employees. It ensures that our people are informed and engaged on key people issues, especially during times of change and it has been particularly valuable during our transformation. We regularly communicate with employees to ensure they understand QinetiQ's strategy, performance and business priorities. Our communication channels include the intranet, monthly face-to-face Q-Talks with leaders and six-monthly roadshows with the Executive Committee. This ensures that across the Group our people understand how what they do contributes to our strategy and that they are knowledgeable about our Company. In FY18, we will be introducing the 'Global Portal' a new intranet platform, enabling greater connectivity for our people across the Group. We use a number of channels to gather and understand employee engagement. We seek regular feedback as part of our face-to-face sessions with leaders (Q-Talks and roadshows) as well as more formally through surveys. In addition we monitor voluntary employee turnover, which reduced in FY17 (page 19). In FY17 we again used Best Companies to run a survey for all employees (excluding QNA, where they use the Top Work Places survey, administered by Workplace Dynamics), to independently measure levels of employee engagement. This annual survey is complemented by a shorter six-monthly 'pulse' to provide a detailed view of how engaged our people feel. The response rate was 70% and we scored 596 (compared to 623 in FY16). FY17 was a year of significant change, which has been understandably challenging for many employees and this is reflected in the fall in the score. Feedback from the executive roadshows is seeing an upward trend on specific issues, e.g. 'I am confident about the future'. Our employee surveys and feedback help us identify specific areas where we can work to improve performance and engagement and we are committed to acting on the feedback we receive. In FY18 we are seeking to simplify our approach to measuring and action planning on engagement, empowering teams

Corporate values and culture

In FY17, we introduced new corporate values – integrity, collaboration and performance – to underpin our vision and strategy. These values reinforce our ongoing commitment to responsible business practice and our focus on delivering for our customers, through partnership. Their introduction followed a programme to engage with our people in the process of change and to ensure that our values resonate across the diversity of our workforce. The values have been embedded in our updated Code of Conduct and Performance Development Review (PDR) to ensure we capture 'how' people deliver results as well as what results they deliver. Cultural development is a key part of our transformation and four Transformation Action Groups (TAGs) have been set up to address Collaboration, Recognition, Culture and Communication. Under the Recognition TAG, a new employee recognition scheme has been initiated, with categories such as living our values, customer focus, innovation and community.

Safety, health and wellbeing

The safety, health and wellbeing of our people and the environment we operate within are intrinsically linked to our success and underpin our strategic goals.

In July 2016, an air accident involving a contracted-in Yak aircraft operating in support of the Empire Test Pilots' School (ETPS) sadly resulted in the death of an RAF pilot and serious injury to the contractor pilot. We are actively supporting the subsequent official inquiries and will respond to all recommendations made.

The lost time incident (LTI) rate is calculated as the number of lost time incidents, where the employee is away from work for one or more days, times 1,000, divided by the total number of employees. The LTI rate has increased from 5.0 to 5.7 following a small increase in lost time incidents. There were no prosecutions, prohibition notices or improvement notices issued by regulators in the UK during the last financial year.

Lost Time Incident Rate	2017	2016	2015
QinetiQ Group	5.7	5.0	5.6

FY18 will see the launch of a new three-year Health Safety and Environment strategy. We are working together to reduce work-related ill-health and injury where our people are safe and healthy and enjoy a good work-life balance while feeling empowered and involved in making improvements. To assist this we have put in place a new Steering Committee, chaired by the Company Secretary and Group General Counsel, to coordinate the development and implementation of the strategy. Part of our new strategy involves the ongoing roll out of 'Safe for Life' across the Group during FY18, which focuses on behavioural safety aspects to improve safety and health (See page 18).

Equality, diversity and inclusion (ED&I)

For sustained business success, it is vital to create a workplace that is inclusive; where our diversity drives innovation and creativity for our customers. To achieve this, we have revitalised our programme to ensure we create a workplace and culture where everyone can be authentic, feel valued and realise their full potential. Under the new ED&I strategy we will focus on leadership and culture, training, communication and awareness, recruitment and outreach. In FY18 we will deliver updated training for key roles, review policy and introduce Fair Treatment Advisors who will provide an additional route for advice and support for our people. We will continue to collaborate with like-minded organisations and networks to share ideas. QinetiQ is subject to new Gender Pay Reporting legislation and will be publishing information later in 2017. The breakdown of employees by gender as at the end of March 2017 is shown below.

	Female	Male
Board Directors ¹	2 (22%)	7 (78 %)
Senior Managers ²	40 (17% ³)	201 (83%)
All Employees ⁴	1,169 (20%)	4,742 (80%)

¹ For more information on Board diversity see page 53.

² Excluding senior managers who are also Board Directors (CEO and CFO).

³ Up from 14% in FY16.

⁴ Excluding senior managers.

For more information on ED&I

www.QinetiQ.com/about-us/corporateresponsibility



The 5% Club – Investing in a Generation

As with many companies in our sector, we need to consider the age diversity of our scientists and engineers and we are taking a number of steps to ensure access to talent now and in the future. QinetiQ is a founding member of The 5% Club, which aims to increase the employment and career prospects of today's youth and equip the UK with the skilled workforce it needs. A commitment of the campaign is to publish the number of employees on apprenticeships and graduate programmes and sponsored students; the breakdown is shown below. We have seen a slight reduction this year, due in part to the acquisition of QinetiQ Target Systems, and as a result of our reorganisation, which has meant a change to how we recruit. Our plans for next year will see us increase our investment in QinetiQ Early Career programmes.

	FY17	FY16	FY15
Apprentices ¹	146	150	208
Graduates	106	135	102
Sponsored students	10	25	8
% UK workforce	4.9%	5.7%	5.9%

¹ Not including 12 employees undertaking the Systems Engineering Masters Apprenticeship Programme.

The Academy is executing Company-wide graduate and apprentice programmes with core learning modules and managed placements. This will be a significant factor in attracting people to our Early Careers programmes and our continuing commitment to The 5% Club. Our QinetiQ Apprentice Training School is confirmed as a Registered Approved Training Provider and we train not only our own apprentices but also those of customers such as DSTL and the National Crime Agency.

Page 24 Principal risks and uncertainties: recruitment and retention

Page 19 Non-financial KPI: apprentices and graduates

Learning and development

The QinetiQ Academy is a fundamental enabler of our vision and strategy, helping our people to develop and fulfil their potential, through three faculties – People, Business and Engineering, Science and Technical. Our learning management system has been developed further in FY17, providing employee access to a growing catalogue of training courses and we have invested in supporting a number of our people to undertake PhDs, as part of our IRAD programme. Key highlights in FY17 include a suite of aligned development programmes:

- Executive Committee development programme.
- Leadership development programme for our top 100 leaders (see page 14).
- Managers have been trained on a revised PDR process, via a programme called 'Raising the Bar'.
- A management development programme (MDP) to develop our 1,100 line managers; MDP covers management transformation and leadership culture.

Business ethics and anti-bribery

Our Code of Conduct lays out our ethical standards, providing our people with clear direction and guidance on how we do business across the Group and how to get help. The Code (which has been updated) forms a cornerstone of our Operating Framework (see page 64 for more on governance and the role of the Risk & CSR Committee). Training on business ethics is mandatory for all of our people, as well as Board members and is available for our suppliers and customers. As well as explaining the Code of Conduct, the training provides challenging scenarios to help our people know what to do if they were to come across issues such as bribery, conflict of interest, discrimination and modern slavery. Our people are provided with a number of routes to seek help or raise concerns. They are encouraged to talk to a manager, use our ethics email advice services and our independently-run 24/7 confidential reporting line (see page 58). We have provided prompt help and advice in response to all queries received via our ethics email advice services and all communication through the confidential reporting line is appropriately investigated.

We have a zero-tolerance approach to bribery and corruption and have put in place a range of governance measures. Our anti-bribery programme is overseen by our Chief Ethics Officer (the Group General Counsel and Company Secretary). We address the risk of bribery in our international business risk management process; undertaking due diligence, monitoring and auditing of our use of commercial intermediaries. We use expert third-party providers of due diligence where appropriate. We provide more in-depth anti-bribery training for those in higher risk roles, for example those who carry out overseas business.

Page 22 Principal risks and uncertainties

People and relationships continued

Human rights

We seek to anticipate, prevent and mitigate potential negative human rights impacts through our policy and processes, which underpin our commitment to responsible business practices. These include our Code of Conduct, business ethics training and policies to support adherence to export controls, health and safety, non-discrimination, anti-bribery and environmental laws. This is further supported by our procedures on product and service trading, product safety, sustainable procurement, due diligence and risk management. We monitor the application of these policies and procedures through our business assurance processes. We believe that this embedded approach is effective. We have a structured approach to understanding human rights risk within our international business risk management process and in our supply chain. Our ongoing programme to address modern slavery has resulted in updated policies and training. Our statement on modern slavery and human trafficking is published on our website.

➤ **For more information on business ethics**
www.QinetiQ.com/about-us/corporateresponsibility

Relationships

The relationships we have with customers, suppliers, business partners and communities are core to our business today and in the long term. For us, working collaboratively with these groups delivers better outcomes which will drive growth, innovation and transformation. Collaboration – one of our three values – will help us to realise our vision to become the chosen partner around the world for mission-critical solutions, innovating for our customers' advantage.

Customer focus

Collaborative working is a critical enabler of success throughout our strategic campaigns, for us, our customers, partners and suppliers (page 6). During FY17, we have placed significant, focused effort on strengthening our relationships with the UK MOD and the broader UK Government agencies and this can be seen in the progressive contracts we have won under the LTPA delivering true transformation across the UK test and evaluation enterprise. We have also taken significant steps forward on improving vital connections with industry partners, with collaborative agreements signed with BAE Systems, Boeing Defence UK, MBDA and Thales. By working collaboratively, we will secure joint growth with our partners and suppliers to provide our customers with better capability and value for money while accelerating programme timelines and reducing risk.

We are signatories to the Armed Forces Corporate Covenant. In 2016, Steve Wadey was presented with the MOD's Gold Award by the Duke of Cambridge, as part of the Defence Employer Recognition Scheme. The scheme encourages employers to support defence and inspire others to do the same. The award recognised our approach to recruitment and our commitment to our employees who are reservists.

➤ **Page 18** Non-financial KPI: customer satisfaction

Supply chain

At QinetiQ, we see our supply chain as a critical asset as we look to grow our business. This year has seen an unprecedented investment in our supply chain in support of the test aircrew training and air range modernisation interventions, and many of our future key campaigns are dependent on partnering and contracting with industry to deliver integrated solutions to our customers. We are committed to making QinetiQ easy to do business with, especially for the SME community. This commitment has been demonstrated by our innovative approach to supply chain engagement on our Strategic Enterprise programme. Our approach to safety and governance in our supply chain remains paramount. We continue to refine our approach to risk management in the supply chain across the Group to both protect the interests of QinetiQ and its shareholders, and also the employees of our subcontractors.

Community relationships

As a responsible employer, we invest in making a positive difference in the communities where we operate. Across QinetiQ Group, we provide employees with time for skills-based volunteering, (typically one day, at manager discretion). Our main focus is our Science, Technology, Engineering and Maths (STEM) outreach programme which aims to inspire the next generation of scientists and engineers, contributing to solving skills shortages and youth unemployment and underpinning our approach to skills, recruitment and retention. This year we have engaged with over 5,700 young people through bespoke activities and with teachers (see case study). We have also engaged with over 6,300 young people at events such as The Skills Show. Outreach focused on girls forms part of our ED&I strategy. As part of National Women in Engineering Day 2016 we hosted inspirational events for young women at six locations across the UK. We will continue to promote the benefits of skills-based volunteering in FY18.

➤ **Page 24** Principal risks and uncertainties: recruitment and retention.

Some of the sites we manage on behalf of the MOD have dedicated full-time Community Liaison Officers who manage local community and stakeholder relationships specific to the site. This year saw the end of our five-year partnerships with our existing employee charities, donating a total of £251,800 through employee fundraising and corporate matched funding. In the UK, employees have voted to select new corporate charities and we have also selected local Charity of the Year partners across many of our UK sites. In the US, employees fund-raise for a number of defence charities and in Australia we have a two-year partnership with the Australian War Memorial in Canberra to provide in-kind advisory services and engineering expertise.

➤ **For more information on community relationships**
www.QinetiQ.com/about-us/corporateresponsibility



STEM Outreach:

Empowering teachers

In July 2016, we hosted teachers from Farnborough Sixth Form College for a week-long STEM Insight placement to offer them a real-world insight and a better understanding of the skills young people need in STEM careers. The programme is run by STEM Learning and is supported by face-to-face and online Continuing Professional Development. A full case study is available at www.QinetiQ.com/about-us/corporate-responsibility.

Resources and environment

Our aim is to deliver continuous improvement in our environmental management so that we play our part in protecting the environment.



Graduates participated in a workshop designed to raise awareness of our approach to energy management and to grow our network of Energy Champions. One of the speakers joined the workshop by video conference, to demonstrate our improved facilities. Commenting on the day, a graduate said: "Throughout the workshop as you understand more about consumption, the easier it becomes to think of ideas that may seem small but could have the potential to have a big impact on our usage."

With increasing pressure on natural resources, climate change and global ambitions arising from the Paris Agreement and the UN Sustainable Development Goals, we play our part in protecting the environment and support the sustainability requirements of our customers.

Environmental stewardship

Our overall aim is to deliver continuous improvement in our environmental management. We are on target to successfully transition to ISO 14001:2015 and are due to achieve certification in the next financial year. Part of this, has been our ongoing commitment to review policy and process and communication with our people. In FY17, we assessed climate change risks on some of the main sites we operate and identified appropriate mitigations. We continue to be active members of the MOD – Industry Sustainable Procurement Working Group to ensure that we understand the sustainability agenda of a key customer. During FY17 we supported the successful delivery of Unmanned Warrior through close working and collaboration with QinetiQ project teams, industry partners and customer representatives. This involved sharing knowledge and experience to help meet and exceed our customers' expectations, ensuring local areas of conservation were not affected and in particular, important seal haul-outs.

FY18 will see the launch of a new three-year health, safety and environmental strategy. Through continuing to mitigate our main environmental impacts and risks, and ensuring environmental considerations are addressed through the supply chain, we will continue to improve our environmental performance. The development of a stakeholder focused communication plan will enable us to improve the transparency of our environmental performance and embed our environmental approach into our whole culture to meet the expectations of our stakeholders.

Greenhouse gas emissions and energy management

Managing our energy reduces our impact on the environment and it improves our operational efficiency. In the UK business last year we achieved certification to ISO 50001 (BS EN ISO 50001:2011 Energy Management System) in recognition of the systems and processes in place to manage our energy consumption. We have used the framework to improve our approach to energy management and strive to embed energy efficiency best practice across the UK business. We continued our Energy Matters programme, communicating with our people, growing our network of Energy Champions and empowering our Energy Engineers to identify and implement energy saving projects. As part of transformation, the modern working environment programme has seen significant improvements in our video conferencing capability which can support a reduction in travel. We meet the requirements of ESOS (the Energy Savings Opportunity Scheme) through a combination of ISO 50001 certification and an energy audit report produced by our appointed ESOS Lead Assessor. We continue to submit voluntarily to the Carbon Disclosure Project Climate Change Programme, and are registered for the Carbon Reduction Commitment (CRC) scheme.

Our Group greenhouse gas (GHG) emissions are captured to meet the requirements of the Companies Act 2006 (Strategic report and Directors' report) Regulations 2013. The table below provides a summary of the Group's GHG emissions from 1 April 2016 to 31 March 2017, giving a summary of Scope 1 (fuel combustion and operation of facilities) and Scope 2 (purchased electricity) emissions and an intensity ratio (per £m of revenue). We have adopted a financial control approach and have used the latest emissions factors from the UK Government, and the International Energy Authority. Our overall emissions have reduced by 13,192 tonnes of CO₂ (tCO₂e) against the FY14 base year (our first year of GHG reporting for the Group). In FY17, we saw a 10% reduction against the previous financial year through a combination of new building management system projects, changes to operational activity, a milder winter and changes in GHG emission factors. We have made improvements to our GHG calculation methods and have identified some minor new emission sources. We have therefore corrected the FY16 data reported below compared with previously reported data. Our Scope 1 and Scope 2 emissions have been externally verified by an independent third party, Carbon Credentials, against the ISO 14064-3 standard. The verification statement can be found on our website.

For more information on GHG verification

www.QinetiQ.com/about-us/corporateresponsibility

	FY17	FY16	FY15
Total Scope 1 emissions (tCO ₂ e)	21,245	23,691	26,534
Total Scope 2 emissions (tCO ₂ e)	31,210	36,857	39,668
Total Scope 1 and 2 emissions (tCO ₂ e)	52,455	60,548	66,202
Intensity ratio (tCO ₂ e per £m of revenue)	67	80	87

Energy use in the UK currently forms 81% of our total emissions and were 42,416 tCO₂e in FY17. We set a target of a 17% reduction in our GHG emissions due to UK energy use by 2020 from a 2013 baseline of 53,567 tCO₂e. At the end of FY17, we surpassed our target with a 23% reduction against the base year. We have committed to carry out a review of our existing GHG target, using a science-based targets assessment framework, and this will inform our decision on our future approach.