Directors' Remuneration Report continued

Part 2: Remuneration Policy

> "The policy will be put forward for binding vote at the AGM on 19 July 2017 and will be effective from that date."

Introduction

The Directors' Remuneration Policy was last approved in 2014 and the Company therefore seeks approval for the new policy at the AGM on 19 July 2017.

Scope of policy

The policy applies to Executive Directors, the Group Chairman and Non-executive Directors. Reference may also be made to the Executive Committee who, while not Directors, fall within the Committee's remit, although the policy is not binding for these individuals.

Duration of policy

The policy will be put forward for binding vote at the AGM on 19 July 2017 and will be effective from that date. The Policy is expected to remain in effect until the 2020 AGM.

Discretion

The Committee has discretion in several areas of policy as set out in this report. The Committee may also exercise operational and administrative discretions under relevant plan rules as set out in those rules. In addition, the Committee has the discretion to amend the Remuneration Policy with regard to minor or administrative matters where it would be, in the opinion of the Committee, disproportionate to seek or await shareholder approval and commits to communicating to shareholders when discretion is used.

Key changes in the Directors' Remuneration Policy

The Committee conducted an extensive review of the Remuneration Policy taking into account the following factors:

- The Company vision-led strategy launched at the beginning of FY17 aiming to establish the conditions for growth;
- The new executive team, including both Executive Directors and Executive Committee members, established to deliver the strategy; and
- The current suitability of the incentive arrangements for the Group incorporating insight from our Leadership Community and Employee Engagement Group.

This has resulted in the Committee proposing to introduce new incentive arrangements (collectively the Incentive Plan), if approved by shareholders, made up of two elements:

- Bonus Banking Plan (Element A) with no change to the current terms and conditions other than a reduction in the maximum opportunity from 225% to 200% of salary
- Deferred Share Plan (Element B) to be used in place of the current Performance Share Plan – maximum opportunity is reduced from 200% (current maximum granted to CEO in 2016 for two years) to 125% of salary.

Awards under the Deferred Share Plan (Element B) will be earned based on challenging strategic financial growth objectives set by the Committee each year in line with the Company's Integrated Strategic Business Plan.

Shares earned under the Deferred Share Plan (Element B) are subject to a three-year vesting period, during which the participant must remain employed by the Company, and also cannot be sold for five years from the date of award irrespective of employment status.

The rationale for the change to incentive provision is to:

- provide a simple cohesive design, that incentivises delivery of the Integrated Strategic Business Plan;
- recognise that the Integrated Strategic Business Plan will evolve, therefore providing the Board with the opportunity to manage the incentives annually to ensure the evolution continues to be incentivised;
- reward participants as shareholders by the build-up of a long-term retained shareholding; and
- ensure a focus on long-term sustainable performance through the deferral in equity. Based on the maximum incentive opportunity of 325%, half of the Bonus Banking Plan (Element A) opportunity (100%) and all of the Deferred Share Plan (Element B) opportunity (125%) is treated as equity.

There will be an increase in minimum shareholding requirement for the CEO to 300% of salary (previously 200% of salary) and for the CFO 200% of salary (previously 150% of salary). This increases the alignment of Executive Directors' remuneration with shareholder value.

The pension contribution for any new Executive Director will be reduced to a maximum of 15% of salary. The change will bring pension provision for Executive Directors more closely in line with the provision for the broader employee base.

Otherwise, the operation of the policy is in line with the previous policy in force.

Executive Directors' Remuneration Policy

The Executive Directors' Remuneration Policy is put forward for approval at the AGM on 19 July 2017. This policy covers the three year period commencing 1 April 2017 and complies with the Large and Medium-sized Companies and Groups (Accounting and Reports) (Amendment) Regulations 2013.

Element	Purpose and link to strategy	Operation and performance measures	Maximum opportunity
Base salary	To attract and retain the talent needed to lead our business.	An Executive Director's basic salary is set on appointment and reviewed annually or when there is a change in position or responsibility. 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; and – 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. Individuals who are recruited or promoted to the Board may, on occasion, have their salaries set below the targeted policy level until they become established in their role. In such cases subsequent increases in salary may be higher than the general rises for employees until the target positioning is achieved.	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. The Committee ensures that maximum salary levels are positioned in line with companies of a similar size to QinetiQ and validated against other companies in the industry, so that they are competitive against the market. The Committee intends to review the comparators periodically and may add or remove companies from the group as it considers appropriate. Any changes to the comparator groups will be set out in the section headed Implementation of Remuneration Policy, in the following financial year.
Pension	To ensure that Executive Directors' total remuneration remains attractive and competitive.	The Company provides a pension contribution allowance in line with practice relative to its comparators to enable the Company to recruit and retain Executive Directors with the experience and expertise to deliver the Group's strategy. This allowance will be a non-consolidated allowance and will not impact any incentive calculations.	The maximum policy pension contribution allowance will be reduced to 20% for existing Executive Directors in line with current provision; however, any new Executive Directors will have a maximum contribution of 15%. The Company will set out in the section headed Implementation of Remuneration Policy, in the following financial year the pension contributions for that year for each of the Executive Directors.
Benefits	To ensure that Executive Directors' total remuneration remains attractive and competitive.	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 (the Executive Directors will also be eligible to participate in any other all employee plan operated by the Company from time to time). The Committee recognises the need to maintain suitable flexibility in the benefits provided to ensure it is able to support the objective of attracting and retaining personnel in order to deliver the Group strategy. Additional benefits may therefore be offered such as relocation allowances on recruitment.	The maximum is the cost of providing the relevant benefits.

Directors' Remuneration Report continued

Part 2: Remuneration Policy continued

Element	Purpose and link to strategy	Operation and performance measures	Maximum opportunity
Incentive Plan	The Incentive Plan provides a significant incentive to the Executive Directors linked to achievement of delivering goals that are closely aligned with the Company's strategy and the creation of value for shareholders. In particular, the Incentive Plan supports the Company's objectives by: – allowing the setting of annual targets based on the businesses' strategic objectives at that time, meaning that a wider range of performance metrics can be used that are relevant and suitably stretching whilst also providing sufficient incentive linked to potential to be achievable; and – providing substantial deferral in shares and ongoing adjustment by requiring a threshold level of performance to be achieved during the deferral period. Amounts deferred in shares are also forfeitable on a director's voluntary cessation of employment which provides an effective lock-in.	An award under the Incentive Plan is subject to satisfying financial and strategic/operational performance/personal performance conditions and targets measured over a period of one financial year. A minimum of 50% of the incentive shall be based on financial performance measures. The Incentive Plan consists of two elements (Element A and Element B). Bonus Banking Plan (Element A). Annual Company contributions will be earned based on the satisfaction of the performance conditions. Contributions will be made for three years with payments made over four years. 50% of the value of a participant's bonus account will be paid out annually for three years with 100% of the residual value paid out at the end of year four. 50% of the unpaid balance of a participant's bonus account will be at risk of annual forfeiture. Deferred Share Plan (Element B). 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% (Remuneration Committee have discretion to increase subject to performance) of the unvested award will be at risk forfeiture after three years. Malus and clawback provision apply to the Incentive Plan (both Elements). The Committee has discretion to provide dividend equivalents on Element A and Element B shares. The Committee is of the opinion that given the commercial sensitivity arising in relation to the detailed financial targets used for the incentive, disclosing precise targets for the Incentive Plan in advance would not be in shareholder interests. Targets, performance achieved and awards made will be published at the end of the annual performance period so shareholders can fully assess the basis for any pay-outs under the Plan.	Maximum 325% of salary (200% of salary under Element A and 125% of salary under Element B). **Bonus Banking Plan (Element A)** Maximum = 200% of salary. Target = 80%–120% of salary. Threshold = 0% of salary. **Deferred Share Plan (Element B)** Maximum = 125% of salary. Target = 30%-75% of salary. Threshold = 0% of salary.

Element	Purpose and link to strategy	Operation and performance measures	Maximum opportunity
Incentive Plan continued		In exceptional circumstances the Committee retains the discretion to: Change the performance measures and targets and the weighting attached to the performance measures and targets part way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate; for example adjustments for: – Acquisitions and disposals; – Restructuring costs; – Business structure changes; – Restated corporate allocations; – Foreign currency exchange rates; and – Board approved budget adjustments. Make downward or upward adjustments to the amount of incentive earned resulting from the application of the performance measures, if the Committee believe that the incentive outcomes are not a fair and accurate reflection of business performance. Any adjustments or discretion applied by the Committee will be fully disclosed in the following year's Directors' remuneration report.	
Minimum shareholding requirements	To align Executive Directors' interests with those of shareholders through the build-up and retention of a personal holding in QinetiQ shares.	Executives have five years to accumulate the required shareholding. 300% of base salary for the CEO. 200% of base salary for the CFO.	The Committee has adopted formal shareholding requirements that will encourage the Executive Directors to build up over a five-year period and then subsequently hold a shareholding equivalent to a percentage of base salary. Adherence to these guidelines is a condition of continued participation in the equity incentive arrangements. This policy ensures that the interests of Executive Directors and those of shareholders are closely aligned. In addition, Executive Directors will be required to retain 50% of the post-tax amount of vested shares from the Company incentive plans until the minimum shareholding requirement is met and maintained. The Committee retains the discretion to increase the shareholding requirements.

Elements of existing policy that will continue to apply

Element	Purpose and Link to strategy	Operation and performance measures	Maximum opportunity
Bonus Banking Plan and Performance Share Plan (PSP)	To align Executive Directors' interests with those of shareholders.	The outstanding awards under the Bonus Banking Plan and PSP will continue to form part of the Remuneration Policy until vesting. Details on how these plans operate can be found in the Directors' remuneration report for the year of grant. These plans vest on terms set out in the Plan rules which have previously been approved by shareholders.	Bonus Banking Plan – Number of shares in participants' bonus pool as at 31 March 2017. Performance Share Plan – Number of shares outstanding as detailed in this report.

Directors' Remuneration Report continued

Part 2: Remuneration Policy continued

Notes to the policy tables

Performance measures and targets

The performance measures and targets, financial and non-financial, are determined annually based on the Company's strategy. The Committee is of the opinion that the specific performance targets for the Incentive Plan are commercially sensitive and that it would be detrimental to the interests of the Company to disclose them. The targets will be disclosed after the end of the relevant financial year in that year's remuneration report.

However, the Committee is of the opinion that certain elements of the collective objectives may remain commercially sensitive beyond the end of the relevant financial year and will therefore be disclosed once they cease to be commercially sensitive which is anticipated to be within two years of the relevant financial year.

Remuneration policy for all employees

All employee of QinetiQ are entitled to base salary, benefits and pension.

The link between performance and reward cascades down from the Executive incentive plans with the Leadership and Business Development Communities typically invited to participate in the Company's formal annual incentive arrangements. All other employees may receive a discretionary bonus based on Company and individual performance. Participation in long-term incentive plans is available to Executive Directors, Executive Committee members, Leadership Community and selected other employees. Share ownership is further encouraged via the QinetiQ Share Incentive Plan.

Recruitment policy

The Company's principle is that the remuneration of any new recruit will be assessed in line with the same principles as for the current Executive Directors. The Committee is mindful that it wishes to avoid paying more than it considers necessary to secure a preferred candidate with the appropriate calibre and experience needed for the role. In setting the remuneration for new recruits, the Committee will have regard to guidelines and shareholder sentiment regarding one-off or enhanced short-term or long-term incentive payments as well as giving consideration for the appropriateness of any award. The Company's detailed policy when setting remuneration for the appointment of new Directors is summarised in the table below:

Remuneration element	Recruitment policy
Salary, benefits and pension	These will be set in line with the policy for existing Executive Directors.
Incentive Plan	Maximum annual participation will be set in line with the Company's policy for existing Executive Directors and will not exceed 325% of salary.
Maximum variable remuneration	The maximum variable remuneration which may be granted is 325% of salary (excluding any buy-outs).
'Buy Out' of incentives forfeited on cessation of employment	Where the Committee determines that the individual circumstances of recruitment justifies the provision of a buyout, the equivalent value of any incentives that will be forfeited on cessation of an Executive Director's previous employment will be calculated taking into account the following: – The proportion of the performance period completed on the date of the Executive Director's cessation of employment; – The performance conditions attached to the vesting of these incentives and the likelihood of them being satisfied; and – Any other terms and condition having a material effect on their value ('Lapsed value'). The Committee may then grant up to the same value as the lapsed value, where possible, under the Company's incentive plan. To the extent that it was not possible or practical to provide the buyout within the terms of the Company's existing incentive plan, a bespoke arrangement would be used.
Relocation policies	In instances where the new Executive Director is required to relocate or spend significant time away from their normal residence, the Company may provide one-off compensation to reflect the cost of relocation for the Executive Director. The level of the relocation package will be assessed on a case-by-case basis but will take into consideration any cost of living differences/housing allowance and schooling.

Where an existing employee is promoted to the Board, the policy set out above would apply from the date of promotion but there would be no retrospective application of the policy in relation to subsisting incentive awards or remuneration arrangements. Accordingly, prevailing elements of the remuneration package for an existing employee would be honoured and form part of the ongoing remuneration of the person concerned. These would be disclosed to shareholders in the remuneration report for the relevant financial year.

Loss of office and change of control policy

When determining any loss of office payment for a departing Director the Committee will always seek to minimise the cost to the Company while complying with the contractual terms and seeking to reflect the circumstances in place at the time. The Committee reserves the right to make additional payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation); or by way of settlement or compromise of any claim arising in connection with the termination of an Executive Director's office or employment.

Remuneration element	Approach	Application of Committee discretion
Salary and benefits	In the event of termination by the Company, there will be no compensation for loss of office due to misconduct or normal resignation. In other circumstances, Executive Directors may be entitled to receive compensation for loss of office which will be a maximum of 12 months' salary. Such payments will be equivalent to the monthly salary and benefits that the Executive Director would have received if still in employment with the Company. These will be paid over the notice period. Executive Directors will be expected to mitigate their loss within a twelve month period of their departure from the Company.	The Company has discretion to make a lump sum payment in lieu.
Pension	Pension contributions or payments in lieu of pension contribution will be made during the notice period.	The Company has discretion to make a lump sum payment in lieu.
Bonus Banking Plan (Element A of the Incentive Plan)	**For the year of cessation** Good leavers: Performance conditions will be measured at the measurement date. The Company bonus contribution will normally be pro-rated for the period worked during the financial year. Other leavers: No Company bonus contribution payable for year of cessation. **Deferred balances in participant's Plan Account** Good leavers: The balance in the participants' Plan account will be payable on cessation of employment. Other leavers: The balance in the Participants' Plan account will be forfeited on cessation of employment.	**For the year of cessation** Discretion: the Remuneration Committee has the following elements of discretion: – To determine that an Executive Director is a good leaver. It is the Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders; and – To determine whether to pro-rate the Company bonus contribution to time. The Remuneration Committee's normal policy is that it will pro-rate for time. It is the Remuneration Committee's intention to only use discretion to not pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders. **Deferred balances in participant's Plan Account** Discretion: the Remuneration Committee has the following elements of discretion: – To determine that an Executive Director is a good leaver. It is the Remuneration Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders; – To determine whether the payment of the balance of the participant's Plan Account should be in cash or shares or a combination of both; – To determine whether to pro-rate the balance of the participant's Plan Account payable on cessation. The Committee's normal policy is that it will not pro-rate. The Remuneration Committee will determine whether to pro-rate based on the circumstances of the Executive Directors's departure.

Directors' Remuneration Report continued

Part 2: Remuneration Policy continued

Remuneration element	Approach	Application of Committee discretion
Bonus Banking Plan (Element A of the Incentive Plan) (change of control)	For the year of the change of control Performance conditions will be measured at the date of the change of control. The Company bonus contribution will normally be pro-rated to the date of the change of control. **Deferred balances in participant's Plan Account** The balance in the participant's Plan Account will be payable on the change of control.	**For the year of the change of control** Discretion: the Remuneration Committee has the following element of discretion:– – to pro-rate the Company bonus contribution to time. The Remuneration Committee's normal policy is that it will pro-rate for time. It is the Remuneration Committee's intention to only use discretion to not pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders. **Deferred balances in participant's Plan Account** Discretion: the Remuneration Committee has the following elements of discretion: – to determine whether the payment of the balance of the participant's Plan Account should be in cash or shares or a combination of both; – to determine whether to pro-rate the balance of the participant's Plan Account payable on change of control. The Committee's normal policy is that it will not pro-rate. The Remuneration Committee will determine whether to pro-rate based on the circumstances of change of control.
Deferred Share Plan (Element B of the Incentive Plan) (cessation of employment)	**For the year of cessation** Good leavers: Performance conditions will be measured at the measurement date. The Deferred Share Plan (Element B) award will normally be pro-rated for the period worked during the financial year. Other leavers: No Deferred Share Plan (Element B) award for year of cessation. **Subsisting Element B awards** Good leavers: Deferred Share Plan (Element B) awards will vest on their original vesting dates and remain subject to the sale restrictions. Other leavers: Deferred Share Plan (Element B) awards will be forfeited on cessation of employment.	**For the year of cessation** Discretion: the Remuneration Committee has the following elements of discretion:– – to determine that an Executive Director is a good leaver. It is the Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders; – to determine whether to pro-rate the Company award to time. The Remuneration Committee's normal policy is that it will pro-rate for time. It is the Remuneration Committee's intention to only use discretion to not pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders; and – to determine whether the Deferred Share Plan (Element B) award will vest on the date of cessation or the original vesting date. The Remuneration Committee will make its determination based amongst other factors on the reason for the cessation of employment; and to determine whether to provide the Deferred Share Plan (Element B) award in the form of cash or shares.

Remuneration element	Approach	Application of Committee discretion
Deferred Share Plan (Element B of the Incentive Plan) (cessation of employment) continued		**Subsisting Deferred Share Plan (Element B) awards** **Discretion:** the Remuneration Committee has the following elements of discretion: – To determine that an Executive Director is a good leaver. It is the Remuneration Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders; – To determine whether to pro-rate the Deferred Share Plan (Element B) award to the date of cessation. The Committee's normal policy is that it will pro-rate. It is the Remuneration Committee's intention to only use discretion to not pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders; – To determine whether the Deferred Share Plan (Element B) award will vest on the date of cessation or the original vesting date. The Remuneration Committee will make its determination based amongst other factors on the reason for the cessation of employment.
Deferred Share Plan (Element B of the Incentive Plan) (Change of Control)	**For the year of the change of control** Performance conditions will be measured at the date of the change of control. The Element B award will normally be pro-rated to the date of the change of control. **Subsisting Element B awards** The awards will vest on the date of the change of control and the sale restrictions will fall away.	**For the year of the change of control** **Discretion:** the Remuneration Committee has the following element of discretion:– – To determine whether to pro-rate the Deferred Share Plan (Element B) award to time. The Remuneration Committee's normal policy is that it will pro-rate for time. It is the Remuneration Committee's intention to only use discretion to not pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders. **Subsisting Deferred Share Plan (Element B) awards** **Discretion:** the Remuneration Committee has the following elements of discretion: – To determine whether the satisfaction of Deferred Share Plan (Element B) awards should be in cash or shares or a combination of both; and – To determine whether to pro-rate Deferred Share Plan (Element B) awards on change of control. The Committee's normal policy is that it will not pro-rate. The Remuneration Committee will determine whether to pro-rate based on the circumstances of change of control.
Other contractual obligations	There are no other contractual provisions other than those set out above agreed that could impact quantum of the payment.	None.

A good leaver is a person whose cessation of employment is for one of the following reasons:

– Death;
– Ill-health;
– Injury or disability;
– Redundancy;
– Retirement;
– Employing company ceasing to be a Group company;
– Transfer of employment to a company which is not a Group company; and
– Where the person is designated a good leaver at the discretion of the Committee (as described above).

A person who ceases employment in circumstances other than those set out above is designated as an 'other leaver'.

Directors' Remuneration Report continued

Part 2: Remuneration Policy continued

Malus and clawback

Malus provisions apply to both the Bonus Banking Plan (Element A) and the Deferred Share Plan (Element B). Malus is the adjustment of Element A bonus contributions or the balance in a participant's bonus account or unvested Deferred Share Plan (Element B) awards because of the occurrence of one or more circumstances. The adjustment may result in the value being reduced to nil.

Clawback is the recovery of payments made under the Bonus Banking Plan (Element A) or vested Deferred Share Plan (Element B) awards as a result of the occurrence of one or more circumstances. Clawback may apply to all or part of a participant's payment under the Deferred Share Plan (Element A) or Deferred Share Plan (Element B) award and may be effected, among other means, by requiring the transfer of shares, payment of cash or reduction of awards or bonuses.

The circumstances in which malus and clawback could apply are as follows:

- Discovery of a material misstatement resulting in an adjustment in the audited accounts of the Group or any Group company;
- The assessment of any performance condition or condition in respect of a payment or award under the Incentive Plan was based on error, or inaccurate or misleading information;
- The discovery that any information used to determine the Bonus Banking Plan (Element A) or Deferred Share Plan (Element B) award was based on error, or inaccurate or misleading information;
- Action or conduct of a participant which amounts to fraud or gross misconduct; or
- Events or the behaviour of a participant have led to the censure of a Group company by a regulatory authority or have had a significant detrimental impact on the reputation of any Group company provided that the Board is satisfied that the relevant participant was responsible for the censure or reputational damage and that the censure or reputational damage is attributable to the participant.

The following table sets out the periods during which malus and clawback may be effected.

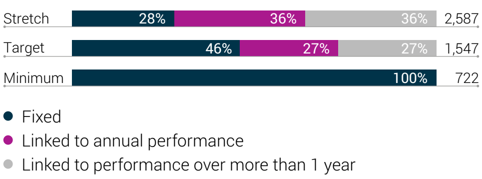
	Bonus Banking Plan (Element A)	**Deferred Share Plan (Element B)**
Malus	Up to the date of a payment.	Any time prior to vesting.
Clawback	Three years post the date of any payment.	Three years from the date of vesting.

Pay and performance scenario analysis

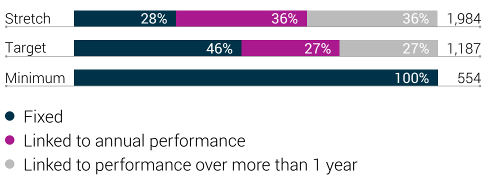
The proposed Executive Remuneration Policy is illustrated in the following charts showing what each Director could expect to receive in FY18 under different performance scenarios, based on the following definitions:

Scenario	**Fixed**	**Linked to annual performance**	**Linked to performance over more than 1 year**
Stretch	FY18 base salary Car allowance Pension allowance Benefits	50% of Element A Opportunity (100% of salary) 50% of Element B (62.5% of salary)	50% of Element A opportunity (100% of salary) 50% of Element B (62.5% of salary)
Target		25% of Element A opportunity (50% of salary) 17.5% of Element B (21.875% of salary)	25% of Element A opportunity (50% of salary) 17.5% of Element B (21.875% of salary)
Minimum		No variable pay	No variable pay

CEO (£'000)



CFO (£'000)



Based on the maximum incentive opportunity of 325%, half of the Bonus Banking Plan (Element A) opportunity (100%) and all of the Deferred Share Plan (Element B) opportunity (125%) is treated as equity. At both target and stretch performance 69% of variable pay is treated as equity.

Policy for Non-executive Directors

The Company's policy when setting fees for the appointment of new Non-executive Directors is to apply the policy which applies to current Non-executive Directors.

Element	Purpose and link to strategy	Operation and performance measures	Maximum opportunity
Non-executive Directors			
Fees	To attract and retain Non-executive Directors of the calibre required to assist the Company in setting and delivering its strategy.	The Executive Directors and the Group Chairman are responsible for setting the remuneration of the Non-executive Directors. The Board, minus the Chairman, is responsible for setting the Chairman's fees. Non-executive Directors are paid an annual fee and additional fees for chairmanship of committees, and the Company retains the flexibility to pay fees for the membership of committees. The Chairman does not receive any additional fees for membership of committees. Fees are reviewed annually based on equivalent roles in the comparator group used to review salaries paid to the Executive Directors. An annual accommodation allowance may be payable to the Group Chairman and as deemed appropriate for individuals who are not UK resident. Excluding the Group Chairman, an additional fee is payable to those Non-executive Directors attending meetings outside of their country of residence. Non-executive Directors and the Group Chairman do not participate in any variable remuneration or benefits arrangements.	The fees for Non-executive Directors and the Group Chairman are broadly set at a competitive level against the comparator group. In general the level of fee increase for the Non-executive Directors and the Group Chairman will be set taking account of any change in responsibility and the general rise in salaries across employees. The Company will pay reasonable expenses incurred by the Non-executive Directors and Group Chairman and may settle any tax incurred in relation to these.

Consideration of shareholder and employee views

The Chair of the Committee and the Group Chairman consult with key shareholders on remuneration matters from time to time, and particularly where changes to the Remuneration Policy are under consideration. The Chair reports any concerns expressed by shareholders to the Committee and these are taken into account as the Committee develops and implements its policy. Any comments received from shareholders outside these consultation exercises are also reported to the Committee, and the Committee takes account of general views on remuneration expressed by shareholders or representative bodies.

The Committee consulted with its principal shareholders in relation to the proposal to revise the policy and took into account views expressed during the consultation when agreeing the final design. The Remuneration Committee is grateful for shareholders' comments and engagement during the consultation process. At the end of this process, the Remuneration Committee was pleased that the majority of the shareholders consulted expressed support for the policy.

The Committee has not formally consulted with employees and has not used any specific all-employee comparison metrics in forming this policy. However, the Committee has regularly consulted with the Company's Employee Engagement Group on other reward matters.

Directors' Remuneration Report continued

Part 3: Annual Report on Remuneration

Introduction

The Remuneration Committee presents the Annual Remuneration Report showing how the Remuneration Policy has been implemented for the year ended 31 March 2017.

The Committee presents the Annual Report on Remuneration to shareholders at the AGM on 19 July 2017. This report was compiled in accordance with Schedule 8 of the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2013 as well as the Companies Act 2006.

Remuneration Committee Structure

The Committee is chaired by Michael Harper, and is composed of the members set out on page 68.

Effectiveness review

In 2017, the effectiveness review was undertaken internally, and it rated the effectiveness of the Committee highly overall. Considerations for 2017 include continuing the productive dialogue with the Executive team and, subject to policy approval, ensuring incentive targets are stretching enough in the context of the strategy, as it plays out.

Consideration by the Directors of matters relating to Directors' remuneration

Members of the Committee are appointed by the Board. The Committee comprises at least three members (not counting the Group Chairman), all of whom are independent Non-executive Directors. The Group Chairman of the Board also serves on the Committee as an additional member as he was considered independent on appointment as Chairman.

Only members of the Committee have the right to attend Committee meetings. However, external advisors and other internal advisors such as the Chief Executive Officer and the Group Human Resources Director are invited to attend for all or part of any meeting, as and when appropriate.

The Board appoints the Committee Chairman who is an independent, Non-executive Director. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting who would qualify under these terms of reference to be appointed to that position by the Board. The Chairman of the Board is not permitted to be Chairman of the Committee.

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

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 53).

Non-executive 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

The Committee has appointed PwC, 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 £111,500 which included advice relating to the policy and shareholder consultation.

PwC provided the following additional services during the year:

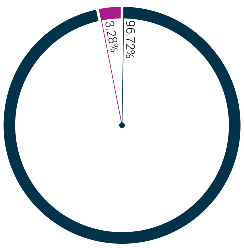
- Implementation support for the Company on Executive reward plans;
- Consultancy and advice to Group Tax; and
- Consultancy and advice in relation to Group Pensions.

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 PwC.

Following the appointment of PwC as Independent Auditor the Committee can no longer retain PwC as advisors. The Committee undertook a thorough review and has appointed FIT Remuneration Consultants as advisors from 1 April 2017.

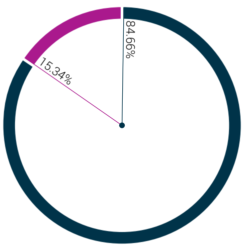
Statement of voting

Remuneration Report – 2016



Votes for	404,652,873 (96.72%)
Votes against	13,714,402 (3.28%)
Total votes cast	418,367,275 (71.86% share capital)
Abstained	1,781,755

Remuneration Policy – 2014



Votes for	422,740,088 (84.66%)
Votes against	76,602,719 (15.34%)
Total votes cast	499,342,807 (76.68% share capital)
Abstained	4,877,598

As in previous years, details on the voting on all resolutions at the 2017 AGM will be announced via the RNS and posted on the QinetiQ website following the AGM.