DIRECTORS' REMUNERATION REPORT (DRR)
CHAIRMAN'S STATEMENT

Michael Harper,
Remuneration Committee Chairman

Our Directors' Remuneration Report is organised into the following sections:

This report complies with the Large and Medium-sized Companies and Groups (Accounting and Reports) (Amendment) Regulations 2013 as well as the Companies Act 2006.

During FY18 the Committee met five times with full attendance at each meeting (detailed summary of attendance is provided on page 46).

The full terms of reference of the Remuneration Committee can be found on the QinetiQ website (www.QinetiQ.com).

"The Remuneration Committee has spent a great deal of time during the year considering financial performance as it relates to the incentive arrangements of the Executive Directors and QinetiQ's top 200 leaders with a view to ensuring alignment to the shareholder experience."

Dear Shareholder

As the Group Chairman has outlined in his statement on page 4, strong progress has been made by the CEO and the Executive Committee during the second year of the ambitious strategy to modernise and grow our business. This progress is evident from a second successive year of organic growth, the increasing contribution from our international businesses and overcoming the profit headwinds in the UK on single-sourced work.

Despite this, the annual contribution to the Bonus Banking Plan (BBP) pool for FY18 of 66.7% and 66.1% of the maximum for the CEO and CFO respectively is lower than for the CEO in FY17. The first award under the Deferred Share Plan (DSP) is 62.5% of the maximum opportunity for Executive Directors which reflects strong performance against the stretching targets set. The DSP award provides a contingent share award to our top 200 leaders thereby aligning their reward to the shareholder experience through the delivery of future profits and share price growth. The shares will vest in full only if the level of underlying operating profit in FY18 is maintained in FY21.

The business context in FY18

The essence of the business strategy is to grow sustainably over the next five years through a transformation of the Company. This continues at pace and we are partnering with our customers and investing in organic growth. This organic investment includes internal research and development, complemented by bolt-on acquisitions where there is a strong strategic fit. Progress against the strategy is reflected in the collective and personal objectives outturn for the Executive Directors.

Short-term operational excellence is critical and the Remuneration Committee has spent a great deal of time during the year considering financial performance as it relates to the incentive arrangements of the Executive Directors and QinetiQ's top 200 leaders with a view to ensuring alignment to the shareholder experience. A sharp focus on annual performance continues to be critical to delivering sustained, longer-term shareholder value.

The Directors' Remuneration Policy

Extensive consultations with shareholders and the voting guidance agencies resulted in the approval of the Directors' Remuneration Policy at the AGM in 2017 and we are grateful for your support. There was a significant vote against the Directors' Remuneration Policy with some shareholders expressing concern that incentives are too dependent on annual performance. We have improved the disclosure and transparency in this Annual Report on Remuneration to enable our shareholders to review decisions taken during the year as we implement the Policy. We have also made every effort to engage with major shareholders through the year on incentive performance measures and broader corporate governance issues.

We trust that improving communications in these ways will ensure both the successful implementation of the Policy and continued shareholder support.

> "We have also engaged with major shareholders through the year on incentive performance measures and broader corporate governance issues."

Independent advisor to the Remuneration Committee
The appointment of PwC as Independent Auditor meant that they could no longer advise the Remuneration Committee. FIT Remuneration Consultants were appointed as advisors in April 2017 after a thorough review. We are working closely with FIT to implement the Directors' Remuneration Policy and receive advice on remuneration governance, executive pay market practice and related issues to assist our decision-making.

Incentive outturn for FY18
The FY18 BBP outturn for the Executive Directors was 66.7% and 66.1% of the maximum for the CEO and the CFO respectively. This is based on above-target profit and cash performance, with orders achieving the threshold level of performance, reflecting a good year for the Company. Performance against collective and personal objectives was also very strong reflecting the critical contribution which both Executive Directors have made. This outturn is below that for the previous year (86.4% of maximum for the CEO; the CFO did not participate in FY17 as he had just joined the Company), which reflects the targets set by the Remuneration Committee.

Of the FY18 BBP outturn noted above, 50% will be paid in cash and 50% deferred into Cycle 2 of the BBP, where it will remain at risk of forfeiture for three years (see page 70 for the details). FY18 is also Year 4 of Cycle 1 of the BBP and 314,971 QinetiQ shares will be released to the CEO in June 2018 as a result of deferring payments into the BBP in FY16 and FY17. These deferred amounts were already reported as remuneration in the year they were earned.

The first DSP award will be made in June 2018 at 62.5% of the maximum available, reflecting performance against the stretching annual underlying operating profit target. However, this DSP award will not vest in full unless the FY18 profit performance (£122.5m) is achieved in FY21. Even then the vested shares must be retained for a further two years. The 2018 DSP award is, therefore, an initial contingent share award in a six-year programme providing a clear link to the shareholder experience.

No shares awarded under the legacy Performance Share Plan (PSP) in 2015 vested in 2018 as the challenging threshold targets were not met.

Incentive targets for FY19
The Bonus Banking Plan for FY19 is based on the same financial metrics as in FY18 (profit, cash and orders) with stretch targets set against the delivery of the Integrated Strategic Business Plan (ISBP) and a 75% weighting. Non-financial targets have a 25% weighting based on the achievement of collective and personal objectives.

In support of the ISBP, the FY19 DSP performance measure is absolute growth in international revenue. We have also agreed strong underpins to ensure that margins are maintained on non-UK revenue and Group operating profitability must be at least equal to FY19 performance in FY22, as detailed on page 76. The Remuneration Committee carefully considered the performance measure for this award and we agreed that this is the right metric at this stage in the development of the Company. The targets have been set to be stretching.

Employee engagement and reward
All QinetiQ's employees are key to the delivery of the strategy. The CEO and the Group HR Director have held regular discussions with our Employee Engagement Group on reward matters including executive remuneration. The people section on page 32 details our employee engagement activity including the introduction of a new engagement tool in FY19.

I have met the Chair and the Deputy Chair of the Employee Engagement Group twice during the year and I have found the discussions very helpful in terms of understanding employee views, and I understand that they too have found the meetings helpful to better understand the Company's approach to executive remuneration. It is our intention to continue to meet at appropriate intervals.

Conclusion
The Directors' Remuneration Policy was approved at the 2017 AGM and is summarised on page 66. It is also available to view in full on the Company's website www.QinetiQ.com. Implementing this Policy in FY18 in the interests of shareholders has been the primary focus of the Remuneration Committee.

FY18 was a good year for QinetiQ as we deliver against our strategy and the Remuneration Committee considers that the rewards delivered appropriately reflect this.

I am very grateful for the time shareholders and their representative bodies have given us throughout the year and I hope that we can rely on your vote in favour of the Annual Report on Remuneration at the AGM on 25 July 2018.

Michael Harper
Remuneration Committee Chairman, 24 May 2018

DIRECTORS' REMUNERATION REPORT AT A GLANCE

How to use this report

This 'At a Glance' section highlights the performance and remuneration outcomes for the year ended 31 March 2018 with greater detail provided in the Annual Report on Remuneration.

Key
- Fixed pay
- Bonus Banking Plan (BBP)
- Deferred Share Plan (current policy, DSP)
- Performance Share Plan (old policy, PSP)
- Shareholding guidelines
- Denotes a KPI (see page 20)

> **Audited information**
>
> Content contained within a grey box, accompanied by this 'Audited information' icon, indicates that the information has been audited.

Performance in 2018

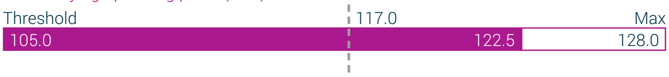
The BBP measures annual performance against three financial KPIs (75% weighting) and other key strategic, operational and personal targets (25% weighting). Annual financial performance was strong and the Company achieved above target levels of performance on profit and cash, with orders exceeding the threshold level. Against non-financial measures, recognising the exceptional personal contribution to Company performance of both Executive Directors during the year, the CEO and the CFO received payments of 77.5% and 75.0% of the maximum respectively. The DSP award for FY18 reflects above-target underlying operating profit performance which must be maintained in FY21 for shares to vest in full.

Measures and targets used for BBP and performance outturn

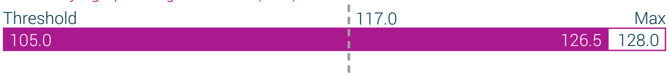
Financial (75%)

Orders (25%)

Underlying operating profit (25%)



Underlying operating cash flow (25%)



Key
Target

Strategic, operational, personal (25%)

CEO and CFO 77.5% and 75.0% achievement respectively as detailed on page 69.

Measure and initial target for DSP and performance outturn

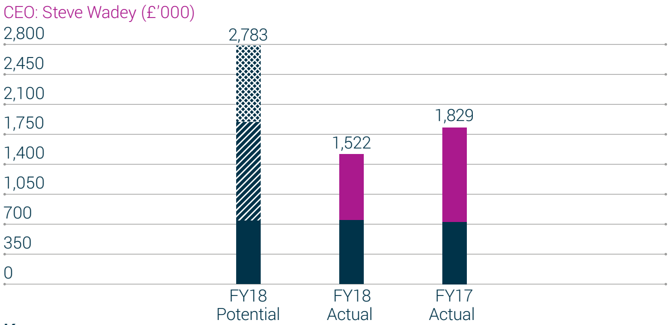
Underlying operating profit (100%)

FY18 DSP annual target level of performance was exceeded, but performance was below the maximum stretch level. The vesting of the award is subject to a performance underpin that the Company must meet or exceed the £122.5m operating profit performance for FY18 in FY21 for full vesting.

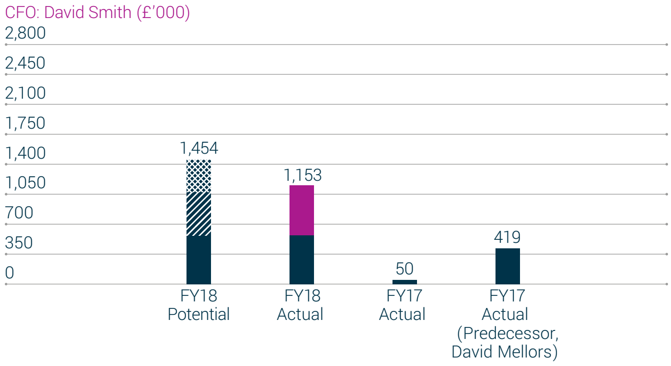
What we paid our executives this year

The charts below illustrate FY18 potential opportunity against FY17 and FY18 actual pay for both Executive Directors. The actual pay for both Executive Directors reflects the above target BBP payment and no PSP vesting, as the 2015 PSP award to the CEO lapsed and the CFO was not with the Company at the time of grant.

CEO: Steve Wadey (£'000)



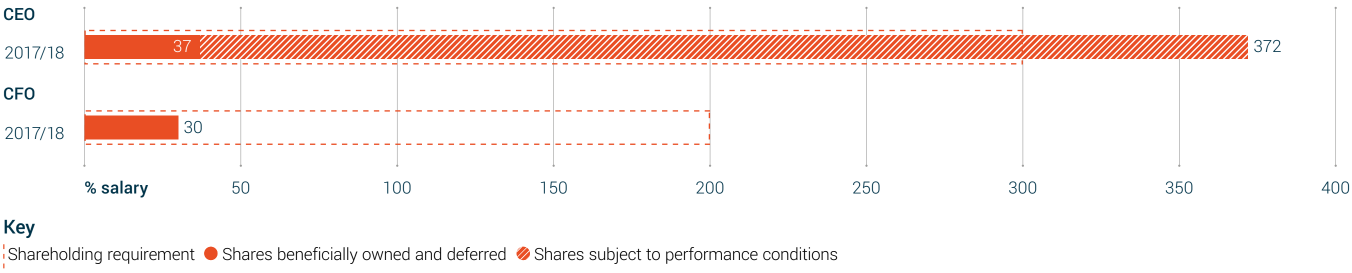
CFO: David Smith (£'000)



Key
- Minimum = fixed pay
- Target = On-target award for the BBP and PSP performance
- Maximum = Maximum award under the BBP and PSP
- BBP award

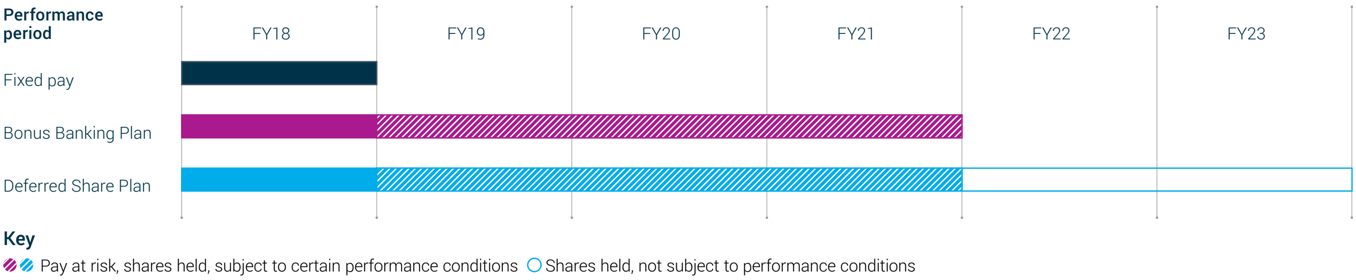
Shareholding requirement

In line with the new Directors' Remuneration Policy, for FY18 the minimum shareholding requirement was increased to 300% of salary for the CEO and 200% of salary for the CFO (previously 200% for the CEO and 150% for the CFO). The relatively low current shareholding of the Executive Directors illustrated below reflects their short length of service. The Committee is confident that the implementation of the Policy through the operation of the BBP and DSP will increase the shareholdings given strong Company performance.



Components of remuneration – timing

To create strong alignment between executive remuneration and the long-term interests of our shareholders, the annual BBP awards remain, in part, subject to forfeiture based on performance for three years after the award was earned. Annual DSP awards also have a similar forfeiture period, after which any vested shares must be retained by the executive for a further two years.



Our remuneration principles

Flexible
The Committee can select measures and set tough targets each year to ensure that executives are incentivised aligned to the delivery of each stage of our strategy.

Stretching
Targets are set by the Committee to ensure executives are incentivised to outperform, whilst delivering sustainable levels of performance.

Aligned
Whilst our incentive targets are initially assessed on an annual basis, the BBP has a deferred share-based element with the risk of forfeiture, and the DSP has a 'meet or exceed' performance underpin, whereby performance must be met or exceeded in year three, after which any vested shares must be retained for a further two years.

DIRECTORS' REMUNERATION REPORT
SUMMARY REMUNERATION POLICY

The Directors' Remuneration Policy was approved by shareholders at the AGM on 19 July 2017. The full Policy is provided in the Corporate Governance section on the Company's website, and it is expected to remain in effect until the 2020 AGM. A summary of the Policy is set out below:

Element	Policy summary description	Maximum opportunity
Base salary	When determining an appropriate level of salary, the Committee considers: – general salary rises to employees – remuneration practices within the Group – any change in scope, role and responsibilities – the general performance of the Group – the experience of the relevant Director – the economic environment – when the Committee determines a benchmarking exercise is appropriate, salaries within the ranges paid by the companies in the comparator groups used for remuneration benchmarking.	Typically, the base salaries of Executive Directors in post at the start of the Policy period and who remain in the same role throughout the Policy period will be increased by a similar percentage to the average annual percentage increase in salaries of all other employees in the Group. The exceptions to this rule may be where: – an individual is below market level and a decision is taken to increase base pay to reflect proven competence in the role; or – there is a material increase in scope or responsibility to the Executive Director's role.
Pension	The Company provides a non-consolidated pension contribution allowance in line with practice relative to its comparators.	The maximum pension contribution allowance is 20% for existing Executive Directors. Any new Executive Directors will have a maximum contribution of 15%.
Benefits	Benefits include car allowance, health insurance, life assurance, income protection and membership of the Group's employee Share Incentive Plan which is open to all UK employees.	Benefit values can vary year-on-year depending on premiums and the maximum is the cost of providing the relevant benefits.
Incentive Plan	The Incentive Plan supports the Company's objectives by: – allowing the setting of annual targets based on the strategic objectives at that time; and – providing substantial deferral in shares and ongoing adjustment by requiring a threshold level of performance to be achieved during the deferral period. The Incentive Plan consists of two elements: Bonus Banking Plan (BBP) Annual contributions are earned based on the satisfaction of the performance conditions. Contributions are made for three years with payments made over four years. Half the value of a participant's bonus account is paid out annually for three years with 100% of the residual value paid out at the end of year four. Half of the unpaid balance of a participant's bonus account is at risk of annual forfeiture. Deferred Share Plan (DSP) Deferred share-based element earned based on the satisfaction of pre-grant annual performance assessment, which is subject to a three-year vesting period and a further two-year holding period. A minimum 50% of the unvested award is at risk of forfeiture after three years based on a performance underpin.	Maximum 325% of salary (200% of salary under the Bonus Banking Plan and 125% of salary under the Deferred Share Plan). Bonus Banking Plan Maximum = 200% of salary. Target = 80%–120% of salary. Threshold = 0% of salary. Deferred Share Plan Maximum = 125% of salary. Target = 30%–75% of salary. Threshold = 0% of salary.
Shareholding requirements	Executives have five years to accumulate the required shareholding by retaining at least 50% of the post-tax vested shares from Company incentive plans. 300% of base salary for the CEO. 200% of base salary for the CFO.	n/a
Chairman and Non-executive Directors		
Fees	Fees are reviewed annually based on equivalent roles in the comparator group used to review salaries paid to the Executive Directors.	The fees for Non-executive Directors and the Group Chairman are broadly set at a competitive level against the comparator group.

Our full Remuneration Policy can be found on our website www.QinetiQ.com

DIRECTORS' REMUNERATION REPORT
ANNUAL REPORT ON REMUNERATION

The following section of this report details how the Directors' Remuneration Policy has been implemented for the year ended 31 March 2018.

Audited information

Executive Directors' single total figure of remuneration

Executive Director	Year	Salary £'000	Benefits £'000	Pension £'000	Bonus Banking Plan £'000	Deferred Share Plan £'000	Performance Share Plan £'000	Total remuneration £'000
Steve Wadey (CEO)	2018	582	48	116	776	–	–	**1,522**
Restated	2017	568	43	113	1,105	–	–	1,829
David Smith (CFO)	2018	443	37	88	585	–	–	**1,153**
Restated. Appointed 1 Mar 17	2017	40	3	7	–	–	–	50
Previous Executive Director								
David Mellors (CFO)	2018	–	–	–	–	–	–	
Restated. Left 31 Dec 16	2017	332	21	66	–	–	–	419

Benefits include travel and subsistence expenses incurred in relation to the execution of their duties with the Company that are considered by HMRC to be taxable. The 2017 figures have been restated to include these expenses in-line with emerging best practice. David Mellors' annual incentive and David Smith's pension have been restated as announced on 7 July 2017, having been reduced by £645,000 and £7,000 respectively.

Fixed pay

Salary

Salaries are normally reviewed each September, which is the same timing for the rest of the UK employee population. The Committee takes a number of factors into consideration when awarding salary increases including Company and individual performance, affordability and general market movements.

	Salary as at August 2017 £'000	Increase in the year	Salary as at September 2017 £'000	FY18 Pro-rated salary £'000
Steve Wadey	574	2.4%	588	582
David Smith	440	1.1%	445	443

Benefits

Benefits comprise a car allowance, travel allowance, private medical insurance, life assurance, income protection, and taxable expenses.

	Taxable expenses £'000	Car allowance £'000	Insured benefits £'000	Total benefits £'000
Steve Wadey	15	19	14	48
David Smith	4	13	20	37

Pensions

Neither of the Executive Directors participate in the QinetiQ pension scheme. The pension figure consists of cash in lieu of pension equating to 20% of base salary.

	Cash in lieu of pension £'000	Total in lieu of pension £'000
Steve Wadey	116	116
David Smith	88	88

Bonus Banking Plan Cycle 2

The Bonus Banking Plan was introduced in 2014 and operates on a four-year cycle mirroring the financial year, i.e. running from 1 April to 31 March. FY18 represents year 4 in Cycle 1, and year 1 in Cycle 2 as detailed on page 70.

Each year the incentive award earned is added to the total plan balance, with 50% of the total plan balance being paid in cash, and the remaining 50% held in the plan in notional shares. In year 4, the total remaining plan balance is paid in shares.

	BBP balance brought forward £'000	Dividend equivalent payment £'000	BBP award in year £'000	Cash payment (50% value) £'000	BBP balance carried forward £'000
CEO	–	–	776	388	388
CFO	–	–	585	293	292

Deferred Share Plan

The Deferred Share Plan contingent share award to be made in June 2018 is not included in the single figure as vesting remains subject to a stretching performance underpin in 2021. It will, to the extent it vests, appear in the single total figure in 2021.

Performance Share Plan

The Share Plan award made to the CEO in 2015 did not vest in 2018 as detailed on page 71.

DIRECTORS' REMUNERATION REPORT
ANNUAL REPORT ON REMUNERATION CONTINUED

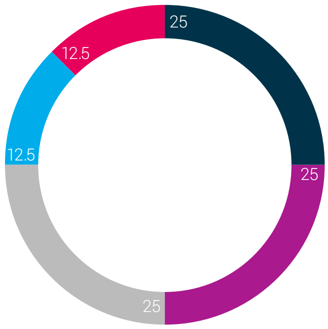
Bonus Banking Plan
FY18 performance measures and operation

For the year ended 31 March 2018 achievement of on-target performance provides a payment equal to 115.0% of base salary, rising on a linear scale to 200% of base salary for achievement of stretch performance.

The scheme begins to pay out once threshold performance measures have been achieved. For the year ended 31 March 2018, the CEO and CFO were measured against the targets as shown in the chart to the right. The Target payment is 60% of maximum for financial objectives and 50% for non-financial objectives.

Setting performance targets – the Remuneration Committee takes into account the budget and the Company's strategy set in relation to the ISBP, shareholder expectations and the external environment. The aim is to set stretching targets which incentivise the Executive Directors to deliver annual results which will exceed the expectations of investors, but which are also sustainable and do not create undue risk.

% of base salary (%)



Audited information

2018 performance outcomes

	Weighting (%)	Threshold	Target	Stretch	Actual	% of maximum reward achieved	CEO contribution	CFO contribution
CEO/CFO financial performance measures:								
Orders	25	£570m	£640m	£750m	£587.2m	14.7%	£42,914	£32,649
Underlying operating profit[a]	25	£105m	£117m	£128m	£122.5m	80.0%	£232,867	£177,167
Underlying net cash flow from operations[a]	25	£105m	£117m	£128m	£126.5m	94.5%	£274,957	£209,189
CEO/CFO shared strategic and operational objectives (as detailed on page 69):								
Strategy: – Performance against key stretching objectives relating to the UK business, International and innovation	12.5	40%	50%	100%	75%	75.0%	£109,156	£83,047
Operational: – Performance against stretching objectives relating to culture change, process improvement and Health & Safety		40%	50%	100%	75%			
CEO individual personal objective:								
Stretching objectives measuring growth and leadership	12.5	40%	50%	100%	80%	80.0%	£116,433	
CFO individual personal objectives:								
Stretching objectives measuring delivery, transformation, growth and leadership	12.5	40%	50%	100%	75%	75.0%		£83,047
CEO overall results						66.7%	£776,327	
CFO overall results						66.1%		£585,099

[a] Definition of underlying measures and performance can be found in the glossary on page 139.

Bonus Banking Plan (continued)

Audited information

Financial performance measures (75% award)

The three key measures of orders, underlying operating profit and underlying net cash flow from operations are given an equal 25% weighting.

Underlying operating profit in FY18 included a number of non-recurring trading items totalling £8.7m. These comprised a £5.3m credit relating to the release of engine servicing obligations, £4.7m credit due to the settlement of a contractual dispute, a £2.7m charge relating to property liabilities and a number of other contract-related releases. The decision to include these items took into account a number of factors including a qualitative assessment of the nature of the items.

Reconciliation of measures used in determining remuneration to Group KPIs

There were none as BBP performance metrics and financial KPIs were aligned.

£m	Orders	Underlying operating profit	Underlying cash flow
Per KPIs on page 20	587.2	122.5	126.5
Metric used for BBP	587.2	122.5	126.5
Difference	**0.0**	**0.0**	**0.0**

Shared strategic and operational measures (12.5% award)

Measures	2018 Performance	Outcome (% maximum)
Strategic		
UK	– Secured contracts for the continued modernisation of Test and Evaluation facilities.	
International	– Secured significant contracts in export markets and with non-UK governments for the outsourcing of Test and Evaluation capabilities.	
Innovation	– Successful progress to resource key growth campaigns with approved capture plans. – Secured agreement for the transformation of Air Test and Evaluation Centre.	
Operational		
Transformation	– Embedded culture change to adopt new operating model. – Created a culture of listening and responding to customers and employees using an active feedback loop.	
Organisational development	– Each member of the Leadership Community personally engaged in leading monthly Rapid Improvement Events to drive cultural change. – Implemented 'Safe for Life' across the Group, including supply chain.	
Total		75.0%

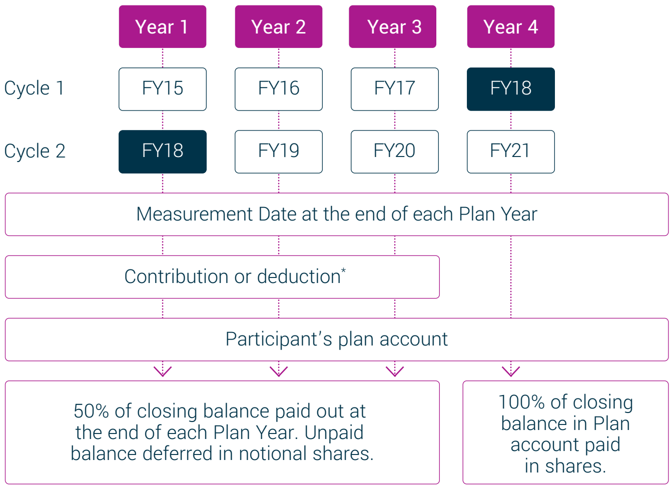
Personal objectives (12.5% award)

Objectives	2018 Performance	Outcome (% maximum)
CEO		
Growth	– Implemented the approved five year ISBP to deliver sustainable profitable growth through organic and inorganic actions, with clear top down criteria for potential acquisitions aligned with delivery of the Group strategy. Developed a focused approach to international growth and pursued initial opportunities.	
Leadership	– Created a more customer focused, listening culture, demonstrating senior leadership behavioural change that delivers consistent operational performance and execution of the group strategy.	
Total		80.0%
CFO		
Growth & Transformation	– Resolved issues with systems, processes and tools such that the new operating model runs smoothly, in terms of capture management, programme management, workflow and resource demand/supply. Secured cultural shift in embedding and operating new business model. – Worked with the other leaders to mature the FY19 ISBP and pursued organic and inorganic growth actions to ensure sustainable revenue and profit growth.	
Leadership	– Developed the Finance and Performance Excellence organisations. – Ensured each team member was aligned with delivery of the overall business strategy and performance targets.	
Delivery	– Improved underlying processes and governance to drive consistent operational performance across the Group.	
Total		75.0%

DIRECTORS' REMUNERATION REPORT
ANNUAL REPORT ON REMUNERATION CONTINUED

Bonus Banking Plan (continued)
How the plan operates
- The Plan operates on a fixed four-year cycle. FY18 represents year 1 of Cycle 2, and year 4 of Cycle 1. Plan years commence on 1 April.
- Performance targets are set at the beginning of each Plan year.
- At the end of each of the first three Plan years the performance against targets is assessed and the level of the incentive earned is determined and paid into the Plan account.
- Each year 50% of the account balance is subject to forfeiture.
- At the end of each of the first three Plan years, 50% of the account balance will be paid and the balance retained and held in the Plan as notional shares.
- At the end of the fourth year, any remaining balance in the Plan account is paid out in shares.

BBP payout mechanism



* Single figure BBP value for a Plan/financial year.

Audited information

Operation during 2018

Cycle 1

	Notional shares on account at beginning of Plan year 4 (31 March 2017)	30-day average share price as at measurement date (£)	Share value as at measurement date (£)	Bonus plan contribution for Plan year 4 (£)	Dividend equivalent payment (£)	Bonus pool total value as at measurement date (£)	Gross cash payment for Plan year 4 (£)	Bonus pool total value following cash payment (£)	Notional shares at end of Plan (31 March 2018)
CEO	305,913	2.06	630,181	–	18,661	648,842	–	–	314,971
CFO	–	–	–	–	–	–	–	–	–

Cycle 2

	Notional shares on account at beginning of Plan year 1 (31 March 2017)	30-day average share price as at measurement date (£)	Share value as at measurement date (£)	Bonus plan contribution for Plan year 1 (£)	Dividend equivalent payment (£)	Bonus pool total value as at measurement date (£)	Gross cash payment for Plan year 1 (£)	Bonus pool total value following cash payment (£)	Notional shares on account at beginning of Plan year 1 (31 March 2018)
CEO	–	2.06	–	776,327	–	776,327	388,163	388,164	188,429
CFO	–	2.06	–	585,099	–	585,099	292,550	292,549	142,014

Forfeiture
For Cycle 1 the CEO retained notional shares in his Plan account of which 50% were subject to forfeiture. Forfeiture would have been enacted if Group underlying operating profit was less than £95.0m for FY18. FY18 Group underlying operating profit was £122.5m (excluding contribution from acquisitions) therefore no notional shares were forfeited. It is anticipated that the shares will be paid out in June 2018.

Discretion
For Cycle 2, for the year ended 31 March 2018, financial targets were exceeded providing a contribution of 133.4% of base salary for the CEO and 132.1% of base salary for the CFO. £776,327 and £585,099 has been reported in the single figure table which represents the cash and deferred notional share elements. No discretion was applied to these contributions.

Deferred Share Plan (DSP)

Scheme interests awarded during the financial year ended 31 March 2018

The Deferred Share Plan was approved by shareholders at the 2017 AGM. A maximum award of 125% of salary may be made to the CEO and CFO with the amount contingent on meeting a stretching annual performance target based on QinetiQ's strategic growth plan. Once the award has been made, it is deferred for three years and remains subject to a performance underpin; any vested shares are then subject to a further two-year holding period.

Setting performance targets FY18

The FY18 DSP performance measure was underlying operating profit but with more stretching performance targets than those set for the BBP. Calibration was set with a maximum of 125% of salary available for achieving Stretch and 35% of the maximum payable at Target performance. The performance targets were set by the Remuneration Committee so as to be stretching.

Audited information

2018 performance outcome

The 2018 Deferred Share Plan award was measured against 2018 underlying operating profit with the following calibration.

Measure	Weighting	Threshold	Target	Stretch	Actual	% Max award achieved	% Salary awarded	Total £'000
Underlying operating profit	100%	£110.0m	£117.0m	£130.0m	£122.5m	62.5%	78.1%	
CEO								454,818
CFO								346,029

Underlying operating profit achievement at £122.5m is therefore 62.5% of maximum resulting in an award of 78.1% of salary for the CEO and CFO. The DSP award is also subject to a stretching performance underpin which must be achieved before shares vest to the benefit of the participant. The profit outturn for 2018 (£122.5m) must be maintained at the end of the year of vesting (2021) for the shares to vest. If this is not maintained then, at a minimum, 50% of the award will lapse. Any vested shares must be retained for a further two-year period.

The share value is based on the 30-day average share price ending on 31 March 2018; this is £2.06. It is anticipated that 2018 Deferred Share Plan awards will be made on or around 1 June 2018. The eventual number of contingent shares awarded will therefore be detailed in the 2019 Directors' Remuneration Report.

For details of the non-recurring trading items in the underlying operating profit figure, please refer to page 69.

Performance Share Plan (PSP)

2015 PSP

The 2015 PSP award was measured 50% based on EPS growth of 3% to 10% per annum (25% vesting at threshold, 100% at maximum, with linear vesting between these points), and 50% based on TSR performance against the FTSE 250 (30% vesting at median performance, 100% at upper quartile performance, with linear vesting between these points).

The 2015 PSP award measurement period was to 31 March 2018 and the Committee reviewed performance against the EPS and TSR performance measures at the May 2018 meeting.

			Performance			
Measures	Weighting	Performance conditions	Threshold	Stretch	Actual	% Max award achieved
EPS	50%	Between 3% and 10% per annum	16.6p	20.2p	16.4p	0%
TSR	50%	Between FTSE 250 median and upper quartile	24.8%	61.6%	17.1%	0%

Based on audited EPS performance and TSR performance analysis provided by the independent advisor to the Committee (FIT), it was determined that neither test was met and the 2015 PSP award to the CEO will lapse in full on the third anniversary of grant (28 July 2018).

Performance condition adjustments during 2018

As in prior years, the Committee adjusted the performance conditions for the Performance Share Plan to reflect continuing operations and share buyback so performance is measured on a like-for-like basis.

Reconciliation of measures used in determining remuneration to Group KPIs

	EPS p
Per KPIs on page 21	19.3
Metric used for PSP	16.4
Difference	**2.9**
Which relates to:	
– Constant number of shares	
– Excluding profit after tax of acquired businesses	

DIRECTORS' REMUNERATION REPORT
ANNUAL REPORT ON REMUNERATION CONTINUED

Audited information

Statement of Directors' shareholding and share interests

In relation to the revised shareholding requirement adopted on 1 April 2017 the Company requires Executive Directors to hold shares equivalent to 300% (CEO) and 200% (CFO) of base salary. Executive Directors have five years to achieve the required level through, at a minimum, retaining 50% of the after-tax shares vesting from Company incentive plans.

The CEO does not currently meet the minimum shareholding requirement; with a current holding equivalent to 37% of base salary using a share price of £2.09 (three-month average to 31 March 2018). This reflects his appointment date as CEO and the lack of any opportunity for share-based awards to vest.

The CFO does not currently meet the minimum shareholding requirement; with a current holding equivalent to 30% of base salary using a share price of £2.09 (three-month average to 31 March 2018). This reflects his recent appointment as CFO and the lack of any opportunity for share-based awards to vest.

	Shares beneficially owned	Shares subject to performance conditions	Shares not subject to performance conditions	Total shares held at 24 May 2018
Steve Wadey	103,028	941,962	–	1,044,990
David Smith	64,556	–	–	64,556
Mark Elliott	145,000	–	–	145,000
Michael Harper	40,000	–	–	40,000
Admiral Sir James Burnell-Nugent	15,567	–	–	15,567
Paul Murray	83,214	–	–	83,214
Susan Searle	25,000	–	–	25,000
Ian Mason	10,000	–	–	10,000
Lynn Brubaker	12,000	–	–	12,000

Shares beneficially owned comprise shares held under the Share Incentive Plan (including matched shares) and shares owned by the Director and any connected persons.

Shares subject to performance conditions comprise awards made under the Performance Share Plan as detailed below. Notional shares held by the CEO in the BBP Cycle 1 do not appear in the table above as they are not actual shares at 24 May 2018.

Total scheme interests summary

Total scheme interests, including those awarded during the financial year ended 31 March 2018, are as follows.

Steve Wadey

Plan name	Date of grant	Number 1 April 2017	Granted in year (maximum potential of awards)	Exercised/ vested in year	Lapsed in year	Number 31 March 2018	Market price on date of grant	Vest date
PSP 2015	28 Jul 15	363,636	–	–	–	363,636[1]	231.0	28 Jul 18
PSP 2016	1 Jul 16	476,190	–	–	–	476,190	224.4	1 Jul 19
PSP 2017	22 Jun 17	–	102,136	–	–	102,136	281.0	22 Jun 20
		839,826	**102,136**	**–**	**–**	**941,962**		

[1] As detailed on page 71, the performance conditions for the 2015 PSP were not met, and the 2015 PSP award to the CEO will lapse on 28 July 2018.

The 2017 PSP award will vest 50% based on EPS growth of 3% to 10% per annum (25% vesting at Threshold, 100% at maximum, with linear vesting between these points), and 50% based on TSR peformance against the FTSE 250 (30% vesting at median performance, 100% at upper quartile performance, with linear vesting between these points).

The contingent share award in relation to the 2018 DSP will be granted on or around 1 June 2018. The Committee estimates that 220,785 contingent shares will be granted to Steve Wadey and 167,975 to David Smith. This is calculated based on awards of 78.1% salary, and a share price of £2.06 (based on 30 days to 31 March 2018).

The highest and lowest prices of a QinetiQ share during the year ended 31 March 2018 were 319.7p and 195.5p. There have been no other changes to the interests shown above between 31 March 2018 and 24 May 2018.

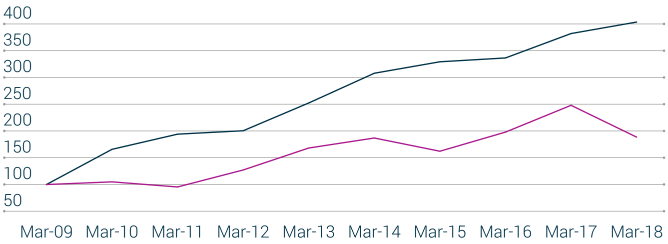
Payments to past Directors and payment for loss of office

No payments were made to past Directors during the year and no payments were made for loss of office during the year.

Performance review

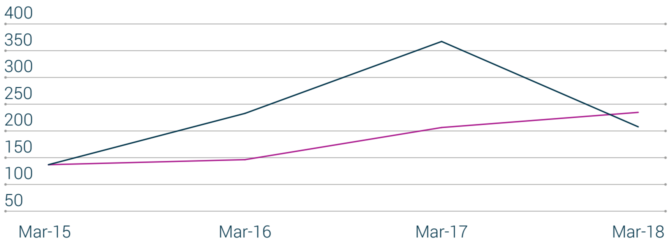
The nine-year and three-year charts show the Company's Total Shareholder Return over the period from 31 March 2009 to 31 March 2018 and 31 March 2015 to 31 March 2018 compared with the FTSE 250 (excluding investment trusts) over the same period based on spot values. The Committee has chosen to demonstrate the Company's performance against this index as it is the index in which the Company is listed. This comparator group is also used to measure TSR performance in the PSP (under which no future awards will be made).

Nine-year comparator chart



Key
- QinetiQ
- FTSE 250 (excluding investment trusts)

Three-year comparator chart



CEO remuneration

The table below shows the CEO's remuneration over the same performance period as the Total Shareholder Return chart (31 March 2009 to 31 March 2018):

Year ended 31 March	CEO	Salary/fees	Single figure	Annual bonus (% of maximum)	Long-term incentives (% of maximum vesting)
2018	Steve Wadey	582,167	1,522,460	66.7%	–
2017 (restated)	Steve Wadey	568,166	1,829,470	86.4%	–
2016	Steve Wadey	520,219	1,654,546	85.4%	–
2016	David Mellors	455,885	1,423,382	82.9%	–
2015	David Mellors	501,227	1,725,960	88.6%	13.9%
2015	Leo Quinn	469,776	673,979	–	–
2014	Leo Quinn	610,844	2,177,742	77.0%	15.4%
2013	Leo Quinn	593,050	3,992,001	100.0%	40.3%
2012	Leo Quinn	580,000	1,495,284	100.0%	–
2011	Leo Quinn	580,000	1,327,156	100.0%	–
2010	Leo Quinn	217,872	886,564	–	–
2010	Graham Love	266,667	1,246,320	–	–

The Committee notes the encouragement for additional reporting in relation to CEO pay ratios. Until a common methodology is established the Committee will not publish a CEO pay ratio as this number is of little relevance on a stand-alone basis and external comparisons are invalid unless the disclosure is calculated on a consistent basis. The Committee considers pay relativities throughout the business as part of its deliberations and will continue to do so.

The 2017 single figure has been restated in respect of benefits as explained above.

Percentage change in CEO remuneration

The following table compares change in CEO remuneration with an employee comparator group (averaged per capita). The comparison group (4,000 employees) represents the employees in the UK principal businesses in service between 1 April 2017 and 31 March 2018.

	CEO			Comparison group		
	2018	2017	% change	2018	2017	% change
Base salary	£582,167	£568,132	2.5%	£41,283	£39,694	4.0%
Benefits	£47,533	£43,083	10.3%	£1,190	£1,138	4.6%
Annual bonus	£776,327	£1,104,687	-29.7%	£1,436	£1,506	-4.6%

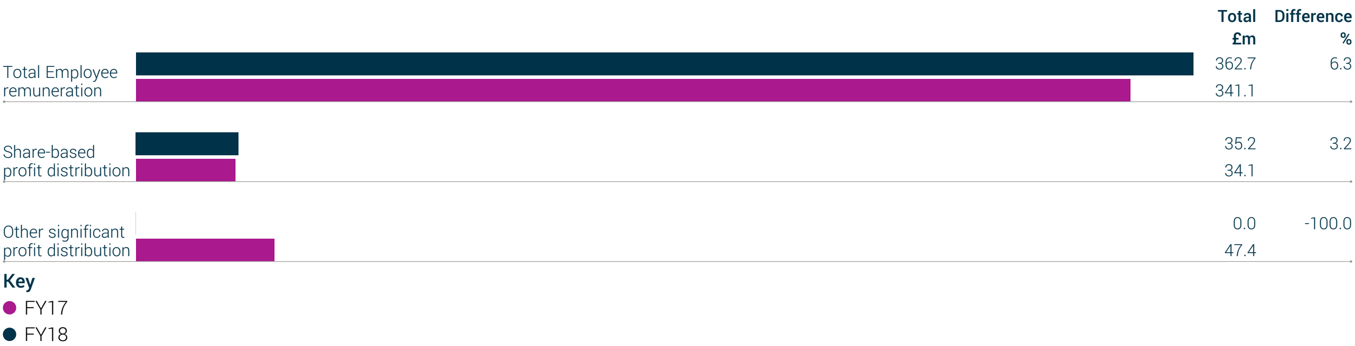
DIRECTORS' REMUNERATION REPORT
ANNUAL REPORT ON REMUNERATION CONTINUED

Remuneration policy for all employees
All employees of QinetiQ are entitled to base salary, benefits and pension. UK and Australia-based employees are entitled to participate in the QinetiQ Share Incentive Plan. The maximum incentive opportunity available is based on the seniority and responsibility of the role. Participation in the DSP is available to Executive Directors, senior managers and selected employees throughout the organisation. For FY19, the Company has introduced an All Employee Incentive Scheme whereby every employee has the opportunity to earn a cash bonus based on Company and personal performance. The Committee is advised of the general reward policy for other employees and of any significant changes proposed.

Gender related pay
QinetiQ is subject to gender pay reporting for UK employees and a copy of our 2017 report is available on the Company's website.

Our Gender Pay Gap report can be found on our website www.QinetiQ.com

Relative importance of spend on pay
The graph below shows actual spend on all employee remuneration, shareholder dividends and buybacks and any other significant use of profit and cash within the previous two financial years.



Audited information

Single figure remuneration for the Chairman and each Non-executive Director
Non-executive Directors' remuneration is shown as a single figure to provide an annual comparison between the remuneration awarded during the financial year ended 31 March 2018 and the preceding year.

Non-executive Director	Salary/fees £'000		Benefits £'000		Committee Chair fees £'000		US/UK attendance fee £'000		Single figure £'000	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Lynn Brubaker	48	46	16	6	–	–	21	15	85	67
Admiral Sir James Burnell-Nugent	48	46	2	4	9	9	–	2	59	61
Mark Elliott	242	238	76	76	–	–	–	–	318	314
Michael Harper	48	46	1	2	19	19	–	2	68	69
Ian Mason	48	46	1	3	–	–	–	–	49	49
Paul Murray	48	46	1	1	9	9	–	2	58	58
Susan Searle	48	46	1	2	–	–	–	2	49	50

Benefits include travel and subsistence expenses incurred in relation to the execution of their duties with the Company that are considered by HMRC to be taxable. The 2017 figures have been restated to include these expenses in-line with emerging best practice.

Mark Elliott, the Chairman, and Lynn Brubaker are US residents. Mark is entitled to an accommodation allowance of £75,000 and Lynn is entitled to receive a $4,000 fee for attending UK meetings. UK-based Non-executive Directors are entitled to receive a £2,500 fee for attending US meetings.

The Committee Chair fees figure for Michael Harper includes a payment of £10,000 as Senior Independent Director.

Service contracts/letters of appointment

The Company's policy is that Executive Directors have rolling contracts which are terminable by either party giving 12 months' notice. Non-executive Directors do not have service contracts but are appointed under letters of appointment. All service contracts and letters of appointment are available for viewing at the Company's registered office and at the AGM. Non-executive Directors typically serve two three-year terms but may be invited by the Board to serve for an additional period (see table in the Nominations Committee report on page 59).

Director	Date appointed	Arrangement	Notice period
Lynn Brubaker	27 January 2016	Initial term of three years from date of appointment until the conclusion of the Annual General Meeting approximately three years from that date, subject to annual reappointment at the AGM.	1 month
Admiral Sir James Burnell-Nugent	10 April 2010	Initial term of three years from date of appointment, subject to annual reappointment at the AGM.	–
Mark Elliott	01 June 2009	Initial term of three years from date of appointment, subject to annual reappointment at the AGM.	–
Michael Harper	22 November 2011	Initial term of three years from date of appointment, subject to annual reappointment at the AGM.	–
Ian Mason	04 June 2014	Initial term of three years from date of appointment until the conclusion of the Annual General Meeting approximately three years from that date, subject to annual reappointment at the AGM.	1 month
Paul Murray	25 October 2010	Initial term of three years from date of appointment, subject to annual reappointment at the AGM.	–
Susan Searle	14 March 2014	Initial term of three years from date of appointment until the conclusion of the Annual General Meeting approximately three years from that date, subject to annual reappointment at the AGM.	–
David Smith	01 March 2017	Service contract	12 months
Steve Wadey	27 April 2015	Service contract	12 months

Implementation of Policy for the year ending 31 March 2018

Salary/fees

Non-executive Directors' fees were increased on 1 July 2017, resulting in an increase in base fees from £46,000 to £49,000 per annum. This was the first increase since 1 July 2015 and Non-executive Directors' fees will be reviewed again in July 2019. The Non-executive Group Chairman's fees were last increased on 1 December 2016 resulting in an increase to £242,000. Salaries and fees are reviewed in line with Policy.

Executive Directors are permitted to accept one external non-executive director position with the Board's approval. Any fees received in respect of these appointments may be retained by the Executive Director.

The CEO does not hold any non-executive directorships in other companies. David Smith was appointed non-executive director of Motability Operations Group plc on 1 July 2010. Non-executive director fees, as reported in the 2017 Motability Operations Group plc annual report, were £50,000 per annum which are retained.

	Fees effective as at 1 April 2018 £
Group Chairman	242,000
Accommodation allowance for Group Chairman	75,000
Basic fee for UK Non-executive Director	49,000
Additional fee for chairing a Committee	9,000
Additional fee to Deputy Chairman/Senior Independent Non-executive Director	10,000
Additional fee for attendance at a Board meeting held in US by UK resident Non-executive Director	2,500
Additional fee for attendance at a Board meeting held in UK by US resident Non-executive Director	$4,000

Implementation of Policy for the year ending 31 March 2019

Incentives for Executives

The table below shows the measures and relative weighting for the Bonus Banking Plan for the CEO and CFO:

	Performance measure (excluding 2018 acquisitions)	Relative weighting (%)
Bonus Banking Plan Target performance 115% of base salary Stretch performance 200% of base salary	Underlying operating profit	25.0%
	Underlying net cash flow from operations	25.0%
	Orders	25.0%
	Collective objectives	12.5%
	Personal objectives	12.5%

Details of specific performance targets for the Bonus Banking Plan have not been provided as they are deemed commercially sensitive. They will be disclosed retrospectively in next year's Annual Report on Remuneration.

DIRECTORS' REMUNERATION REPORT
ANNUAL REPORT ON REMUNERATION CONTINUED

The Deferred Share Plan will award a maximum of 125% of base salary for achieving Stretch performance with 35% of maximum payable at Target performance. The 2019 performance measure will be absolute growth in organic non-UK revenue as, in line with the ISBP, the Board has agreed that a critical aim for the Company is to deliver growth in international revenue. This is at the heart of our strategy to drive sustainable growth and follows significant success in FY18. The DSP awards will be subject to two performance underpins:

- To ensure that we deliver strong margins, the profit margin on non-UK revenue in FY19 must be the same or higher than the profit margin on non-UK revenue in FY18.
- Group underlying profit outturn for FY19 must be maintained at the end of the three-year vesting period. If this is not maintained then, at a minimum, 50% of the award will lapse. For the purposes of the FY19 DSP award, this will be the actual underlying operating profit (£m) for FY19 which must be achieved in FY22.

The Remuneration Committee Chairman wrote to major shareholders and voting advisory bodies in relation to the FY19 DSP performance measure.

Awards will be made in June 2019 based on FY19 performance. Details of performance targets for the Deferred Share Plan have not been provided as they are deemed commercially sensitive. They will be disclosed retrospectively in next year's Annual Report on Remuneration.

Salary and benefits
Salaries will be reviewed effective from 1 September 2018. No changes are envisaged to the implementation of benefits policy.

Remuneration Committee meetings, activities and decisions 2018
The following table provides a summary of all the key activities during the year. There was full attendance at each meeting.

	Base salary	Incentives	Share awards	Governance	Resourcing
May 2017		FY17 final results	2014 PSP vesting	Shareholder feedback on Directors' Remuneration Policy. Approve Directors' Remuneration Report	Steve Fitz-Gerald and James Willis appointments
July 2017	Executive Director and Executive Committee salary review			AGM preparation	
September 2017				Shareholder engagement Review Green Paper on Corporate Governance Reform	
November 2017	Trends in executive remuneration	FY18 half year forecast	Review of Executive Committee shareholdings	Employee engagement review	
March 2018		FY18 provisional results FY19 target setting	2015 PSP provisional vesting		Nic Anderson appointment

Effectiveness review
In 2018, the effectiveness review was undertaken internally, and the Committee was found to be functioning effectively. Considerations for 2018 include focusing on the linkage between remuneration and strategy, improving the clarity of the Directors' Remuneration Report and, having made changes to the Directors' Remuneration Policy, monitoring closely the roll-out of the Policy to ensure it operates effectively.

Remuneration consultants
The Committee undertook a thorough review and appointed FIT Remuneration Consultants as advisors from 1 April 2017 as the appointment of PwC as Independent Auditor meant that the Committee could no longer retain PwC as advisors.

The Committee has appointed FIT, an independent firm of remuneration consultants, to provide advice on market practice, corporate governance and institutional stakeholder views. Fees paid during the year for these services were £49,950.

FIT provided the following additional services during the year:

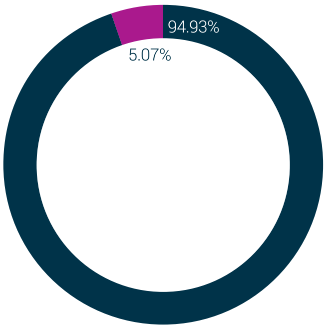
- Implementation support for the Company on executive reward plans; and
- TSR performance monitoring for Performance Share Plan awards.

The Committee is satisfied the scale and nature of this work does not impact on the objectivity and independence of the advice it receives from FIT.

Statement of voting

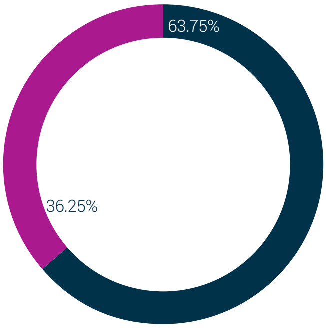
Annual Report on Remuneration – 2017

Votes for	380,227,053 (94.9%)
Votes against	20,307,830 (5.1%)
Total votes cast	400,534,883 (70.6% share capital)
Abstained	51,876



Directors' Remuneration Policy – 2017

Votes for	255,350,780 (63.8%)
Votes against	145,182,781 (36.3%)
Total votes cast	400,533,561 (70.6% share capital)
Abstained	53,828



The Committee notes that, while the majority of shareholders supported our Directors' Remuneration Policy, there was a significant vote against this resolution at the 2017 AGM. In response, the Committee undertook to:

- More clearly explain the link between the Directors' Remuneration Policy, incentives and our five-year strategy
- Engage with shareholders as the implementation decisions are made in relation to the Policy
- Enhance the design and layout of the Directors' Remuneration Report to improve both transparency and clarity.

Details on the voting on all resolutions at the 2018 AGM will be announced via the RNS and posted on the QinetiQ website following the AGM.

Michael Harper
Remuneration Committee Chairman, 24 May 2018