

CORPORATE GOVERNANCE STATEMENT

AN INTRODUCTION FROM OUR CHAIRMAN



Mark Elliott
Non-executive
Chairman

Dear Shareholder,

This report focuses on how the Board has carried out its functions, its oversight of strategy and management activity, how it has applied good governance practices and how QinetiQ has complied with the requirements of the UK Corporate Governance Code, related regulations and guidance.

During the year under review, QinetiQ has progressed with delivery against the objectives of its vision-based strategy under the leadership of the Executive Committee. The Board has continued to enhance, as well as provide necessary challenge to, the development and implementation of the strategy, in particular through the annual strategy meeting in October.

During the year, the Company has focused on the modernisation of the UK Defence Test and Evaluation enterprise, growing its international business and innovation. Further details can be found on page 45 in relation to the Board decision-making around these topics.

As part of the process of implementing the strategy, the Board regularly reviews its own composition and size, to ensure it has the right balance of talent, skills and experience to support the Company's strategy. We believe that equality, diversity and inclusion are fundamental for our strategy to be successful. To achieve an optimal culture within the Group, and decision-making which is informed by a range of expertise, experience and cultural perspectives, we are striving for our workforce to be diverse in gender, background, age and ethnicity. Further details on the Board Diversity Policy can be found on page 59.

The Non-executive Directors continue to bring independent judgement on key issues affecting the Group, and the Board intends to continue to provide a solid foundation of robust corporate governance to underpin the work of the executive management team as QinetiQ proceeds with its strategic campaigns.

Mark Elliott
Non-executive Chairman
24 May 2018

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The Board has continued to enhance, as well as provide necessary challenge to, the development and implementation of the strategy.”

CORPORATE GOVERNANCE STATEMENT

COMPLIANCE STATEMENT



Throughout the year of reporting QinetiQ has been compliant with the relevant provisions of the Financial Reporting Council's (FRC) UK Corporate Governance Code (the Code) as currently in effect. The Code and associated guidance are publicly available on the Corporate Governance page of the FRC's website, www.frc.org.uk.

The main principles of the Code focus on Leadership, Effectiveness, Accountability, Remuneration and Relations with shareholders. This statement provides an overview of how the Board has applied the main principles of the Code during the year of reporting.

A. Leadership

A.1 The Role of the Board

The Board of Directors represents the interests of QinetiQ and its shareholders. The Board has ensured that there is a framework of prudent and effective controls which enable risk to be assessed and managed, along with key policies and procedures and for the business to implement strategy and monitor operational performance through the Board's direction and advice.

Details of the Board and Committee membership and Directors' attendance at Board and Committee meetings are set out on pages 46 and 47.

A.2 Division of Responsibilities

The roles of the Chairman and Chief Executive Officer are separate, clearly established, set out in writing and agreed by the Board.

A.3 The Chairman

The Chairman, working with the Company Secretary, sets the agenda for the Board meetings and encourages an open and constructive debate. On appointment as Chairman in March 2010, Mark Elliott met the independence criteria as set out in the Code.

A.4 The Non-executive Directors

Non-executive Directors are appointed for a term of three years, subject to annual re-election in accordance with the Code. The Board undertakes an annual review of the independence of the Non-executive Directors.

The Non-executive Directors bring independent judgement on key issues affecting the Group and its business operations, including strategy, performance, resources and standards of conduct. They provide constructive challenge to management and help develop proposals on strategy. Their independence of character and integrity, together with the experience and skills that they bring to their duties, prevent any individual or small group from dominating the decision-making of the Board as a whole.

B. Effectiveness

B.1 Composition of the Board

The Board considers that, throughout the year, at least half of the Board, excluding the Chairman, comprised independent Non-executive Directors and that the composition of the Board had 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 Chief Executive Officer, Chief Financial Officer and management team during the year. Full biographical details of all the Directors appear on pages 48 and 49.

The Board has delegated responsibility for certain matters to four principal committees, namely the Audit, Nominations, Remuneration and Risk & CSR Committees. There is also a Security Committee and a Disclosure Committee. Details of the work of the Committees are set out on pages 55 to 77.

B.2 Board Appointments

The Nominations Committee oversees appointments to the Board. Further details of the role of the Nominations Committee and its activities during the year can be found on page 59.

B.3 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 his or her 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.

The Chairman is conscious that some shareholders have concerns regarding Directors taking on too many non-executive roles. Consequently, he has assessed the ability to meet the time 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 commitments going forward. 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.

B.4 Director Training and Development

Further details about a new Director's induction process and the Directors' ongoing training can be found on page 46.

B.5 Information and Support

The Chairman, working in conjunction with the Company Secretary, ensures that the Board receives accurate, timely and clear information. Board papers are made available electronically allowing sufficient time for review prior to each meeting.

All Directors have access to the advice of the Company Secretary. The Board has established a procedure whereby Directors may take independent professional advice at the Company's expense where they judge it necessary to do so in order to discharge their responsibilities as Directors.

B.6 Evaluation

The details of this year's Board evaluation, which was carried out internally, and an update on the recommendations from the 2017 evaluation can be found on page 50. The most recent external review was conducted by Oliver Ziehn of Lintstock in 2016. Oliver has no other connection with the Company. The next external review is scheduled for 2019.

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COMPLIANCE STATEMENT CONTINUED

B.7 Re-election

The Company requires each serving member of the Board to be put forward for election or re-election at each General Meeting.

C. Accountability

C.1 Financial and Business Reporting

A summary of the statements of Directors' responsibilities in respect of the Annual Report and the financial statements is set out on page 80. The going concern statement and viability statement are included on pages 54 and 27 respectively, and details of the process for ensuring that the Annual Report is fair, balanced and understandable are set out on page 56.

C.2 Risk Management and Internal Control

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness in safeguarding shareholders' interests and the Company's assets. The risk management process and the system of internal control necessary to manage risks are assessed and monitored by the Audit Committee (financial risks) and the Risk & CSR Committee (non-financial risks). The report of the Audit Committee can be found on pages 55 to 58 and the report of the Risk & CSR Committee can be found on pages 60 to 61.

Details of risk management and internal control processes can be found on pages 52 to 54. The Strategic report, which can be found on pages 23 to 27, contains details of the Company's principal risks and uncertainties, their impact on the Company and how they are managed.

C.3 Audit Committee and Auditors

The Board has established an Audit Committee comprising at least three independent Non-executive Directors. The Committee's formal terms of reference can be found on the corporate governance section at the Company's website: <https://www.QinetiQ.com/en-gb/about-us/corporate-governance/terms-of-reference-for-the-audit-committee>.

A full report from the Audit Committee is set out on pages 55 to 58.

D. Remuneration

D.1 The level of components of remuneration

The Board has established a Remuneration Committee with formal terms of reference. The report of the Remuneration Committee appears on pages 62 to 63. The terms of reference can be found on the corporate governance section of the Company's website at <https://www.QinetiQ.com/en-gb/about-us/corporate-governance/terms-of-reference-for-the-remuneration-committee>.

D.2 Procedure

The Remuneration Committee is responsible for developing policy on Executive remuneration and fixing remuneration packages of Directors. Further details are set out on pages 62 to 77. The Committee also recommends and monitors the level and structure of remuneration for senior management.

The Committee's formal terms of reference can be found on the corporate governance section on the Company's website.

E. Relations with Shareholders

E.1 Dialogue with Shareholders

The Board fully supports the principles of the Code and also welcomes and acknowledges the Stewardship Code, both of which aim to foster a more proactive governance role by major shareholders. In addition, the Board also welcomes the joint guidance issued by the Institute of the Chartered Secretaries and Administrators (the ICSA) and the Investment Association (the IA) on the Stakeholder Voice in Board Decision Making.

The Company attaches significant importance to maintaining an effective engagement with shareholders to ensure a mutual understanding of objectives and to deal with issues of concern. Responsibility for communications with shareholders rests with the Executive Directors, assisted by the Group Director, Investor Relations and Communications. The Company Secretary oversees the communications with private individual shareholders. See page 51 for further details on the Board's engagement with shareholders.

An analysis of the shareholder register, by type of holder and by size of holding, can be found on page 79.

E.2 Constructive Use of the Annual General Meeting

The Board encourages all shareholders to participate in the Annual General Meeting (AGM) and to ask questions. All Directors attend the AGM, including the Committee Chairs, and are available to answer any questions on the work of the Committees.

The 2018 AGM is scheduled to be held on 25 July. 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 in the 'Investors' section of the Group's website. See page 80 for further information.

Operation of the Board

The Board has seven face-to-face meetings planned throughout the year, which are specified in an annual calendar of meetings, and operates through a comprehensive set of governance activities, which are considered by the Board and its Committees during the annual business cycle. In addition, when necessary, the Board conducts meetings via telephone between scheduled meetings, and the members of the Board are regularly communicating to progress the Group's business as required.

The Board has adopted procedures relating to the conduct of its business including the timely provision of information, and the Company Secretary is responsible for ensuring that these are observed.

The Chairman meets with the Non-executive Directors, without executives present, after each Board meeting. The Non-executive Directors, led by the Senior Independent Director meets with the Directors at least once a year without the Chairman being present, to evaluate the Chairman's performance during the year, taking into account the views of the Executive Directors.

Board and Committee meetings are generally held in London and spread over a two-day period, to allow sufficient time for the Board to deal with the various items of business. Whenever possible, the Board visits different business units and in March 2018 the Board held a two-day meeting at the Company's main facilities in Farnborough, UK.

KEY ISSUES CONSIDERED BY THE BOARD DURING THE YEAR

1. Group Strategy – the implementation phase

The Board continued to focus on matters of strategic and operational importance during the year, with regular strategy updates and discussions. In addition, the Board devotes one meeting a year to review the Group's strategy as a whole. At the March Board meeting, the Group Director, Strategy and Planning, presented the FY19 component of our five-year Integrated Strategic Business Plan. The plan incorporated feedback from the strategy meeting held earlier in the financial year.

The following items of the Group's strategy were noted in particular by the Board during the year:

- **Focus on modernisation of the UK Defence Test and Evaluation enterprise**
The CEO has provided the Board with regular briefings in connection with the modernisation of the UK Defence and Test Evaluation (T&E) enterprise, as this is a key element of the Company's T&E strategy. The Board and the Executive Committee will continue to focus on the T&E strategy in FY19
- **Focus on international business**
Items in connection with the Company's international expansion were included on the agenda throughout the year and will be one of the deep-dive items for the Board in FY19. In addition, the Group's international strategy was discussed in detail at the annual Board strategy meeting
- **Focus on innovation**
Innovation continues to be part of the Company's strategy, and included in the CEO's updates to the Board on strategy implementation. It was also discussed at the annual Board strategy meeting
- **Transformation programme**
The Board has had full oversight over the transformation programme during the year, discussing the conclusion of the programme and its replacement with a continuous improvement programme for FY19.

2. People Strategy and Culture

The Group HR Director has provided the Board with updates on people strategy and people culture. In FY19, the Board will continue to work with the CEO and Group HR Director to focus on a strategy to engage and retain talent that delivers exceptional operational performance and growth for both the business and its people.

3. Corporate Governance

The Board receives regular updates from the Company Secretary on legislation and proposed consultations which may affect the Company's legal and regulatory obligations, including proposals to reform corporate governance. It ensured that governance structures remained appropriate, or where necessary, updated, to reflect the business and global market in which QinetiQ operates.

CORPORATE GOVERNANCE STATEMENT



The induction that I received when joining QinetiQ enabled me to quickly gain a deep understanding of the Company, its key businesses and facilities, the work of the Board and the challenges ahead of me."

David Smith, Group CFO

Matters reserved to the Board

The Board has a clearly articulated set of reserved matters. Following the strategic review two years ago, the Board has reviewed and updated the schedule of matters reserved and limitations of authority to ensure they remain appropriate. The matters reserved can be found in full at <https://www.QinetiQ.com/en-gb/about-us/corporate-governance>.

Director development and training

New Directors receive a comprehensive induction on joining the Board, which is tailored to their experience and background. During the year David Smith, who was appointed as CFO in March 2017, has continued his induction process, with, among others, visits to Pendine, Aberporth, Boscombe Down and Haslar sites in the UK.

The Company Secretary organises site visits and training to suit Directors' individual requirements. This year Non-executive Director visits included the Malvern site in England and the British Underwater Test & Evaluation Centre in Scotland. The Company Secretary briefings to the Board on corporate governance matters, noted in particular the fundamental review of the FRC's Corporate Governance Code, the updated guidance on Board diversity and the new rules under the General Data Protection Regulation.

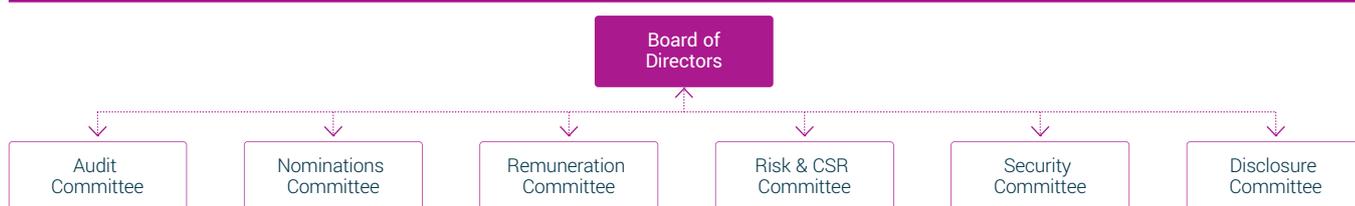
All Directors are expected to commit and take responsibility for their own development during their tenure. During the year of reporting, individual Non-executive Directors attended various seminars and workshops covering matters such as cyber risks, diversity, remuneration trends and strategy development. In addition, the Directors are required to complete the annual business ethics training, as noted on page 34.

The Board and its Committees

Details of attendance at meetings of the Board and its Committees: 1 April 2017 to 31 March 2018

Members	Board	Audit Committee	Nominations Committee	Remuneration Committee	Risk & CSR Committee
Mark Elliott	7/7	–	3/3	5/5	4/4
Steve Wadey	7/7	–	3/3	–	4/4
David Smith	7/7	–	–	–	–
Lynn Brubaker	7/7	4/4	3/3	5/5	4/4
Admiral Sir James Burnell-Nugent	7/7	4/4	3/3	5/5	4/4
Michael Harper	7/7	4/4	3/3	5/5	4/4
Ian Mason	7/7	4/4	3/3	5/5	4/4
Paul Murray	7/7	4/4	3/3	5/5	4/4
Susan Searle	7/7	4/4	3/3	5/5	4/4

Board and Committee structure



QinetiQ operates by way of six principal Board Committees and the Executive Committee, with all Non-executive Directors being members of all the Board Committees, except for the Security Committee and others where prohibited by the Code, statutory or Security Committee requirements. Key issues discussed and decisions taken at Committee meetings are circulated to all members of the Board after each Committee meeting. The Committees operate within written terms of reference approved by the Board, which can be viewed in full at <https://www.QinetiQ.com/en-gb/about-us/corporate-governance>.

The Disclosure Committee was established in 2016 following the requirements of the Market Abuse Regulations (MAR). The Committee comprises all Board members, except for when called at short notice, when it comprises the Chairman, the CEO, the CFO and any one of the Non-executive Directors who chair the Audit Committee, Remuneration Committee or Risk & CSR Committee.

Reports of the Audit Committee, Nominations Committee and Risk & CSR Committee are set out in this report as noted in the index on page 1. The relevant Code disclosures in respect of the Remuneration Committee are set out in the Directors' Remuneration Report on pages 62 to 77.

The Executive Committee

The interaction between the Board and the Executive Committee enables the Board to receive information first-hand about the Company and its operations and to give guidance on strategy and oversight of the business direct to senior management. The Executive Committee comprises the CEO, CFO, the Company Secretary and Group General Counsel, the Managing Directors of the business groups and the functional Directors. Executive Committee members and members of the senior management team present to the Board and its Committees on key matters. The full list of the members can be found at www.QinetiQ.com/about-us/corporate-governance.

The Executive Committee meets on a two-weekly basis. Its focus is on the achievement of the Group's strategic goals in respect of growth and operational excellence, with an ongoing consideration of governance issues. The Committee is responsible for the day-to-day management of the Group's activities, with the exception of QinetiQ North America (which is managed through a Proxy Board), and the oversight of the risk management process and its implementation by the businesses and the functions.

BOARD OF DIRECTORS

THE BOARD REPRESENTS THE INTERESTS OF QINETIQ AND ITS SHAREHOLDERS

Committee membership key

A Audit **N** Nominations **R** Remuneration **RC** Risk & CSR
S Security **■** Committee Chairman



Mark Elliott, Non-executive Chairman
 Appointed Non-executive Chairman in March 2010; Non-executive Director between June 2009 and February 2010.

N R RC

Board contribution: In addition to his long business experience, Mark brings to the Board 15 years of experience from board positions on FTSE listed companies. Mark's extensive international Board and management experience is essential to his work as the Chairman of the Board of QinetiQ, where he is responsible for leading the Board and ensuring that it operates effectively in order to promote the long-term success of the Company.

Skills and experience: Mark was a Non-executive Director of G4S plc, where he was also appointed the Senior Independent Director and Chairman of the Remuneration Committee. He was a Non-executive Director of Reed Elsevier NV, and Reed Elsevier Group plc, where he also became Chairman of the Remuneration Committee. Mark worked for IBM for over 30 years, occupying a number of senior management positions, including General Manager of IBM EMEA, and a member of IBM's worldwide Management Council.

Other appointments: Mark is Chairman of Kodak Alaris Holdings Limited.



Admiral Sir James Burnell-Nugent, Non-executive Director
 Appointed Non-executive Director in April 2010.

A N R RC S

Board contribution: Sir James brings to the Board unique experience from the defence industry, and of contracting with government departments. As a result of his experience he serves as Chair of the Risk & CSR Committee and of the Security Committee.

Skills and experience: During a 37 year career in the Royal Navy, which culminated in his appointment as Commander-in-Chief Fleet, he commanded the aircraft carrier HMS Invincible and three other ships and submarines. Between operational duties, Sir James held several positions at the MOD and gained cross-Whitehall experience while on secondment to HM Treasury.

Other appointments: Non-executive Chairman of Witt Limited.



Steve Wadey, Chief Executive Officer
 Appointed Chief Executive Officer in April 2015.

N RC S

Board contribution: Steve has a proven track record of driving growth, and in-depth experience of the defence and technology industries. He also has extensive operational and corporate experience. Steve is responsible for the Group's executive management, and implementation of the strategy.

Skills and experience: Steve is a Fellow of the Institution of Engineering and Technology, the Royal Aeronautical Society, and the Royal Academy of Engineering. He was previously Co-Chair of the UK Defence Growth Partnership, a member of the Prime Minister's Business Advisory Group, Co-Chair of the National Defence Industries Council Research and Development Group, and a Non-executive Director of the UK MOD Research and Development Board. Steve has held various roles with MBDA, most recently as Managing Director, MBDA UK, and Technical Director for the MBDA Group. Before that, he held various roles with Matra BAe Dynamics and British Aerospace.

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



Ian Mason, Non-executive Director
 Appointed Non-executive Director in June 2014.

A N R RC S

Board contribution: Ian has extensive experience in strategy, business transformation, eCommerce and international business development. His current and previous experience as a CEO and Non-executive Director enable him to provide the Board with highly relevant business and Board experience. His advice has been, and continues to be, particularly valuable for the Board and leadership team in the work of implementing the strategy and effecting the transformation of the Company.

Skills and experience: Previously Ian was Group Chief Executive of Electrocomponents plc. He has also worked for the Boston Consulting Group and served as a Non-executive Director of the Sage Group plc.

Other appointments: Chief Executive Officer of Domestic & General Group.



**David Smith,
Chief Financial Officer**
Appointed Chief
Financial Officer
in March 2017.

RC S

Board contribution: David provides significant expertise to the Group from his extensive executive experience in blue-chip companies and work in the aerospace and defence, technology, and automotive sectors.

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

Other appointments: Non-executive Director of Motability Operations Group plc.



**Susan Searle,
Non-executive Director**
Appointed Non-
executive Director
in March 2014.

A N R RC S

Board contribution: Susan brings to the Board extensive experience of investing in growing technology businesses, acquisitions, intellectual property and exploitation of new technologies. Susan's experience from a variety of commercial, business development and operational roles, and from serving on a variety of private company Boards, enables her to provide both challenge and beneficial advice.

Skills and experience: Susan was a founder of Touchstone Innovations plc, leading it as CEO to 2013. She has served on a variety of private company boards in engineering, healthcare and materials. Susan was a Trustee of Fight for Sight, and a member of the international advisory Board of PTT. Previously, she held a variety of commercial and business development roles with Shell Chemicals, the Bank of Nova Scotia, Montech (Australia), and Signet Group plc.

Other appointments: Senior Independent Non-executive Director and Chair of the Remuneration Committee of both Benchmark Holdings plc and Horizon Discovery Group plc. Chair of Woodford Patient Capital Trust plc and Mercia Technologies plc (and Chair of its Nominations Committee).



**Paul Murray,
Non-executive Director**
Appointed Non-
executive Director
in October 2010.

A N R RC S

Board contribution: Paul has a broad range of experience in finance and corporate governance from many industries, all of which leverage technology. Having previously been a Group Finance Director of plc businesses and the current Chair of the Audit & Risk Committee of Royal Mail Group plc, Paul has a deep understanding of governance, accounting, and regulatory issues. Given his financial background at Board level, he serves as the Chair of the Audit Committee.

Skills and experience: Paul has held positions as Director of Knowledge Peers plc, and Independent Oil and Gas plc, Senior Independent Director of Taylor Nelson Sofres plc, and Non-executive Director of Thomson SA and Tangent Communications plc. He has also been Group Finance Director of Carlton Communications plc and LASMO plc, and a Trustee of Pilotlight.

Other appointments: Non-executive Director and Chair of the Audit & Risk Committee at Royal Mail Group plc. Director of Ventive Ltd and Naked Energy Ltd.



**Lynn Brubaker,
Non-executive Director**
Appointed Non-
executive Director
in January 2016.

A N R RC

Board contribution: Lynn's experience from senior Board positions from various US-based businesses, in particular the aerospace sector, makes her a valuable member of the Board to support the Company's strategic goals, management of customer relations, and sales and marketing.

Skills and experience: Lynn has held positions as Non-executive Director of Force Protection, Inc., Seabury Group, Graham Partners, Cordiem, the Flight Safety Foundation (as Chair), and as a member of the Management Advisory Council of the Federal Aviation Administration. Lynn was Vice President and General Manager of Commercial Aerospace at Honeywell International, and prior to that, she held a variety of roles in the commercial aerospace sector working for Allied Signal, the McDonnell Douglas Corporation, Republic Airlines and ComAir Airlines.

Other appointments: Non-executive Director of FARO Technologies Inc., Hexcel Corp., and the Nordam Group.



**Michael Harper,
Deputy Chairman and
Senior Independent
Non-executive Director**
Appointed Non-executive
Director in November
2011. Appointed Deputy
Chairman and Senior
Independent Non-
executive Director
in February 2012.

A N R RC S

Board contribution: Michael has a wealth of operational and corporate experience. Michael's extensive career as a business leader and Board member within, amongst others, engineering and aviation businesses, brings highly valuable insight to the Board and its discussions, and in particular to his role as the Chair of the Remuneration Committee.

Skills and experience: Michael has served as Chairman of Ricardo plc, Vitec Group plc, and BBA Aviation plc, having previously been its CEO. He was Senior Independent Director of Catlin Group Limited. In addition, he was a Director of Williams plc and, at the time of its demerger, he became CEO of Kidde plc.

Other appointments: Michael is a Non-executive Director of the Aerospace Technology Institute.



**Jon Messert,
Company Secretary
and Group General
Counsel**
Appointed as Company
Secretary and Group
General Counsel in
January 2011.

Skills 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 secretarial experience in other FTSE 250 companies.

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Board performance evaluation

The Board has a rigorous evaluation process each year to assess how it, its Committees and individuals, including the Chairman, are performing. The 2018 review was conducted internally, following the steps outlined as below:

- Completion by all members of tailored questionnaires which took into account the output from the 2017 performance evaluation process, the current dynamic of the Board and its current priorities
- Report produced summarising the results of the questionnaire and presented to the Chairman
- Report circulated to the Board, with a full discussion on the results and comments, and an action plan was agreed.

Progress against prior year review

The key findings of the prior year review and progress against them were as follows:

Key findings	Action taken
1 Succession planning, and ensuring the appropriate mix on the Board to support implementation of strategic goals over the next 3 – 5 years.	The Nominations Committee has continued to focus on succession planning during FY18 and will continue to do so in FY19. The revised Skills Matrix and the recently updated Board Diversity Policy will be instrumental when ensuring the continued appropriate mix of Directors on the Board.
2 A continued focus on strategy, and its implementation.	Strategy regularly discussed at the Board's meetings, and one meeting a year is devoted entirely to strategy.
3 Monitoring the effectiveness of the executive management team.	The Board receives updates on the activity and progress of the executive management team. In particular the transformation programme has supported the team's improvements in focus and delivery to the Board and the business. The Group HR Director reports on the executive management team's development programme.
4 Board materials – further standardisation of Board paper presentation format.	This activity has been undertaken and is continuing.
5 Appropriate attention to governance matters, while ensuring focus principally on the business operations and strategic development.	The Secretary continuously updates the Board on governance. During the year, the Board focused on the numerous initiatives stemming from the Corporate Governance Reform issued by BEIS in August 2017. Examples of this being the relationship with investors and other stakeholders, and board diversity.
6 Defining, monitoring, and measuring cultural development.	The Group HR Director reported to the Board on defining, monitoring and measuring cultural development, and on the progress made during the year. Ways of measuring progress with the Company's cultural development strategy, interventions, and appropriate actions going forward, were agreed.



The effectiveness of the Board is vital to the success of the Group.”

PRIORITIES FOR THE COMING YEAR:

- 1 Succession planning – focus on skills necessary for implementing the strategy.
- 2 Continuing to raise the bar on operational effectiveness and supporting management's implementation of the strategy. Emphasis on ensuring there is a balance between the achievement of operational performance and growth plans.
- 3 Focusing on a balance between advising, challenging and supporting management. Continued support for management's execution of strategy.
- 4 Leverage the Board's collective experience to help further enhance the strategy.
- 5 People and culture – focus on challenging, supporting and evolving this area.

Relations with shareholders and other stakeholders

The Company places considerable importance on communications with shareholders. The Chairman proactively offers to attend meetings with key shareholders and their corporate governance teams and he met with a number of the Company's major shareholders during the year of reporting.

The Executive Directors have an ongoing dialogue and a programme of meetings with institutional investors, fund managers and analysts. The Board is informed on a regular basis about the views of key shareholders including their concerns.

During the course of the year, the Chairman met with shareholders to discuss corporate governance and Directors' remuneration. Further details of the shareholder engagement regarding the Remuneration Policy, adopted at the 2017 AGM, can be found in the Directors' Remuneration Report and on QinetiQ's website, www.QinetiQ.com/about-us/corporate-governance.

Investor roadshows were held in London and Edinburgh in the UK and Boston in the US. The Board members make themselves available to meet shareholders as required, and routinely attend results presentations. Telephone briefings for analysts and investors took place in conjunction with these presentations, of which live and post-event webcasts of key presentations were provided. All shareholders were invited to attend the Company's AGM on 19 July 2017 in London, at which the full Board was in attendance.

The Company sets itself the target of providing information that is timely, clear and concise.

All shareholders and potential shareholders are encouraged to visit the 'Investors' section on the Company's website, www.QinetiQ.com, where all types of communication with shareholders can be found. The site also provides contact details for any investor-related queries, by telephone and by email.

The Company continues to look at ways of improving the quality of its engagement with shareholders and to explore with investors any additional practical means by which it can communicate effectively with shareholders and other stakeholders. As part of this, the Board welcomes recent initiatives on increased scrutiny on how companies are run and the emphasis on the importance of considering the interests of a broad stakeholder group in making business decisions.

The Board's engagement with the Group's employees is further described in the section on Engaging Our People, which can be found on pages 32 to 33.

Board oversight of risk management

The Board oversees the system of risk management and internal control by means of the Audit Committee and the Risk & CSR Committee in conjunction with the risk management and assurance processes detailed in this section. Matters of particular concern are escalated for presentation at Board meetings. Examples of such escalation are consideration of the risk register, expression of risk, and risk reporting. The Board routinely challenges management to ensure that the systems of internal control are constantly improving, to maintain their effectiveness. The CEO presents to the Board on the system of internal control in operation during the year.

At its meeting in March 2018, the Board reviewed the effectiveness of the system of internal control that was in operation during the year. Details of specific risk review activity undertaken by the Executive Committee, the Audit Committee and the Risk & CSR Committee, together with the current risk registers, were presented by the CEO.

The following activity was noted at that review:

Executive risk review

- Risk owners reviewed and updated their risks prior to review by the Executive Committee
- The Executive Committee formal risk register reviews were conducted at four meetings during the year.

Board Committee risk review

- The Audit Committee reviewed in detail the financial risk register at two meetings during the year
- The Risk & CSR Committee reviewed the non-financial risk register at four meetings during the year, which included deep-dive reviews of specific risks.

As a result of the presentation to the Board, the Board considered that the risk review activity undertaken during the year was effective.

Committee oversight of risk management

The risk management process and the system of internal control necessary to manage risks are managed by the Audit Committee (financial risks) and the Risk & CSR Committee (non-financial risks). The full Board attends these Committee meetings, either as a Committee member or as a guest, so as to receive at first-hand the findings of the Committees. The internal audit function independently reviews the risk identification and control processes implemented by management, and reports to the respective Committee.

The Audit Committee and the Risk & CSR Committee also review the assurance process, ensuring that an appropriate mix of techniques is used to obtain the level of assurance required by the Board. The reports of both Committees can be found on pages 55 to 58 and 60 to 61 respectively.

Risk reporting is embedded in the management of the business through the Executive Committee and monthly Business Performance Reviews and feeds into Group strategy at the executive and Board level.

Internal audit function

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

Board statements relating to risk management

Board statements relating to the 'fair, balanced and understandable assessment', principal risks, the effectiveness of the risk management and internal control process, and going concern statement, can be found on pages 53 and 54. The longer-term viability assessment can be found in the Strategic report on page 27.

Risk management and assurance activity

– Three lines of defence model

Risk management and assurance activity conforms to the three lines of defence model as detailed on page 52. The first line of defence is performed by the businesses, through managing activities in accordance with established operating principles; the second line of defence is performed by the oversight functions, including the safety and governance team; and the third line of defence is performed by the internal audit team, reporting to the Executive Committee, to the Board's Audit Committee in respect of financial risks, and to the Board's Risk & CSR Committee in respect of non-financial risks.

CORPORATE GOVERNANCE STATEMENT CONTINUED

Three lines of defence model

**Risk assurance activity during the year**

Risk assurance activity was ongoing during the year under review. The following areas were covered by the Executive Committee and key issues were reported to the Risk & CSR Committee:

- Updates in respect of general risk governance from the Group Director, Safety and Governance
- Reviews of business risk registers and moderation to form the Group Risk Register
- Quarterly reports from the internal audit function in respect of the effective management of Group risks and the risk management process
- Review of the risk identification process
- The output from the self-certification process and a review of the effectiveness of internal controls
- Regularly requiring risk owners to report their activity to the Risk & CSR Committee.

Self-certification process

An annual process of hierarchical self-certification on the effectiveness of internal controls, which provides a documented and auditable trail of accountability for the operation of the system of internal control, is in operation. This process is informed by a rigorous and structured self-assessment that addresses compliance with Group policy. It provides for successive assurances to be given at increasingly higher levels of management and, finally, to the Board. The self-certification process is carried out at the full year and the half year.

Risk management and internal control: Financial reporting process

The following elements provide assurance in respect of the financial reporting process and preparation of consolidated accounts:

- The financial management and control framework
- The Company's finance function
- The internal control and risk management systems
- The internal audit function
- The external audit function
- Oversight by the Audit Committee and the Board.

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

The internal control and risk management systems described on pages 51 to 54 apply to the Company's process of financial reporting and the preparation of consolidated accounts. The internal audit and external audit functions, and the reviews by the Audit Committee and the Board, provide a structured approach to the review and challenge of financial information and financial reporting.

Employee reporting and guidance: Confidential reporting process

QinetiQ has in place a confidential reporting process which is detailed on the Company's intranet. If an individual does not feel that they can resolve any concerns with the Company directly, either through discussions with their line manager or directly with the Company Secretary or Group Internal Audit Manager, they can use an externally provided confidential internet and telephone reporting system, as noted in the Corporate responsibility section on page 34. All concerns are passed by the external third party to the Group Internal Audit Manager who ensures that they are held in strict confidence and are properly investigated. Reports on confidential reporting activity and the outcome of investigations are regularly reported to the Audit Committee. The Audit Committee reviewed the effectiveness of the Group's confidential reporting process during the year, as noted on page 57.

Anti-bribery and the prevention of corruption

QinetiQ has internal procedures in place that are designed to ensure compliance with the UK Bribery Act 2010, and other international regulations and best practice relating to the prevention of corruption, which are applicable to its business.

Ethics

The Company provides employees with guidance to assist them in making informed ethical decisions on a day-to-day basis; further details can be found in the Corporate responsibility section on page 34.

Management and control of US subsidiaries

The US Global Products division, trading as QinetiQ North America, which contributed approximately £70m to the Group's revenue in 2018, operates under a Proxy arrangement, as detailed below, with the remainder of the US business operating outside the Proxy regime and therefore following the same reporting lines and processes as the Group's other, non-regulated businesses.

US Global Products division and the Proxy arrangement

QinetiQ North America is managed via Foster-Miller, Inc. (FMI), a wholly-owned subsidiary of QinetiQ in the US. It has been placed under a Proxy arrangement as it is required by the US National Industrial Security Program to maintain facility security clearances and to be insulated from foreign ownership, control or influence. Under the Proxy arrangement, FMI and the US Department of Defence (DoD) are parties to a Proxy agreement that regulates the management and operation of FMI. Pursuant to this Proxy agreement, QinetiQ has appointed three US citizens who hold the requisite US security clearances as Proxy holders to exercise the voting rights in FMI.

In addition to their powers as Directors, the Proxy holders have power under the Proxy arrangements to exercise all prerogatives of share ownership of FMI. The Proxy holders have a fiduciary duty, and agree, to perform their role in the best interests of QinetiQ as shareholder (including the legitimate economic interest), and in a manner consistent with the national security interests of the USA. QinetiQ Group plc does not have any representation on the Board of FMI. QinetiQ Group plc may not remove the Proxy holders other than for acts of gross negligence or wilful misconduct or for breach of the Proxy agreement (and always only with the consent of the US Defence Security Service).

In terms of the power to govern, the Proxy agreement vests certain powers solely with the Proxy holders and certain powers solely with QinetiQ. For example, the Proxy holders cannot carry out any of the below without QinetiQ's express approval:

- Sell or dispose of, in any manner, capital assets or the business of FMI
- Pledge, mortgage or encumber assets of FMI for purposes other than obtaining working capital or funds for capital improvements
- Merge, consolidate, reorganise or dissolve FMI
- File or make any petition under the federal bankruptcy laws or similar law or statute of any state or any foreign country.

Unlike minority interest holders with protective veto rights, QinetiQ can unilaterally require the above to be carried out and these are, therefore, considered to be significant participative features. In addition, QinetiQ can require the payment of dividends, and the pay-down of parent company loans, from FMI.

The Company maintains its involvement in FMI's activities through normal business interaction and liaison with the Chair of the Proxy Board. QinetiQ's CEO and/or CFO attended four meetings of the Proxy Board during the year under review. On occasion, the Proxy holders are invited to attend Board meetings of the Company.

The President of FMI is a member of the Executive Committee. FMI commercial and governance activity is included in the business update provided in the regular executive report to the Board. This activity is subject always to the confines of the Proxy regime to ensure that it meets the requirement that FMI must conduct its business affairs without external control or influence, and the requirements necessary to protect the US national security interest.

Directors' statement in respect of 'fair, balanced and understandable' assessment

All of the Directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. In this context, the coordination and review of the Group-wide input into the Annual Report is a vital part of the control process upon which the Directors rely and is an exercise which spans a period wider than the timetable for compiling the Annual Report itself. Critically, these processes include the controls the business operates throughout the year to identify key financial and operational issues. Further details can be found in the report of the Audit Committee on page 56.

Board assessment of principal risks

The Board confirms that it has carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. The way in which the Board understands and manages risk is set out on pages 51 to 61 and details of principal risks and their management and mitigation can be found on pages 22 to 27. Board level oversight is carried out by the Audit Committee and the Risk & CSR Committee. At its meeting in March 2018, the CEO presented details of the risk review activities that had taken place during the year.

Board review of the effectiveness of risk management and internal control processes

The Board confirms that it has conducted a review of the effectiveness of the Company's risk management and internal control systems in operation during the year, as required by the Code. The Board considers that the risk review activities undertaken during the year under review, as presented by the CEO at the Board's March meeting, amounted to an effective system being in place to ensure that all aspects of risk management and internal control had been considered for

CORPORATE GOVERNANCE STATEMENT CONTINUED

the year under review. Details of the Company's principal risks and uncertainties and how they are managed and mitigated can be found in the Strategic report on pages 22 to 27. Details of the Company's risk management and internal control systems are set out in this Corporate governance statement on pages 42 to 61, where the reports of the Audit Committee and Risk & CSR Committee in respect of the oversight of risk management can also be found.

Going concern

The Group's activities, combined with the factors that are likely to affect its future development and performance, are set out on pages 20 to 31. The CFO's review on pages 36 to 39 sets out details of the financial position of the Group, the cash flows, committed borrowing facilities, liquidity, and the Group's policies and processes for managing its capital and financial risks. Note 26 on page 115 to the financial statements also provides details of the Group's hedging activities, financial instruments, and its exposure to liquidity and credit risk.

The Group meets its day-to-day working capital requirements through its available cash funds and its bank facilities. The market conditions in which the Group operates have been, and are expected to continue to be, challenging as spending from the Group's key customers in its primary markets in the UK remains under pressure. Despite these challenges, the Directors believe that the Group is well positioned to manage its overall business risks successfully.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going-concern basis in preparing its financial statements.

The Group is exposed to various risks and uncertainties, the principal ones being summarised in the 'Principal risks' section on pages 22 to 26.

Crystallisation of such risks, to the extent not fully mitigated, would lead to a negative impact on the Group's financial results but none are deemed sufficiently material to prevent the Group from continuing as a going concern for the next 12 months.

REPORT OF THE AUDIT COMMITTEE



Paul Murray
Audit Committee
Chairman



The Committee operates to assure integrity in financial reporting and controls, the effectiveness of its internal audit function, the relationship with the external auditors and that appropriate whistleblowing arrangements are in place.”

Dear Shareholder,

I am pleased to present the report of the Audit Committee on the work carried out during the last financial year. The Committee continues to operate on the basis of an open but challenging dialogue with management and with the internal and external auditors’ and the application of an appropriate level of scrutiny.

The main responsibilities of the Committee are set out in this report. It details the activities, discussions and decisions which enabled the Audit Committee to fulfil its objectives effectively during the year of reporting.

Paul Murray

Audit Committee Chairman

The Audit Committee is chaired by Paul Murray, who continues to have recent and relevant financial experience. The Board considers the members of the Committee to be independent, and in accordance with the Code, the Board concludes that the Committee as a whole possesses competence relevant to the Company’s sector, having a range of financial and commercial experience in the industry and commercial environment in which QinetiQ operates. The CEO, CFO, Group Financial Controller, Group Internal Audit Manager and representatives of PwC attended all Committee meetings during the year. Two meetings were also held with the Committee and PwC, without management being present.

Main responsibilities

The Audit Committee monitors the Group’s integrity in financial reporting and reviews the effectiveness of the financial risk management framework.

The Audit Committee meets as necessary and at least four times a year. During the year of reporting, the Committee met on four occasions.

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

REPORT OF THE AUDIT COMMITTEE CONTINUED

Activities during the year

The Committee has an annual calendar of activities, and in addition it identifies particular areas of which the Committee wishes to focus on.

The significant issues that the Committee considered during the year are set out in the table below:

Areas of focus	Action taken by the Committee
Longer Term Viability Statement	The Committee scrutinised and challenged the principle underpinning the Statement for FY18, and concluded that the Group will be able to continue in operation and meet its liabilities as they become due. The Committee therefore continues to consider it appropriate that the Statement covers a three-year period. The Statement can be found in full on page 27.
Financial reporting	<p>As a standing agenda item, the Committee focused on understanding the reasonableness of provisions and liabilities, both in terms of consistency of policy application for repeating items, and judgements around discrete events and projects. Considering the nature of the business and global market in which QinetiQ operates, comprehensive discussions were held by the Committee throughout the year where the Committee reviewed whether suitable accounting policies had been adopted, and whether management had made the appropriate estimates and judgements. In addition, support and assessment were sought from the external auditor. To facilitate this process, the Committee received presentations from the CFO and the Group Financial Controller and also received a report from the external auditor covering the key risk areas addressed during the audit, and the auditors' view of the key judgements made by management.</p> <p>Specific issues addressed by the Committee for the periods ended 30 September 2017 and 31 March 2018 include the following:</p> <ul style="list-style-type: none"> - The basis for, and judgements made by management in determining, the liabilities recorded for litigation, onerous contracts, potential claims and other disputes - The carrying values of the Group's cash-generating units (CGUs), specifically goodwill associated with the US Global Products CGU which had been impaired in 2016. The major assumptions impacting on the net present value of future expected cash flows were also discussed. Certain discount rate assumptions and market growth forecasts are advised by external consultants - Assumptions used to value the net pension asset of £316.2m (as advised by the Company's external actuaries) - The basis for recognition of US tax losses and judgements in respect of the Group's tax reserves, including R&D expenditure credits - The disclosures in the interim statement, the preliminary announcement and Annual Report and Accounts, in particular those relating to non-recurring items (specifically, the £5.3m relating to the release of engine servicing obligations), risk, goodwill and tax - The implications of the experienced delays and any potential incremental delays to the BEPIColombo Mission to Mercury programme. <p>Based upon the business assurance process and discussions with management and the external auditor, the Committee was satisfied that the accounting disclosures and assumptions were reasonable and appropriate for a business of the Group's size and complexity, that the external auditor had fulfilled its responsibilities in scrutinising the financial statements for any material misstatements and that the disclosures were satisfactory.</p>
Fair, balanced and understandable	The Committee was required to provide advice to the Board on whether the Annual Report and Accounts, taken as a whole, provide a fair, balanced and understandable assessment of the Company's financial position and future prospects and provide all information necessary to a shareholder to assess the Group's performance, business model and strategy. Following the process established and reported on in previous years, and in forming its opinion, the Committee reflected on the information it had received and its discussions throughout the year. The assessment was assisted by an internal verification of the factual content by management, a review at different levels of the Group to ensure consistency and overall balance, and a comprehensive review by the senior management team and the external auditors. Following its review, the Committee was of the opinion that the FY18 Annual Report and Accounts were representative of the year and present a fair, balanced and understandable overview, providing the necessary information for shareholders to assess the Group's position and performance, business model and strategy. The external auditor confirmed their satisfaction with the standard achieved. The Board's statement in this respect can be found on page 27.
IFRS 15	During the year the Committee received reports and discussed the implications of the new key accounting standard, IFRS 15, on revenue recognition. A detailed assessment has been undertaken by management and the impact on the Group's most significant contracts has also been considered by both the retiring auditors (KPMG) and the incoming auditors (PwC). The Committee's review of the work undertaken and the overall impact assessment concluded that the implementation of IFRS 15 does not have a material impact on the Group.

Internal controls

During the year under review, the Committee monitored the effectiveness of the systems of internal control to gain assurance that an effective control framework was maintained. Reports on the effective operation of the control framework were received from management and reviewed by the Committee along with key policies and processes.

As in previous years, particular attention was given to the timely and effective implementation of remedial actions, either identified by the business directly, or by the internal audit function, with updates on improvement actions being scheduled for follow up at a later meeting during the year. The internal auditor reported on four occasions to the Committee on the operation of internal control and risk management processes.

The internal audit function's risk-based strategic and annual plan was presented, and scrutinised twice during the year by the Committee, to provide assurance that resources were adequate and directed towards key risk areas.

The annual plan is structured to ensure that all significant financial and non-financial risks are reviewed within a rolling three-year strategic plan. The audits include the review of financial systems, programmes and projects, as well as the management of specific risks identified through the Group's risk management processes. During the year under review, the internal audit function audited constituent parts of the Group's transformation programme, in line with a programme to support adherence to plans and achievement of outcomes. Other areas of focus during the year were anti-bribery and corruption processes and IT risk and control.

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

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

The process in respect of QinetiQ North America is adjusted to take into account the Proxy arrangements referred to on page 53. The executive management function has regular contact with the Chair of the Proxy Board and with US executive management, and the Group's internal controls have been applied as far as possible within the requirements of the Proxy regime.

The internal audit function continues to work closely with US management to gain assurance that an effective control environment is in place. In addition, the Executive Directors attended meetings of the US Board during the year.

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

Audit Committee effectiveness review

The evaluation of the effectiveness of the Committee was conducted alongside the Board effectiveness review, and carried out by way of an externally provided questionnaire-based process.

The following actions had been noted from the 2017 effectiveness review:

- Developing an effective and transparent relationship with the newly appointed CFO
- Ensuring a successful transition to the new Audit Partner, PwC.

These items were covered during the year under review. Details of the risk review can be found in the Report of the Risk & CSR Committee on page 61. The processes for risk management and control of the US business were covered in reports from the internal audit function, and the Committee received updates from the external auditor in respect of financial matters.

The effectiveness of the Committee continued to be rated highly. It was agreed that the Committee should focus on the following areas over the coming year:

- Value gained from PwC's first year as auditors
- Gaining an improved understanding of the control environment at QNA
- Focus on ensuring that the internal audit function continues to have the appropriate resources, processes and systems.

External audit

Policy on the regulation of non-audit work and safeguarding auditor independence

The Company views it as essential that the external auditor is both independent of any conflict of interest and perceived to be so. To safeguard auditor independence and objectivity, the following process is operated by the Company:

The Company has a Code of Practice applicable to all employees which sets out the principles for regulating the award of non-audit work to the external auditor. The Code of Practice clearly articulates the non-audit services which are prohibited, the non-audit services which can be purchased and the key approvals that are necessary prior to the provision of non-audit work.

Pursuant to the Code of Practice, any non-audit services conducted by the external auditor require the prior consent of the CFO or the Chairman of the Audit Committee; any services exceeding £50,000 in value require the prior consent of the Audit Committee as a whole.

The Committee ensures that any advisory and/or consulting services provided by the external auditor do not conflict with its statutory audit responsibilities and are conducted through entirely separate working teams; such advisory and/or consulting services generally only cover regulatory reporting, tax, and mergers and acquisitions work.

The Code of Practice enables the Committee to take corrective action if it believes that there is a risk of the external auditor's independence being undermined through the award of such work.

It is also QinetiQ's policy that no PwC employee may be appointed to a senior position within the QinetiQ Group without the prior approval of the CFO.

Review of non-audit work during the year

The Committee reviews the cost and nature of non-audit work undertaken by the external auditor at three meetings as a standing item, with a fourth meeting considering the auditor's fees as part of the year-end review.

The Committee had concluded, prior to engaging PwC for the provision of these services, that there had not been any conflict of interest that might compromise the independence of PwC's audit work. Details of the external auditor's remuneration can be found in note 5 on page 103.

REPORT OF THE AUDIT COMMITTEE CONTINUED

	2018		2017	
	£m	% of audit fee	£m	% of audit fee
Audit fees	0.6		0.5	
Non-audit:				
Audit-related assurance services	0.1	12%	0.1	22%
All other non-audit services	0.0	1%	0.0	2%
Total non-audit fees	0.1	13%	0.1	24%

Fees related to non-audit work services amounted to £75k, including £72k for audit related services (2017: £129k including £120k for audit related services).

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 the learnings to be fed into the current year's planning process. At its May meeting, the Committee again reviewed the effectiveness and the independence of the external auditor during the year. The members of the Committee have declared themselves satisfied with the performance of PwC as the Company's auditor in the last financial year.

Appointment of auditor

Following a robust tender process in 2017, which was managed by the Audit Committee and a sub-committee appointed, comprising the Audit Committee Chairman, two Non-executive Directors, the CFO and the Group Financial Controller, it was concluded that PwC was the preferred firm to conduct the audit engagement. The sub-committee recommended to the Board that PwC be selected as the Group's external auditor for the year ending 31 March 2018 and PwC were appointed as the Company's auditor at its Annual General Meeting on 19 July 2017.

The Committee and the Board will be recommending PwC's re-appointment at the 2018 AGM.

Statutory audit services compliance

The Company confirms that, during the year under review, it has complied with the provisions of 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.

REPORT OF THE NOMINATIONS COMMITTEE



Mark Elliott
Non-executive
Chairman



QinetiQ's Gender Pay Gap data can be found on our website – www.QinetiQ.com.



Board appointments are made on merit, experience and performance and the Company is progressively committed to increasing diversity in its widest sense, at Board level, senior management, and for the Company as a whole. Two out of the last three appointments to the Board were women.”

Dear Shareholder,

During the year under review, the Nominations Committee focused on diversity and succession planning. The Committee has adopted a new Board Diversity Policy, of which further details are outlined in this report. The key focus for the upcoming year will be succession planning and working towards reaching our diversity targets.

Mark Elliott

Nominations Committee Chairman

Main responsibilities

The role of the Committee is to ensure that the composition of the Board and Committees comprise the optimum balance of skills, knowledge and experience, and to oversee succession planning for the Board and senior management. It considers diversity, including skills mix, international industry experience, gender and ethnic background, when seeking to appoint a new Director to the Board.

The Committee meets at least twice a year and when called by its Chair. During the year under review, the Committee met on three occasions.

Effectiveness of the Committee

The effectiveness of the Committee is monitored and assessed regularly by Mark Elliott, as the Chairman of the Committee and Chairman of the Board, and as part of the Board performance evaluation. The overall outcome of the FY18 review of the Committee was positive, and in particular it was noted that the Committee benefitted during the year from the setting up of two formal meetings, and conducting ad hoc meetings as necessary.

Focus areas and activities

Board Diversity Policy

QinetiQ recognises the value of and welcomes the current discussions around diversity in the boardrooms of UK companies. The Nominations Committee has this year adopted a new Board Diversity Policy, which can be found on <https://www.QinetiQ.com/About-us/Corporate-Governance>.

The Board continues to have regard to the Hampton-Alexander Review recommendations to improve gender diversity among FTSE Boards and leadership teams and the Parker Review on ethnic diversity on UK Boards. The Board aspires to meet the voluntary targets as set out in those reports.

Progress against the Policy and future steps

The Board currently comprises 22% women, which is a smaller number than the Board aspires towards. The Board is committed to progress against the target set in the Board Diversity Policy. The Committee only engages executive search firms that adhere to the Voluntary Code of Conduct for Executive Search Firms, which promotes best practice for corporate board searches, including diversity. Such search firms are expected to identify and present to the Committee an appropriately diverse range of candidates, with relevant experience and knowledge, who can demonstrate independence of approach and thought.

Succession planning

The Committee places high emphasis on ensuring that the Company has got appropriate plans in place for orderly succession of appointments to the Board and to senior management. The composition of the Board remains under review and succession planning continues to be of the utmost importance for the Committee for the upcoming year.

REPORT OF THE RISK & CSR COMMITTEE



Admiral Sir James Burnell-Nugent
Risk & CSR
Committee Chairman

Dear Shareholder,

I am pleased to report that, during the year, the Committee continued to carry out its core functions, with the support of the Executive Committee, in respect of non-financial risk management and oversight. The annual calendar of activities, together with the in-depth review of 'red' risks and deep-dives into key risk areas, has continued to provide a firm basis on which the Committee is able to oversee the operation of the non-financial risk management processes within the Group. Regular updates, including corporate responsibility issues from management responsible for specific areas, continued to further the Committee's understanding of risks and how they are mitigated.

Admiral Sir James Burnell-Nugent

Risk & CSR Committee Chairman

Main responsibilities

The Committee has three primary functions:

- To oversee the sound operation of the Company's risk management systems
- To monitor non-financial risk exposures, including security, trade controls, ethics, corporate responsibility and health, safety and environment
- To monitor adherence to the generic MOD compliance system.

The Committee meets as necessary, although normally not less than four times a year. During the financial year ended 31 March 2018, the Committee met on four occasions.

Activities during the year

Details of key activities in respect of health, safety and environment and business ethics are set out in the Our People section on pages 32 to 33.

The key activities of the Committee during the year, which are described in further detail on page 61, were as follows:

- a) A review of the Group's risk management activities
- b) A review of the generic MOD compliance system
- c) The outcome of the Committee's effectiveness review.



The Committee is responsible for ensuring that the business operates within agreed risk appetite while taking account of emerging risks."

a) A review of the Group's risk management activities:

During the year the Committee received regular reports from the Group Director, Safety and Governance; the Group Director, Corporate Responsibility; the Group Head of Enterprise Risk Management; and the Group Head of Internal Audit.

The reports from the Group Director, Safety and Governance and Group Head of Risk covered key areas of risk management activity, including health and safety and international trade controls. These reports also included a high level summary of changes to non-financial risks, an overview of assurance activity, anti-bribery and corruption. The reports from the Group Director, Corporate Responsibility covered areas such as business ethics and code of conduct, emerging reputational risks, diversity and inclusion, stakeholder engagement, environment, trading policy and Modern Slavery Act reporting. The reports from the Group Head of Internal Audit provided an update on internal audit activity since the Committee's last meeting, details of progress with audit recommendations and details of any overdue recommended actions from internal audits.

Details of the principal risks and uncertainties can be found in the Strategic report on pages 22 to 26. 'Red' risks are made the subject of a report to the Committee or become the subject of a deep-dive review as part of the Company's risk management processes.

b) Generic MOD compliance system:

A key aspect of the Committee's work is the oversight of the MOD's generic compliance system. This is integral to the work of QinetiQ in its relationship with the UK Government.

The generic compliance system is designed to give the MOD customer confidence that QinetiQ is able to provide impartial advice during any competitive evaluation of a procurement opportunity where the Group wishes to operate on both the 'buy' and the 'supply' sides. The aim is to achieve a balance between meeting the needs of the procurement customers in the MOD (principally Defence Equipment & Support) and the need to allow QinetiQ the flexibility to commercialise research into the supply chain and pursue its planned business activities, without compromising the defence or security interests of the UK.

The Board nominates two senior executives to act as Compliance Implementation Director and Compliance Audit Director. During FY18 those roles were held by the Group Director, Safety and Governance and the Company Secretary and Group General Counsel respectively. In FY19 the Group Commercial Director will take over the role of Compliance Implementation Director.

Oversight of the operation of the compliance system is provided by the Committee. During the year under review, the Committee received an annual report from the Group Director, Safety and Governance and the internal audit function on the compliance areas that it monitored. A typical report includes a summary of the scope and an executive summary of the findings with an audit opinion, with agreed associated time-bound action plans.

The Committee addresses any issues that would arise if QinetiQ were to fail to comply with the requirements of the generic compliance system. No breaches were noted during the year.

Examples of deep-dive reviews into key risks carried out by the Committee during the year are as follows:

- International Business Governance
- Aviation Risk Management
- Recruitment and Retention.

For each deep-dive, Committee members were able to challenge the details provided and receive further details or give guidance as necessary.

c) Effectiveness review:

The evaluation of the effectiveness of the Committee was taken alongside the Board effectiveness review and carried out by way of an externally provided questionnaire-based process. The following actions had been noted from the 2017 effectiveness review:

- Devoting more time to deep-dives and less to reporting
- Improved quality of papers
- Continuing to simplify and further use the new risk reporting system
- Further training in risk management.

These items have been covered during the year under review by the specific project with regard to risk reporting and the ongoing Committee activities, as noted in this report.

The outcome of the 2018 review was considered at the Committee's May meeting. The performance of the Committee was rated highly overall, benefitting from good executive engagement. The following actions for the Committee were agreed for the upcoming year:

- Considering additional methods of reviewing risks
- Carrying out more work on emerging risks
- Improving internal audit's contribution in non-process areas
- Sustaining and developing recent improvements.

Report of the Security Committee

There was no requirement for the Committee to meet during the year.

Membership and attendance during the year

The Security Committee is chaired by Admiral Sir James Burnell-Nugent and the other Committee members during the year were Michael Harper, Ian Mason, Paul Murray, Susan Searle, David Smith and Steve Wadey.

Main responsibilities

The Committee was established in June 2009 to enable UK nationals on the Board to consider matters of a UK national security dimension that have an impact on QinetiQ's UK business. The Committee's full terms of reference can be found in the Governance section of the QinetiQ website at www.QinetiQ.com/about-us/corporate-governance.