

Directors' remuneration report

Chair's Statement

"These are unprecedented times and the company took swift action to reduce fixed remuneration costs to ensure that the business could weather the challenges ahead."



Dear Shareholder,

I am pleased to have taken over as Remuneration Committee Chair in October 2019 having served on the Committee since March 2014. Michael Harper, former Chair remains on the Committee and I would like to thank him for his continued support. The Board considered it appropriate that the Committee Chair sees a Directors' Remuneration Policy through from consultation and implementation to the next cycle in three years' time. I have the experience, and sufficient tenure ahead of me, to achieve that.

As the Group Chairman has outlined in his statement on page 8, building on a strong first half of the financial year, the Group has continued to perform in line with our expectations during the remainder of FY20, despite the impact of COVID-19. However, as part of our strategy to reduce fixed costs, the CEO and CFO have agreed to a temporary base salary reduction of 34% and 32% respectively, and Non-executive Directors agreed to a 25% reduction in fees. The company has also decided to pay all FY20 annual incentive payments (including the Executive Directors' FY20 Bonus Banking Plan) in shares to be held for one year and agreed that there will be no base salary increases in FY21 to manage costs and cash outflows.

In FY20 strong progress has been made by the CEO and the Global Leadership Team during the fourth year of our ambitious strategy to modernise and grow our business. This progress is evident in four successive years of organic revenue growth and a 2% increase in FY20 organic operating profit.

The annual contribution to the Bonus Banking Plan (BBP) pool for FY20 for the CEO and CFO are 87.5% and 86.9% of the maximum respectively, reflecting another excellent year for the company. As noted above, these payments will be delivered as shares to be held for one year.

The third award under the Deferred Share Plan (DSP) will be not be granted as the FY20 performance underpin was not achieved. Based on the FY20 performance target, the level of non-UK revenue growth was above the threshold of £20m growth on FY19, but the margin delivered on that growth was lower than that achieved in FY19, so the pre-grant margin underpin was not achieved. This is a disappointing result which is misaligned with the strong overall performance of the Group during FY20. As mentioned below, the Committee has revised the FY21 DSP strategic growth performance measure to incentivise the delivery of growth across the whole Group.

The FY20 CEO single figure on page 97 is some 15% lower than that for FY19 (£1,985,298 and £2,339,474 respectively) largely due to a smaller award vesting in FY20 from the legacy Performance Share Plan (PSP). The 2017 PSP award to the CEO was the last one under that plan.

The business context and incentive outturn for FY20

Four years ago we launched a strategy to deliver sustainable, profitable growth. The strategy focused on leading and modernising UK test and evaluation, becoming a more international company and effectively applying commercial and technological innovation. Since implementing this strategy, we have turned around five years of revenue decline and we continued to deliver strong and sustainable organic growth in FY20.

The FY20 BBP out-turn was 87.5% and 86.9% of the maximum for the CEO and the CFO respectively which reflects excellent financial and operational performance by the Company and the Executive Directors.

The Committee considered the FY20 BBP out-turn and agreed that it was appropriate not to exercise discretion to amend the outcome. However, in light of the current situation, it was agreed that the 50% due in June 2020 will be paid in shares which must be held for one year rather than as cash. The other 50% is deferred into the BBP, where it will remain at risk of forfeiture for a further one year and then paid in shares. These deferred amounts are already reported as remuneration in the year they were earned.

As noted above, the FY20 DSP award will not be granted as the performance target was not met reflecting the fact that stretching targets were set by the Committee.

Implementation for FY21

Temporary salary reductions have been implemented and other interventions have been made to reduce costs and conserve cash as part of our immediate response to COVID-19.

The Bonus Banking Plan for FY21 is based on the same financial metrics as in FY20 (orders, profit and cash) with stretch targets set against the delivery of the Integrated Strategic Business Plan (ISBP). Financial metrics have a 75% weighting and non-financial targets have a 25% weighting based on the achievement of collective and personal objectives. Payment for target performance is 50% of the maximum.

In support of the ISBP, the FY21 DSP strategic growth performance measure is organic revenue growth across the Group. This change for FY21 (international revenue growth was used for FY19 and FY20) was made to incentivise our senior leaders to collaborate across the Group to deliver sustainable profitable growth. Underpins ensure that FY21 profit margins are strong and Group operating profitability must be at least equal to FY21 performance in FY24 for full vesting, as detailed on page 108. The targets have been set to be stretching taking into account the anticipated impact of COVID-19 on our business in FY21.

Employee engagement and reward

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. The people section on page 39 details our employee engagement activity.

I have met the Chair and the Deputy Chair of the Employee Engagement Group during the year and I have found the discussions very helpful in terms of understanding employee views. I understand that they have also found the meetings helpful to build their awareness of the Remuneration Committee's approach to executive remuneration. It is our intention to continue to meet at appropriate intervals.

In FY19 the Company introduced an All Employee Incentive Scheme (AEIS) whereby every eligible employee can earn a fixed amount if the Company achieves a level of operating profit within a pre-determined range from target to stretch. I am pleased to confirm that the AEIS will pay £740 in shares to each employee for FY20, aligning employees and shareholder interests by incentivising and rewarding profitable growth. The Company will operate the AEIS again for FY21 and thereafter.

The Directors' Remuneration Policy

The Directors' Remuneration Policy is presented for the triennial binding vote at the AGM in July 2020.

Engagement with our largest shareholders in preparation for the vote provided a general view that the current Policy is robust, resulting in pay that is commensurate with the performance of the business. This view is shared by the Remuneration Committee and hence the Committee is proposing limited changes to the current Policy at our 2020 AGM.

In light of the Corporate Governance Code and shareholders' feedback and views, two areas of the Policy which we will change are:

- Pension allowances – all new Executive Directors will receive a 10.5% pension allowance payment which aligns with the wider UK workforce. For current Executive Directors, the pension allowance will be maintained at 20% of salary for the three-year life of the 2020 Policy; it will thereafter be reduced in phases to 10.5% of salary over the three-year life of the 2023 Policy.
- Post-employment shareholdings – Executive Directors will have a post-employment shareholding requirement of 100% of salary for one year after they leave employment, reducing then to 50% of salary for a further one year.

Otherwise, the operation of the Policy is the same as the previous Policy in force. To further explain the Policy, this report contains a Policy Q&A and the Policy itself. We have tried to present our Policy clearly and simply.

Conclusion

Preparing for the triennial binding Policy vote at the 2020 AGM and implementing the Policy in FY20 in the interests of shareholders have been the primary areas of focus of the Remuneration Committee in FY20.

FY20 was a strong year for QinetiQ delivering growth in a difficult environment, particularly towards the end of the year when the COVID-19 pandemic took hold. The Remuneration Committee carefully scrutinises financial performance as it relates to incentive payments and is satisfied that FY20 payments are appropriate and fair, reflecting performance in the year.

As we look to FY21, the world is clearly a very different place given the global impact of the COVID-19 crisis. These are unprecedented times and the company took swift action to reduce fixed remuneration costs to ensure that the business could weather the challenges ahead.

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 support of the Directors' Remuneration Policy and the Annual Report on Remuneration at the AGM on 14 July 2020.

I would welcome comments and questions from shareholders in relation to this Directors' Remuneration Report and I can be contacted through companysecretariat@qinetiq.com.

Susan Searle

Remuneration Committee Chair

21 May 2020

Directors' remuneration report continued

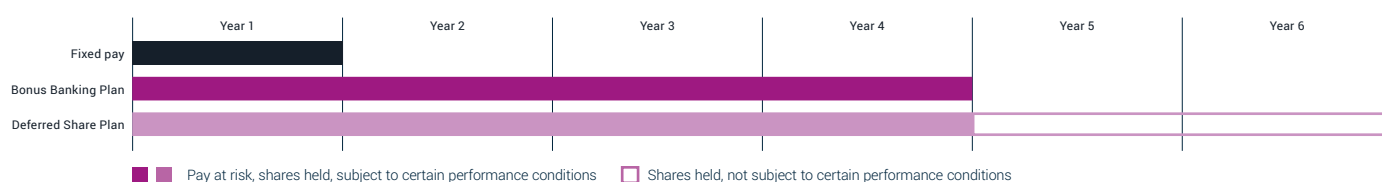
Remuneration at a Glance

Components, alignment, application and changes

	F Fixed pay	Link to strategy	Application in FY21
Annual fixed pay	Salary Executive Directors' base salaries are set on appointment and reviewed annually or when there is a change in position or responsibility. Typically, base salaries will be increased by a similar percentage to the average pay increase for all employees of the Group.	Fixed pay is set at a level that enables us to attract and retain high-quality Executive Directors, who are capable of successfully leading and executing our strategy and delivering long-term sustainable growth. Our Policy aims to ensure that fixed pay remains attractive and competitive.	No change to current Policy.
	Benefits Benefits include a car allowance, health insurance, life assurance, income protection and taxable expenses.		No change to current Policy.
	Pension Existing Executive Directors currently receive 20% of base salary allowance as cash in lieu of pension.		New Executive Directors will receive 10.5%, in line with the wider workforce.
Medium-term variable pay (One to Four Years)	M Medium-term variable pay The Bonus Banking Plan (BBP) The BBP is a partially deferred annual bonus scheme where a maximum award of 200% of salary is available. Reward is 75% weighted on financial metrics (for FY21 orders, operating profit and operating cash flow – equally weighted) and 25% weighted on non-financial metrics (key strategic, operational and personal objectives). In the first year of the BBP cycle, 50% of the annual award is paid as cash with the remainder deferred and held as notional shares in a deferred pot. Each year the annual award is added to this notional pot, with 50% of the balance then paid as cash. At the end of the fourth year the entire residual pot is paid as shares and a new three year performance cycle initiated.	The BBP rewards strong financial performance through a 75% weighting to financial metrics. Over the long-term this financial performance is driven by the successful implementation of our strategy. The scheme also rewards non-financial performance in areas such as implementing safety programmes and transforming the culture. The BBP therefore supports our ongoing transformation which is critical to our long-term success. The partial deferral of the bonus and exposure to share price drives a long-term and sustainable focus, aligning interests with shareholders. Furthermore, 50% of the value of the deferred BBP pot is subject to forfeiture should minimum performance requirements not be met.	No change to current Policy.
	L Long-term variable pay (One to Six Years) The Deferred Share Plan (DSP) The DSP is a long-term incentive scheme that provides a contingent share award up to a maximum of 125% of salary for success against an annual metric aligned with QinetiQ's long-term strategic growth plan. Initial entry in to the DSP is based on an annual growth measure with a pre-grant margin underpin, to ensure that Executive Directors are not incentivised to pursue low-margin growth. The award is then held in contingent shares for a period of three years. If at this point the level of profit in the year that gave rise to the award has been maintained, the contingent award is considered 'vested' and is included in the single figure. Shares are then subject to a further two year holding period.		

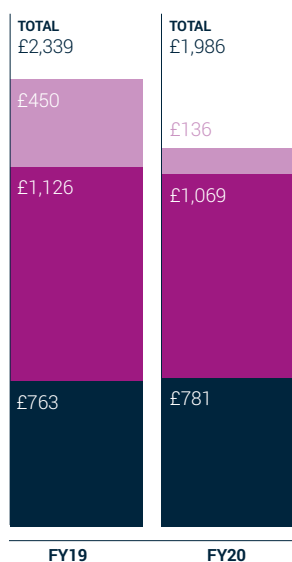
Timing

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.



Single Figure FY20 (£'000)

Chief Executive Officer



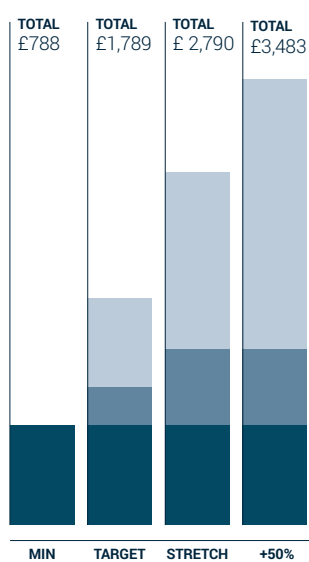
Chief Financial Officer



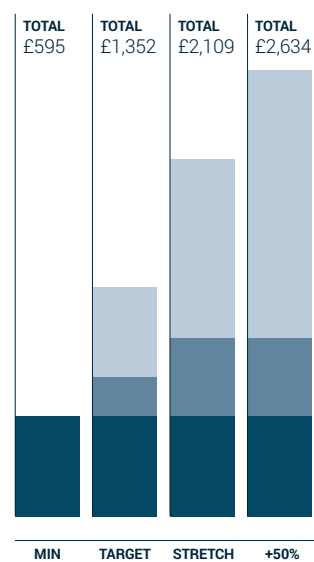
- F** Fixed pay
- M** Medium-term variable pay
- L** Long-term variable pay

Illustration of FY21 potential (£'000)

Chief Executive Officer



Chief Financial Officer



Minimum – Fixed Pay (FY20 base salary, plus taxable benefits and pension allowance)
Target – Fixed Pay plus BBP at Target (100% of base salary) and DSP at Target (62.5% of base salary)

Stretch – Fixed Pay plus BBP at Maximum (200% of base salary) and DSP at Maximum (125% of base salary)
+ 50% Share price appreciation – Stretch plus 50% share price appreciation (on 50% of BBP and 100% of DSP).

Remuneration in context

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 pre-grant and in year three, after which any vested shares must be retained for a further two years.

Directors' remuneration report continued

2020 Directors' Remuneration Policy Q&A

Q What are the principles of QinetiQ's Directors' Remuneration Policy?

QinetiQ's remuneration principles are 'Flexible', 'Stretching' and 'Aligned'. This means we aim to select targets each year that are stretching and ensure our executives are incentivised to drive the successful implementation of our strategy. This also means we can be agile in responding to market conditions as they arise, while also ensuring reward is deferred over the long-term to align with our shareholders' interests and deliver sustainable financial performance.

Q How does the Policy align executive pay with the interests of shareholders?

Both QinetiQ's annual incentive scheme and share plan are long-term in nature, with approximately 70% of variable pay being deferred as shares or notional shares in any year. In our annual bonus scheme, 50% of the award is deferred and held as notional shares and is therefore subject to share price exposure. In our Deferred Share Plan there is a four year vesting period after which the minimum level of profitability that gave rise to the award must be maintained, incentivising executives to drive sustainable growth. There is then a further two year holding period.

Q How does your Policy reward the implementation of company strategy?

Our strategy, as detailed in our five year Integrated Strategic Business Plan ('ISBP'), aims to deliver sustainable and long-term growth in our business and to increase value to our shareholders. Our Remuneration Policy aligns with our strategy by providing us with the flexibility to set relevant and stretching annual targets (aligned to year 1 of our ISBP), the rewards for which are deferred over several years. We have the ability to change the Deferred Share Plan metric when we feel there is a more relevant strategic priority, so believe our reward framework is closely linked to its successful implementation.

Q How does the policy drive improvement in the corporate culture?

Our annual bonus scheme includes a 25% weighting towards non-financial metrics. These focus on things like improving employee engagement and embedding new safety programmes. Given our history in the public sector transforming our corporate culture to develop our business winning capabilities and become more commercial has been critical to delivering improved financial returns for our shareholders. Ultimately, we believe that good governance and a strong corporate culture deliver improved financial returns over the long-term, which is rewarded by our Policy.

Q How does the Bonus Banking Plan (BBP) work?

- The Bonus Banking Plan is a medium-term (four year) plan with an initial annual measurement period, with deferred awards based on profit and share price performance;
- A maximum award of 200% of salary is available each year;
- At the end of the first year 50% of the award is paid as a cash bonus;
- The remaining 50% is deferred and held in a 'pot' as notional shares, which are subject to share price exposure;
- At the end of the next year, any award is added to the 'pot' and 50% of the 'pot' will be paid as cash-based notional shares, with the remaining proportion again deferred;
- At the end of year four, the entire remaining pot is paid in shares;
- The financial metrics used for the BBP are orders, operating profit and operating cash flow, each with a weighting of 25%;
- The non-financial metrics carry a collective weighting of 25% and include priorities such as implementing new safety programmes and transforming the culture and engagement levels within the business. This supports long-term sustainable growth.

Q How does the Deferred Share Plan (DSP) work?

- The Deferred Share Plan is a six year long-term incentive scheme that aims to reward success against the long-term strategy;
- The maximum award is 125% of salary;
- There are various underpins throughout the scheme with an initial contingent share award grant based on the achievement of a key strategic growth measure aligned to our strategy;
- If the margin underpin on this growth measure is not achieved, 100% forfeiture will occur and the initial award will not be made regardless of the growth achieved;
- At the end of the four year period, as long as the level of profit that was achieved in the year of award is maintained, the initial award of shares will vest;
- These vested shares are subject to a further two year holding period;
- The DSP shares which vest will only appear in the single figure at year four, as this is when the auditors view the performance obligations of the award as having been satisfied;
- Should the minimum profitability level not be maintained at year four, the initial award is subject to at least 50% forfeiture, at the discretion of the Remuneration Committee.

Q How has the company improved the approach to remuneration since the 2017 AGM vote?

The Remuneration Committee noted the vote (63.8% 'For') when the Policy was approved at the 2017 AGM. In response, we have –

- Improved the disclosure in the Annual Report on Remuneration since the 2017 vote to be more transparent and enable shareholders to review decisions taken as we implement the Policy;
- Changed the DSP performance measure (in response to initial shareholder concerns over 'double-dipping' on profit in FY18);
- Made every effort to engage with major shareholders to explain the Policy and the positive impact on company performance;
- Enhanced the Remuneration Committee target-setting process (which resulted in the FY20 stretch targets being revised upwards to reflect exceptional FY19 performance).

Q How have you focused on employee engagement on QinetiQ?

Our employees share in the Company's success following the introduction of an All-Employee Incentive Scheme in FY19 which pays up to £1,000 to all eligible employees on the basis of the Company's annual operating profit performance; this plan is important to us as a driver to embed cultural change and is in place for FY21 and thereafter.

Our Employee Engagement Group (EEG), representing our UK employees, is deeply engaged across the company provide an employee voice at the table (including regular interactions with the Chairman, Remuneration Committee Chair, CEO and the Group HR Director). We listen to the views and level of engagement of our employees and we monitor this through a quarterly survey using a market-leading dynamic tool (Peakon).

Q What changes will you be making to the Policy at the 2020 AGM?

The Remuneration Committee has conducted a detailed review and our view is that the Directors' Remuneration Policy is working as it is driving results, provides contingent shares to our senior leaders and has strong shareholder alignment. Therefore we believe that the Policy should remain in place for another three-year cycle, with no increase in the quantum of the remuneration package.

However, the Committee is aware that there are two areas where we are not aligned with current regulatory/shareholder requirements:

Pension allowance – the Committee agreed to reduce the allowance for new Executive Directors (currently 15% of base salary as per our 2017 Policy) to be aligned with the pension for employees (a maximum of 10.5% in QinetiQ UK).

It is proposed that the approach for current Executive Directors (20% of base salary) be maintained at this level for the 2020 Policy vote. However, the Committee will commit, as part of this 2020 Policy approval, to reducing the pension allowance to 10.5% (our UK employee contribution) over the life of the 2023 Policy.

Post-employment shareholding – the Committee has agreed a post-employment shareholding requirement of 100% of salary for one year post-cessation, then 50% of salary for a further one year.

Note that the DSP already has a two-year holding period post-vesting. This will dovetail with the new requirement, as the DSP holding period continues in force after cessation of employment for Executive Directors.

Directors' remuneration report continued

Directors' remuneration policy

Introduction

Just over four years ago, QinetiQ launched an ambitious strategy to deliver long-term and sustainable growth for shareholders. In parallel to this, the Remuneration Committee developed an innovative Directors' Remuneration Policy to incentivise our leadership team, align their interests with shareholders, and ensure we created the right cultural changes to sustain our strategy. This Directors' Remuneration Policy was first approved by shareholders at the 2017 AGM.

The development of our Directors' Remuneration Policy remains built on three guiding principles:

- **Flexible:** To ensure that executives are incentivised to deliver against each stage of our strategy in light of the prevailing market environment;
- **Stretching:** Targets are set to ensure executives are incentivised to outperform, whilst delivering sustainable performance;
- **Aligned:** The Directors' Remuneration Policy aligns executives' interests with those of shareholders, this is achieved through the long-term nature of our Policy, a focus on rewarding through deferred shares and various underpins relating to sustained financial performance.

The review process

The Committee led the review process throughout, taking account of market practice, the views of the Committee members, executives and external advisers as appropriate to help shape our thinking. No individual is involved in the decision making on their own remuneration.

We then engaged with many of our largest shareholders and the general view was that the current Directors' Remuneration Policy is robust, resulting in pay that is commensurate with the performance of the business. This view is shared by the Remuneration Committee and hence the Committee is proposing limited changes to the current Directors' Remuneration Policy at our 2020 AGM.

However, in light of the Corporate Governance Code and shareholders' feedback and views, two areas of the Directors' Remuneration Policy which we will change are:

- Pension allowances – all new Executive Directors will receive a 10.5% pension allowance payment which is the maximum available to the wider UK workforce. For current Executive Directors, the pension allowance will be maintained at 20% of salary for the three-year life of the 2020 Policy; it will thereafter be reduced in phases to 10.5% of salary over the three-year life of the 2023 Policy.
- Post-employment shareholdings – Executive Directors will have a post-employment shareholding requirement of 100% of salary for one year after they leave employment, reducing then to 50% of salary for a further one year.

Otherwise, the operation of the Policy is the same as the previous Policy in force.

The Committee undertook further consultation to understand the reasons behind the vote (63.8% 'For') when the Directors' Remuneration Policy was approved at the 2017 AGM. In light of the shareholder feedback we received, we have improved the disclosure in the Annual Report on Remuneration since the 2017 vote to enable shareholders to review decisions taken as we implement the Policy. The Remuneration Committee has also developed a new process for target setting given that a concern expressed by shareholders was that QinetiQ's incentive arrangements are heavily dependent on annual performance measurement. We have also made every effort to engage with major shareholders to explain the Policy and the positive impact on company performance and culture. The Remuneration Committee therefore seeks approval for the Policy at the AGM on 14 July 2020.

Scope of policy

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

Duration of policy

The Directors' Remuneration Policy will be put forward for a binding vote at the AGM on 14 July 2020 and will be effective from that date. The Policy is expected to remain in effect until the 2023 AGM.

Discretion

The Committee has discretions 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 Directors' 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; the Committee commits to communicating to shareholders when discretion is used.

Approach to incentives

The Committee conducted an extensive review of the Directors' Remuneration Policy which has resulted in the Committee proposing to retain the incentive arrangements, made up of two elements (collectively the Incentive Plan):

- Bonus Banking Plan with no change to the current terms and conditions and a maximum opportunity of 200% of salary.
- Deferred Share Plan to with no change to the current terms and conditions and a maximum opportunity 125% of salary.

Initial awards under the Deferred Share Plan will continue to be based on challenging strategic financial growth objectives set by the Committee each year in line with the Company's Integrated Strategic Business Plan.

Approach to incentives continued

The initial award of contingent shares under the Deferred Share Plan is subject to a three-year vesting period, where the award remains at risk based on a performance underpin and during which the participant must remain employed by the Company; then the vested shares are subject to a further two-year holding period. The Deferred Share Plan is, therefore, a six-year incentive plan with a strong link to the long-term shareholder experience.

The rationale for the Incentive Plan 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 opportunity (100%) and all of the Deferred Share Plan opportunity (125%) is treated as deferred equity.

When considering the review of the Policy, the Committee was mindful of UK Corporate Governance Code provisions which say that the Committee should address issues of clarity, risk, predictability, proportionality and alignment with culture. The Policy is now well established and broadly a roll-forward of the existing Policy meaning that the operation, and therefore outcomes, will be proportionate and predictable. Risk continues to be managed through the operation of a broad suite of performance measures and targets, the use of deferral, holding periods and malus and clawback provisions and the close interaction with the Audit and Risk & CSR Committees. Our drive for better clarity means we have endeavoured to present our Directors' Remuneration Policy in a simple and succinct manner to be as transparent as possible. The tailored design of our incentives has helped the Chief Executive to change ways of working and QinetiQ's culture.

Executive Directors' Remuneration Policy

The Executive Directors' Remuneration Policy is put forward for approval at the AGM on 14 July 2020. This Policy covers the three year period commencing 1 April 2020 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.	<p>An Executive Director's base salary is set on appointment and reviewed annually or when there is a change in position or responsibility.</p> <p>When determining an appropriate level of salary, the Committee considers:</p> <ul style="list-style-type: none"> • 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 paid by the companies in the comparator groups used. <p>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.</p>	<p>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:</p> <ul style="list-style-type: none"> • 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. <p>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.</p> <p>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.</p>
Pension	To ensure that Executive Directors' total remuneration remains attractive and competitive.	<p>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.</p> <p>This allowance will be a non-consolidated allowance and will not impact any incentive calculations.</p>	<p>The maximum policy pension contribution allowance is 20% for existing Executive Directors; however, any new Executive Directors will have a maximum contribution which is aligned with the maximum level available to all UK employees (which is currently 10.5% of salary).</p> <p>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.</p>

Directors' remuneration report continued

Element	Purpose and link to strategy	Operation and performance measures	Maximum opportunity
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.
Incentive Plan	<p>The Incentive Plan provides a significant incentive to the Executive Directors linked to the achievement of delivering targets that are closely aligned with the Company's strategy and the creation of value for shareholders.</p> <p>In particular, the Incentive Plan supports the Company's objectives by:</p> <ul style="list-style-type: none"> Allowing the setting of annual targets based on the business's 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 long-term 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. 	<p>An award under the Incentive Plan is subject to satisfying financial and strategic/operational performance/personal performance conditions and targets initially measured over a period of one financial year.</p> <p>A minimum of 50% of the incentive shall be based on financial performance measures.</p> <p>The Incentive Plan consists of two parts –</p> <ul style="list-style-type: none"> Bonus Banking Plan. Annual Company contributions are earned based on the satisfaction of the performance conditions. Contributions will be made for three years with payments made out of the plan over four years. 50% of the value of a participant's bonus account will be paid out annually in cash after the pool has been marked to the Company's share price and credited with dividend equivalents. 50% of the unpaid balance of a participant's bonus account is at risk of annual forfeiture based on the achievement of a financial performance threshold with 100% of the residual value paid out at the end of year four as shares. Deferred Share Plan. Deferred conditional share-based element initially awarded based on the satisfaction of pre-grant annual performance assessment. The conditional award vests after three years, subject to continued service, where the initial award remains at risk based on the achievement of a performance underpin, then a further two-year holding period is applied. A minimum 50% (Remuneration Committee has discretion to increase subject to performance) of the initial award is at risk of forfeiture for three years. <p>Malus and clawback provisions apply to the Incentive Plan.</p> <p>The Committee will normally provide dividend equivalents on vested shares under the Incentive Plan.</p> <p>In exceptional circumstances the Committee retains the discretion to:</p> <ul style="list-style-type: none"> 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: <ul style="list-style-type: none"> 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. Adjust the grant share price for incentive awards if there were to be a substantial Company share price fall, if it were to be appropriate to exercise such discretion at a future time. <p>Any adjustments or discretion applied by the Committee will be fully disclosed in the following year's Directors' Remuneration Report.</p>	<p>Maximum 325% of salary.</p> <p>Bonus Banking Plan Maximum = 200% of salary. Target = 80%-120% of salary. Threshold = 0% of salary.</p> <p>Deferred Share Plan Maximum = 125% of salary. Target = 30%-75% of salary. Threshold = 0% of salary.</p>

Element	Purpose and link to strategy	Operation and performance measures	Maximum opportunity
Minimum shareholding requirements – during and after employment	To align Executive Directors' interests with those of shareholders through the build-up and retention of a personal holding in QinetiQ shares.	<p>Executives have five years to accumulate the required shareholding.</p> <p>300% of base salary for the CEO.</p> <p>200% of base salary for other Executive Directors.</p> <p>Executive Directors will have a post-employment shareholding requirement of 100% of salary for the first year post cessation, then 50% of salary for the second year post cessation of employment.</p>	<p>The Committee has adopted formal shareholding requirements to 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.</p> <p>Executive Directors are 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.</p> <p>Vested awards under the Deferred Share Plan element of the Incentive Plan must be retained by the participant for two-years post-vesting to further support the post-employment shareholding requirement where an Executive Director leaves the Company.</p> <p>The Committee retains the discretion to increase the shareholding requirements.</p>

Notes to the policy table

Performance measures and targets

The performance measures and targets, financial and non-financial, are determined annually based on the Company's strategy. Targets are set taking into account a variety of inputs including but not limited to the strategic plan, the annual plan and brokers' forecasts. The measures and, where possible, the targets will be disclosed after the end of the relevant financial year in that year's remuneration report.

Remuneration policy for all employees

All employees of QinetiQ are eligible 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, Global Leadership Team 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 (with the exception of pension allowance). 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, except for pension allowance which will be capped at 10.5% of salary.
Incentive Plan	<p>Maximum annual participation will be set in line with the Company's policy for existing Executive Directors and will not exceed 325% of salary.</p> <p>Depending on the timing of the appointment, the performance measures and targets used for the first award may differ to that of the existing Executive Directors. If different, they will be explained in detail in the following relevant Directors' Remuneration Report.</p>
Maximum variable remuneration	The maximum variable remuneration which may be granted is 325% of salary (excluding any buy-outs).

Directors' remuneration report continued

Remuneration element	Recruitment policy
'Buy Out' of incentives forfeited on cessation of employment	<p>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:</p> <ul style="list-style-type: none"> • 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'). <p>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. To be clear, the value of any buy-out will be limited to the value being forfeit from the previous employer.</p>
Relocation policies	<p>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.</p>

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.

Service contracts

Current Executive Directors have open-ended service contracts terminable by the Company immediately without notice upon breach by the individual or by the Company giving to the individual 12 months' written notice or, at its discretion, payment in lieu of salary, pension and benefits only during that notice. The payment in lieu of notice may be made in staged payments and may either reduce or cease completely where the departing Executive Director gains new employment. The Executive Director may terminate his contract by giving the Company 12 months' written notice. Contracts for new Executive Directors will be limited to 12 months' notice by both parties (or payment in lieu of notice in respect of the Company).

Copies of the service contracts are available for inspection at the Company's registered address.

The Chairman and the non-Executive Directors have letters of appointment and are appointed for initial fixed terms of three years, subject to re-election at each Annual General Meeting. The Chairman and the Non-Executive Directors are not entitled to any payment in lieu of notice or any compensation for loss of office.

The dates of the service contracts, letters of appointment and unexpired term periods are set out in the Annual Report on Remuneration (page 106).

Loss of office and change of control policy

When determining any loss of office payment for a departing Executive 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	<p>In the event of termination by the Company, there will be no compensation for loss of office due to misconduct or normal resignation.</p> <p>In other circumstances, Executive Directors may be entitled to receive compensation for loss of office which will be a maximum of 12 months' salary.</p> <p>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.</p>	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 (on cessation of employment)	<p>For the year of cessation</p> <p>Good leavers: Performance conditions will be measured at the measurement date. The Company incentive contribution will normally be pro-rated for the period worked during the financial year.</p> <p>Other leavers: No Company incentive contribution payable for year of cessation.</p> <p>Deferred balances in participant's Plan Account</p> <p>Good leavers: The balance in the participants' Plan account will be payable on cessation of employment.</p> <p>Other leavers: The balance in the Participants' Plan account will be forfeited on cessation of employment.</p>	<p>For the year of cessation</p> <p>Discretion: the Remuneration Committee has the following elements of discretion:</p> <ul style="list-style-type: none"> • To determine that an Executive Director is a good leaver. It is the Committee's intention to use this discretion only 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 incentive 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 use discretion to not pro-rate only in circumstances where there is an appropriate business case which will be explained in full to shareholders. <p>Deferred balances in participant's Plan Account Discretion: the Remuneration Committee has the following elements of discretion:</p> <ul style="list-style-type: none"> • 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 Director's departure.
Bonus Banking Plan (on change of control)	<p>For the year of the change of control Performance conditions will be measured at the date of the change of control. The Company incentive contribution will normally be pro-rated to the date of the change of control.</p> <p>Deferred balances in participant's Plan Account</p> <p>The balance in the participant's Plan Account will be payable on the change of control.</p>	<p>For the year of the change of control Discretion: the Remuneration Committee has the following element of discretion:</p> <ul style="list-style-type: none"> • 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 to time pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders. <p>Deferred balances in participant's Plan Account Discretion: the Remuneration Committee has the following elements of discretion:</p> <ul style="list-style-type: none"> • 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.

Directors' remuneration report continued

Remuneration element	Approach	Application of Committee discretion
Deferred Share Plan (on cessation of employment)	<p>For the year of cessation</p> <p>Good leavers: Performance conditions will be measured at the measurement date. The Deferred Share Plan award will normally be pro-rated for the period worked.</p> <p>Other leavers: No Deferred Share Plan award for year of cessation.</p> <p>Subsisting awards</p> <p>Good leavers: Deferred Share Plan awards will vest on their original vesting dates and remain subject to the sale restrictions.</p> <p>Other leavers: Deferred Share Plan awards will be forfeited on cessation of employment.</p>	<p>For the year of cessation</p> <p>Discretion: the Remuneration Committee has the following elements of discretion:-</p> <ul style="list-style-type: none"> 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 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 award in the form of cash or shares. <p>Subsisting Deferred Share Plan awards Discretion: the Remuneration Committee has the following elements of discretion:</p> <ul style="list-style-type: none"> 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 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; <p>To determine whether the Deferred Share Plan 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.</p>
Deferred Share Plan (on change of control)	<p>For the year of the change of control Performance conditions will be measured at the date of the change of control and the award will normally be pro-rated to the date of the change of control.</p> <p>Subsisting awards</p> <p>The awards will vest on the date of the change of control and the sale restrictions will fall away.</p>	<p>For the year of the change of control Discretion: the Remuneration Committee has the following element of discretion:</p> <ul style="list-style-type: none"> To determine whether to pro-rate the Deferred Share Plan 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. <p>Subsisting Deferred Share Plan awards Discretion: the Remuneration Committee has the following elements of discretion:</p> <ul style="list-style-type: none"> To determine whether the satisfaction of Deferred Share Plan awards should be in cash or shares or a combination of both; and To determine whether to pro-rate Deferred Share Plan 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	<p>There are no other contractual provisions other than those set out above agreed that could impact quantum of the payment.</p>	<p>None.</p>

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'.

Malus and clawback

Malus provisions apply to both the Bonus Banking Plan and the Deferred Share Plan. Malus is the adjustment of Bonus Banking Plan contributions or the balance in a participant's account or unvested Deferred Share Plan contingent 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 or vested Deferred Share Plan 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 or Deferred Share Plan 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 or Deferred Share Plan 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.

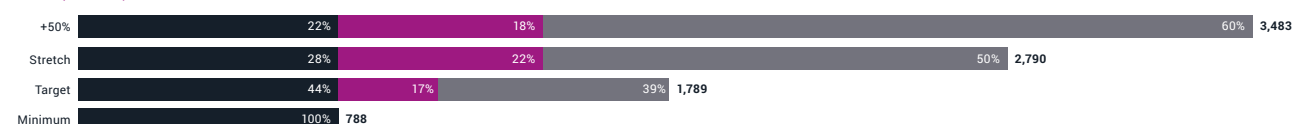
	Bonus Banking Plan	Deferred Share Plan
Malus	Up to the date of a payment.	Any time prior to vesting.
Clawback	Three years post the date of any payment.	Three years from the date of vesting.

Pay and performance scenario analysis

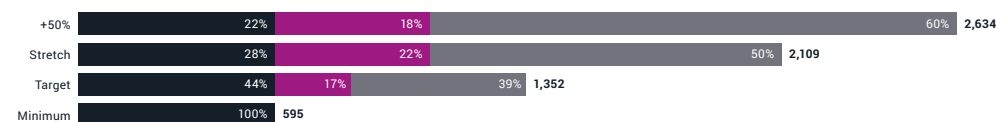
The proposed Directors' Remuneration Policy is illustrated in the following charts showing what each Director could expect to receive in FY21 under different performance scenarios, based on the following definitions:

Scenario	Fixed	Linked to performance
+50% share price appreciation		Stretch plus 50% share price growth (on 50% of BBP and 100% of DSP)
Stretch		100% of Bonus Banking Plan opportunity (200% of salary) 100% of Deferred Share Plan (125% of salary)
Target		50% of Bonus Banking Plan opportunity (100% of salary) 50% of Deferred Share Plan (62.5% of salary)
Minimum		No variable pay

CEO (£'000)



CFO (£'000)



● Fixed ● Medium-term Variable Pay ● Long-term Variable Pay

Directors' remuneration report continued

Policy for the Chairman and the Non-executive Directors

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

Element	Purpose and link to strategy	Operation and performance measures	Maximum opportunity
Chairman and 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.	<p>The Executive Directors and the Group Chairman are responsible for setting the remuneration of the Non-executive Directors.</p> <p>The Board, minus the Chairman, is responsible for setting the Chairman's fees.</p> <p>Non-executive Directors are paid an annual fee and additional fees for chairmanship of Committees and any other additional duties, 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.</p> <p>Fees are reviewed annually based on equivalent roles in the comparator group used to review salaries paid to the Executive Directors.</p> <p>An additional fee is payable to those Non-executive Directors attending meetings outside of their country of residence.</p> <p>Non-executive Directors and the Group Chairman do not participate in any variable remuneration or benefits arrangements.</p> <p>Fee levels may be increased on a temporary basis for a significant increase in time commitments (e.g. assuming an executive position for an interim period)</p>	<p>The fees for Non-executive Directors and the Group Chairman are broadly set at a competitive level against the comparator group.</p> <p>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.</p> <p>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.</p>

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 in seeking views on the Directors' Remuneration Policy in preparation for the triennial vote at the AGM. Any concerns expressed by shareholders are reported 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 and their representative bodies.

The Remuneration Committee is grateful for shareholders' comments and engagement during the Directors' Remuneration Policy 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 being operated for a further three years.

The Committee has not formally consulted with employees in forming this Policy. However, Our Employee Engagement Group (EEG), representing all of our UK employees, is deeply engaged across the company to provide an employee voice at the table on all relevant issues, including remuneration (regular interactions are held with the Group Chairman, Remuneration Committee Chair, CEO and the Group HR Director). The company takes the views of employees very seriously and we monitor this through a quarterly survey using a market-leading dynamic tool (Peakon).

The Committee is cognisant of employment conditions when determining Executive Director pay. In particular, the annual salary increase available to the rest of the workforce is an important factor in determining any salary increase for the Executive Directors. The Committee reviews the CEO pay ratio and considers it in the broader context of pay trends within the business.

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 2020.

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)	2020	610	49	122	1,069	–	136	1,986
	2019	596	48	119	1,126	–	450	2,339
David Smith (CFO)	2020	462	36	92	803	–	–	1,393
	2019	451	34	90	841	–	–	1,416

Benefits can 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.

Fixed pay

Salary

Salaries are normally reviewed effective 1 September, which is the same timing for the rest of the UK employee population. The company has agreed that there will be no base salary review in FY21 to manage costs as part of the response to COVID-19.

	Salary as at August 2019 £'000	Increase in the year	Salary as at September 2019 £'000	FY20 Pro-rated salary £'000
Steve Wadey	603	2.2%	616	610
David Smith	456	2.2%	466	462

Benefits

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

	Taxable expenses £'000	Car allowance £'000	Insurance benefit £'000	Total benefits £'000
Steve Wadey	15	19	15	49
David Smith	6	13	17	36

Pensions

Neither of the Executive Directors participate in the QinetiQ pension scheme for FY20 or have done so in prior years. 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	122	122
David Smith	92	92

Bonus Banking Plan

The Bonus Banking Plan operates on three-year performance cycle mirroring the financial year, with a four-year payment cycle, i.e. running from 1 April to 31 March. FY20 represents the third year of the current cycle as detailed on page 100.

Each year any incentive award earned is added to the total plan balance, with 50% of the total plan balance normally being paid in cash in June following the FY, for FY20 this will be paid in shares with a one year holding period. The remaining 50% is held in the plan in notional shares. In year four, the total remaining plan balance is paid in shares.

	BBP balance brought forward £'000	Dividend equivalent payment £'000	BBP award in year £'000	June 2020 payment in shares (50% value) £'000	BBP balance carried forward £'000
CEO	863	19	1,069	975	975
CFO	646	14	803	732	732

Deferred Share Plan

No Deferred Share Plan award to be made in June 2020 as the FY20 pre-grant performance underpin was not achieved.

2017 Performance Share Plan (legacy plan)

The PSP award made to the CEO in 2017 achieved 38.35% vesting in 2020 based on TSR performance as detailed on page 101. The £3.46 share price is based on three months to 31 March 2020, the actual value will be the share price at vesting on 22 June 2020.

For FY19, the PSP figure represents the actual vesting of the 2016 award which has been true-up replacing the estimate provided last year. The share price at vesting was £2.80 and the FY19 figure includes £27,473 paid as income in respect of a dividend equivalent payment.

	Shares Awarded	Vesting %	Shares Vesting	Value at £3.46 per share £'000
Steve Wadey	102,136	38.35%	39,169	135,525

Directors' remuneration report continued

Bonus Banking Plan

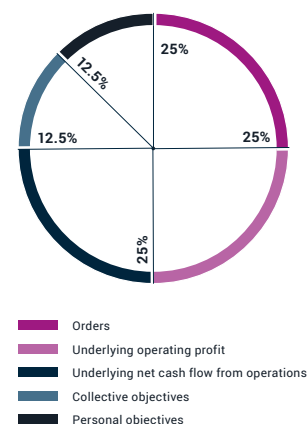
FY20 performance measures and operation

For the year ended 31 March 2020 achievement of on-target performance provides a payment equal to 100% 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 2020, the CEO and CFO were measured against the targets as shown in the chart to the right. The target payment was 50% of maximum for financial and 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. Financial performance measures exclude the contribution from businesses acquired in the year.

% of base salary (%)



AUDITED INFORMATION

FY20 performance outcomes

	Weighting (%)	Threshold	Target	Stretch	Actual	% of maximum reward achieved	CEO contribution	CFO contribution	
CEO/CFO financial performance measures:									
Orders ¹	25%	£650m	£725m	£825m	£946.8m	100.0%	£305,178	£230,910	
Underlying operating profit ^{1,2}	25%	£112m	£124m	£136m	£129.8m	74.2%	£226,341	£171,258	
Underlying net cash flow from operations ^{1,2}	25%	£122m	£124m	£136m	£177.6m	100.0%	£305,178	£230,910	
CEO/CFO shared strategic and operational objectives (as detailed on page 99):									
Strategy:									
– Performance against key stretching objectives relating to the UK business, international and innovation	12.5%	40%	50%	100%	62%	62%	£94,605	£71,582	
Operational:									
– Performance against stretching objectives relating to transformation and organisational development		40%	50%	100%					
CEO individual personal objectives:									
– Performance against stretching objectives relating to growth and leadership	12.5%	40%	50%	100%	90%	90%	£137,330		
CFO individual personal objectives:									
– Performance against stretching objectives relating to business support and operational performance	12.5%	40%	50%	100%	85%	85%		£98,137	
CEO overall results							87.5%	£1,068,633	
CFO overall results							86.9%		£802,797

1 Performance measures exclude the contribution from businesses acquired during the year.

2 Definition of underlying measures and performance can be found in the glossary on page 183.

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.

Reconciliation of measures used in determining remuneration to Group KPIs

The difference below is the contribution from businesses acquired in the year, notably MTEQ.

	Orders	Underlying operating profit	Underlying cash flow
Per KPIs on page 30	£972.1m	£133.2m	£177.8m
Metric used for BBP	£946.8m	£129.8m	£177.6m
Difference	£25.3m	£3.4m	£0.2m

Shared strategic and operational measures (12.5% award)

Measures	FY20 Performance	Outcome (% maximum)
Strategic		
Safety Culture – 40% weighting	Stretch performance levels were surpassed to improve the Safety First culture through safety engagement including high visibility safety tours and leading safety engagements.	
Employee Engagement – 30% weighting	Employee engagement improved by 10% in FY20 as measured by the independent Peakon tool, a leadership diversity and inclusion event was delivered with strong engagement and feedback, Q-talk and Employee Roadshow attendance improved significantly and the Enabling Managers programme was delivered.	
Productivity & Efficiency – 30% weighting	Threshold performance was achieved on recoveries budget and improved utilisation through enhanced collaboration.	
Total		62%

Personal objectives (12.5% award)

Objectives	FY20 Performance	Outcome (% maximum)
CEO		
Growth	Organic growth delivered through record orders, completion of strategic acquisitions (most notably MTEQ), delivery of Global Campaigns, transition to a high performance culture and delivery of the Global Operating Model Initial Operating Capability.	
Leadership	Developed people and organisation with the new Global Change Network and Global Engagement Network, coached and developed team dynamic and individual Global Leadership Team members, led the transformation of the business.	
Total		90%
CFO		
Strategic	Matured the strategic development of the Group through the Integrated Strategic Business Plan, delivered strategy to enhance Group financial performance metrics.	
Growth	Drove right decisions on investment plans and M&A, worked with JVs to deliver consistent operational performance.	
Operational	Improved rates recovery and resourcing model to drive performance, expanded Business Services to deliver business efficiency and delivered IT and Property construction projects.	
Total		85%

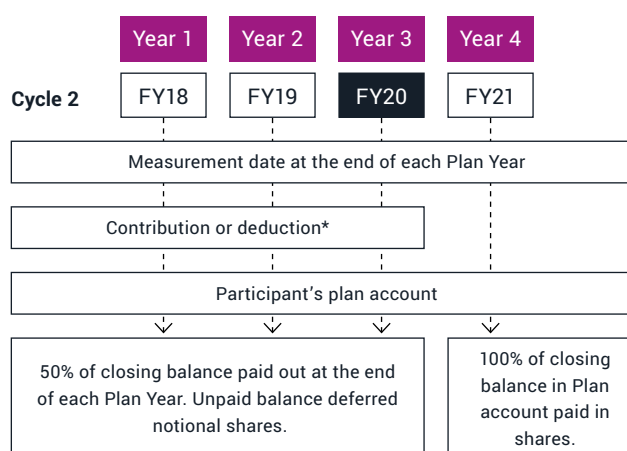
Directors' remuneration report continued

Bonus Banking Plan continued

How the plan operates

- The Plan operates on a fixed three-year performance cycle with a four-year vesting cycle. FY20 represents year three of Cycle 2. 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 FY20

Cycle 2

	Notional shares on account at start of Plan year 2 (1 April 2019)	30-day average share price as at measurement date (£)	Share value as at measurement date (£)	Bonus plan contribution for Plan year 3 (£)	Dividend equivalent payment (£)	Bonus pool total value as at measurement date (£)	Gross payment in shares for Plan year 3 (£)	Bonus pool total value following cash payment (£)	Notional shares on account at end of Plan year 3 (31 March 2020)
CEO	281,322	3.07	862,533	1,068,633	18,849	1,950,014	975,007	975,007	318,006
CFO	210,753	3.07	646,169	802,797	14,120	1,463,086	731,543	731,543	238,598

FY20 Payment in Shares

As noted in the Committee Chair's statement, to manage cash outflow in June 2020, all FY20 incentive payments including BBP payments to the CEO and CFO, which would normally be paid in cash, will be paid in 'net settled' shares which are subject to a one year holding period.

Forfeiture

For BBP Cycle 2 the CEO and CFO retained notional shares in their Plan accounts of which 50% were subject to forfeiture. Forfeiture would have been enacted if Group underlying operating profit was less than £100m for FY20. FY20 Group underlying operating profit was £130m (excluding contribution from acquisitions) therefore no notional shares were forfeited.

Discretion

For BBP Cycle 2, for the year ended 31 March 2020, targets were achieved or exceeded providing a contribution of 175.1% and 173.8% of base salary for the CEO and for the CFO respectively. £1,068,633 and £802,797 has been reported in the single figure table which represents the additional contributions to the plan related to FY20 performance. No discretion was applied to these contributions as the Committee considers them appropriate reflecting strong performance.

Deferred Share Plan (DSP)

Scheme interests awarded during the financial year ended 31 March 2020

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 FY20

The FY20 DSP performance measure was non-UK revenue growth. 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

FY20 performance outcome

The FY20 Deferred Share Plan award was measured against FY20 absolute growth in non-UK revenue with the following calibration.

Measure	Weighting	Threshold	Target	Stretch	Actual	% Max award achieved	% Salary awarded	Total £'000
Non-UK revenue (FY19+)	100%	£20.0m	£40.0m	£70.0m	£24.1m	N/A	0	
CEO								0
CFO								0

The FY20 DSP award was also subject to a pre-grant performance underpin that FY20 profit margins are higher than the profit margin on non-UK revenue in FY19.

Non-UK revenue growth achieved at £24.1m was above threshold performance. However, as noted above, the FY20 DSP Award was also subject to a pre-grant performance underpin. This underpin was not achieved and no DSP award of contingent shares will be made in relation to FY20 performance

Legacy Performance Share Plan (PSP)

2017 PSP

The 2017 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 2017 PSP award measurement period was to 31 March 2020 and the Committee reviewed performance against the EPS and TSR performance measures at the May 2020 meeting.

Measures	Weighting	Performance conditions	Performance			% Max award achieved
			Threshold	Stretch	Actual	
EPS	50%	Between 3% and 10% per annum	19.8p	24.1p	16.9p	0%
TSR	50%	Between FTSE 250 median and upper quartile	11.5%	49.2%	36.6%	76.7%

Based on audited EPS performance and TSR performance analysis provided by the independent advisor to the Committee (FIT Remuneration Consultants), it was determined that the EPS test was not met and that the TSR element (50% weighting) will vest at 76.7% on the third anniversary of grant (22 June 2020), resulting in an aggregate vesting of 38.35% of the initial award to the CEO. The Remuneration Committee was satisfied with the formulaic result and did not exercise discretion.

Directors' remuneration report continued

Performance condition adjustments during 2020

As in prior years, the Committee adjusted the performance conditions for the Performance Share Plan to reflect continuing operations 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 31	20.0p
Metric used for PSP	16.9p
Difference	3.1p
Which relates to:	
– Constant number of shares	
– Excluding profit after tax of acquired businesses	

AUDITED INFORMATION

Statement of Directors' shareholding and share interests

In relation to the 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 from the adoption of the guideline 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 197% of base salary using a share price of £3.46 (three-month average to 31 March 2020). This reflects his appointment date as CEO and the limited opportunity for share-based awards to vest.

The CFO does not currently meet the minimum shareholding requirement; with a current holding equivalent to 61% of base salary using a share price of £3.46 (three-month average to 31 March 2020). This reflects his recent appointment as CFO and the lack of any opportunity for share-based awards to vest.

The Remuneration Committee continues to monitor progress towards the shareholding requirement.

	Shares beneficially owned	Shares subject to performance conditions	Shares not subject to performance conditions	Total shares held at 31 Mar 2020
Steve Wadey	350,885	566,571	–	917,456
David Smith	81,808	352,376	–	434,184
Mark Elliott (resigned 24 July 2019)	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
Neil Johnson	50,000	–	–	50,000

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

On 9 April 2020 Steve Wadey and David Smith purchased 60 shares each, then on 11 May 2020 they purchased 64 shares each, through their participation in the SIP.

Shares subject to performance conditions comprise awards made under the Performance Share Plan (CEO only) and Deferred Share Plan as detailed on page 103. Notional shares held by the CEO and CFO in the BBP Cycle 2 do not appear in the table above as they are not actual shares at 21 May 2020.

AUDITED INFORMATION

Total scheme interests summary

Total scheme interests, including those awarded during the financial year ended 31 March 2020, are as follows.

Steve Wadey

Plan name	Date of grant	Number 1 April 2019	Granted in year (maximum potential of awards)	Vested in year	Lapsed in year	Number 31 March 2020	Share price on date of grant	Vest date
PSP 2016	1 Jul 16	476,190	–	150,952	325,238	–	224.4	1 Jul 19
PSP 2017	22 Jun 17	102,136	–	–	–	102,136	281.0	22 Jun 20
DSP 2018	8 Jun 18	220,785	–	–	–	220,785	206.0	8 Jun 21
DSP 2019	28 Jun 19	–	243,650	–	–	243,650	304.0	28 Jun 22
		799,111	243,650	150,952	325,238	566,571		

David Smith

Plan name	Date of grant	Number 1 April 2019	Granted in year (maximum potential of awards)	Vested in year	Lapsed in year	Number 31 March 2018	Share price on date of grant	Vest date
DSP 2018	8 Jun 18	167,975	–	–	–	167,975	206.0	8 Jun 21
DSP 2019	28 Jun 19	–	184,401	–	–	184,401	304.0	28 Jun 22
		167,975	184,401	–	–	352,376		

No contingent shares will be awarded in relation to the 2020 DSP as the pre-grant performance target was not achieved.

The contingent share award in relation to the 2019 DSP was calculated based on awards of 124.2% of base salary and a share price of £3.04 (based on 30 day average to 31 March 2019).

The average three month market share price of the CEO's 2017 PSP was £3.46, leading to an estimated gain of £25,460 based on share price appreciation of the 39,169 shares due to vest on 22 June 2020.

There have been no other changes to the interests shown above between 31 March 2020 and 21 May 2020.

Payments to past Directors and payment for loss of office

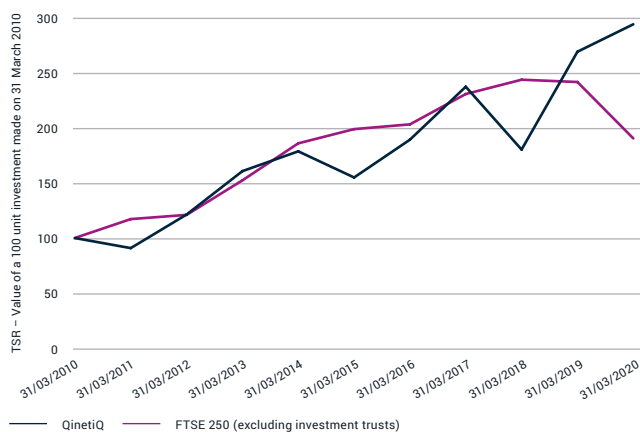
No payments were made to past Directors during the year and no payments were made for loss of office during the year.

Directors' remuneration report continued

Performance review

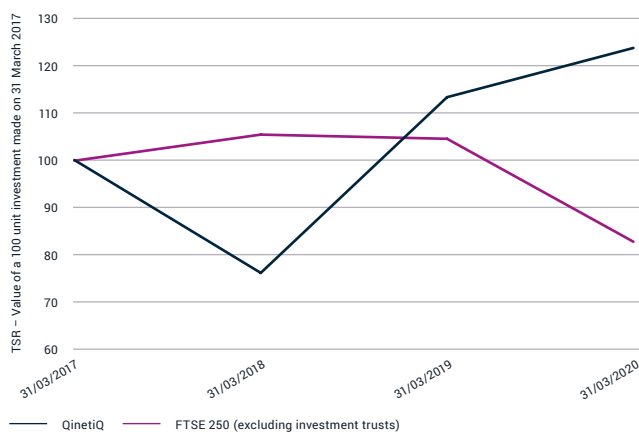
The ten-year and three-year charts show the Company's Total Shareholder Return over the period from 31 March 2010 to 31 March 2020 and 31 March 2017 to 31 March 2020 compared with the FTSE 250 (excluding investment trusts) over the same period based on spot values. The Committee has chosen to demonstrate 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).

Ten-year comparator chart



Source: Datastream (Thomson Reuters)

Three-year comparator chart



Source: Datastream (Thomson Reuters)

CEO remuneration

The table below shows the CEO's remuneration over the same performance period as the Total Shareholder Return chart (31 March 2010 to 31 March 2020):

Year ended 31 March	CEO	Salary/fees	Single figure	Annual bonus (% of maximum)	Long-term incentives (% of maximum vesting)
2020	Steve Wadey	610,357	1,985,298	87.5%	38.4%
2019	Steve Wadey	596,422	2,339,474	94.4%	31.7%
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%	–

CEO Pay Ratio

The calculation below is based on the FY20 'single figure' for the CEO of £1,985,298 and similar calculations for the UK workforce (i.e. 'Option A' as defined by the Companies (Miscellaneous Reporting) Regulations 2018).

Total remuneration

Year	Ratio of the CEO's pay to UK employees			Total pay of UK employees		
	25th Percentile	Median	75th Percentile	25th Percentile	Median	75th Percentile
FY20	56 : 1	41 : 1	31 : 1	£35,732	£48,965	£64,620

The Remuneration Committee welcomes the opportunity to provide this information to shareholders. The Company aims to reward all employees fairly for the success and growth they create, hence the inception of the All Employee Incentive Scheme in FY19 which paid a minimum of £740 to all eligible employees for FY20.

AUDITED INFORMATION

Single figure total 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 2020 and the preceding year.

Non-executive Director	Salary/fees £'000		Benefits £'000		Committee Chair fees £'000		US/UK attendance fee £'000		Single figure £'000	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Lynn Brubaker	51	49	9	11	–	–	25	24	85	84
Admiral Sir James Burnell-Nugent	51	49	2	2	10	9	0	3	63	63
Mark Elliott	77	242	27	75	–	–	–	–	104	317
Michael Harper	51	49	0	2	12	19	0	3	63	72
Neil Johnson	187	–	1	–	–	–	–	–	188	–
Ian Mason	51	49	1	1	–	–	0	3	52	53
Paul Murray	51	49	0	1	10	9	0	3	61	62
Susan Searle	51	49	1	1	8	–	0	3	60	53

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.

Mark Elliott, the former Chairman, and Lynn Brubaker are US residents. Mark was 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.

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 2019 and 31 March 2020.

	CEO			Comparison group		
	2020	2019	% change	2020	2019	% change
Base salary	£610,357	£596,422	2.3%	£46,261	£44,010	5.1%
Benefits	£49,813	£47,874	4.0%	£1,313	£1,298	1.1%
Annual bonus	£1,068,633	£1,125,747	-5.1%	£2,797	£3,446	-18.8%

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.

In FY19 the Company introduced an All Employee Incentive Scheme (AEIS) whereby every employee has the opportunity to earn a cash bonus based on Company and personal performance. For FY20 the Company element of the AEIS achieved a level between Target and Stretch resulting in a payment of £740 to every eligible employee, plus the opportunity to earn an additional payment based on personal performance. The AEIS will be operated again in FY21 and thereafter.

The Committee reviews (but does not decide) the general reward policy for all employees and of any significant changes proposed.

Directors' remuneration report continued

Gender related pay

QinetiQ is subject to gender pay reporting for UK employees and a copy of our 2019 report is available on the Company's website.

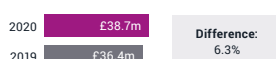
Relative importance of spend on pay

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.

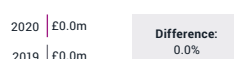
Total Employee remuneration



Share-based profit distribution



Other significant profit distribution



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. The Group Chairman and the 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 76).

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.	–
Michael Harper	22 November 2011	Initial term of three years from date of appointment, subject to annual reappointment at the AGM.	–
Neil Johnson	2 April 2019	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 ended 31 March 2020

Fees

Non-executive Directors' fees were reviewed and increased effective 1 July 2019 as follows -

- Basic fee increased from £49,000 to £52,000
- Committee chair fee increased from £9,000 to £10,000
- Senior Independent Director fee remains at £10,000

The Non-executive Group Chairman receives a fee of £250,000 per annum.

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 2019 Motability Operations Group plc annual report, were £50,000 per annum which are retained.

	Fees effective 1 July 2019 £
Group Chairman	250,000
Basic fee for UK Non-executive Director	52,000
Additional fee for chairing a Committee	10,000
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 2021

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 2020 acquisitions)	Relative weighting(%)
Bonus Banking Plan	Underlying operating profit	25.0%
Target performance 100% of base salary	Underlying net cash flow from operations	25.0%
Stretch performance 200% of base salary	Orders	25.0%
	Collective objectives	12.5%
	Personal objectives	12.5%

For FY21, the Remuneration Committee set the target level of performance at 50% of stretch for the financial measures, collective and personal objectives. Details of specific performance targets for the Bonus Banking Plan have not been provided as they are deemed commercially sensitive. The targets will be disclosed retrospectively in next year's Annual Report on Remuneration.

The Deferred Share Plan will award a maximum of 125% of base salary for achieving stretch performance. For FY21 the strategic growth performance measure is organic revenue growth across the Group compared to FY20. This change for FY21 (international revenue growth was used for the FY19 and FY20 awards) was made to incentivise our senior leaders globally to collaborate across the Group to deliver sustainable profitable growth. There will be a pre-grant margin underpin to ensure that profit performance remains strong.

The Remuneration Committee has discussed and will continue to discuss the impact of the COVID-19 crisis on performance and remuneration. Performance metrics have been set for FY21 based on the ISBP FY21. At the end of the year the Committee will look back at the impact on shareholders and the performance of comparators and, if appropriate, will apply discretion. It is important that, particularly in this unusual and challenging year, the rewards overall to executives are balanced and fair in the context of the shareholder journey.

Directors' remuneration report continued

The FY21 DSP award will be subject to a performance underpin before vesting:

- Group underlying profit outturn for FY21 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 FY21 DSP award, this will be the actual underlying operating profit (£m) for FY21 which must be achieved in FY24

Awards of contingent shares will be made in June 2021 based on FY21 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 would normally be reviewed effective from 1 September 2020, but there will be no base salary review in FY21 as part of the cost saving measures taken in response to COVID-19. No changes are envisaged to the implementation of benefits policy.

Remuneration Committee meetings, activities and decisions FY20

The following table provides a summary of all the key activities during the year. The attendance at each meeting is detailed on page 68. The membership of the Remuneration Committee in FY20 was Susan Searle (Chair from October 2019), Michael Harper (Chair to September 2019), Neil Johnson, Lynn Brubaker, Admiral Sir James Burnell-Nugent, Ian Mason, Paul Murray and Mark Elliott (resigned July 2019).

Base salary	Incentives	Share awards	Governance	Resourcing
May 2019	FY19 final results for BBP and DSP	2016 PSP vesting 2019 DSP awards	Executive Director and Executive Committee base salary reviews Approve Directors' Remuneration Report.	
July 2019			AGM Preparation Directors' Remuneration Policy initial discussion for 2020 AGM	
October 2019			Review of latest investor voting guidance Directors' Remuneration Policy discussion for 2020 AGM	
November 2019	Trends in executive remuneration FY20 half year forecast	FY20 half year forecast	Review of Executive Committee shareholdings Review of Company reward practices Directors' Remuneration Policy discussion for 2020 AGM	
January 2020	FY21 incentive measures		Directors' Remuneration Policy discussion for 2020 AGM	Global Operating Model implementation
March 2020	FY20 provisional results FY21 target setting	2017 PSP provisional vesting	Directors' Remuneration Policy discussion for 2020 AGM	

Effectiveness review

In 2020, the effectiveness review was conducted in-house via a questionnaire distributed by the Company Secretary. This process is described further on page 78.

Remuneration consultants

The Committee has appointed FIT Remuneration Consultants LP, an independent firm of remuneration consultants, to provide advice on market practice, corporate governance and investors' views. FIT were appointed by the Committee in 2017 following a competitive tendering exercise. Fees paid during the year for services provided were £52,721.

FIT provided the following additional services during the year:

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

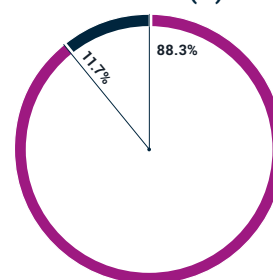
The Committee is satisfied the scale and nature of this work does not impact on the objectivity and independence of the advice it receives from FIT.

Statement of voting

Annual Report on Remuneration – 2019

Votes for	398,773,134 (88.3%)
Votes against	53,016,701 (11.7%)
Total votes cast	451,789,835 (79.6% of share capital)
Abstained	2,594,018

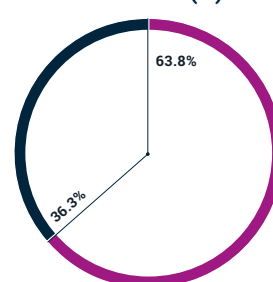
2019 % of votes (%)



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% of share capital)
Abstained	53,828

2017 % of votes (%)



■ Votes for
■ Votes against

Details on the voting on all resolutions at the 2020 AGM will be announced via the RNS and posted on the QinetiQ website following the AGM.

Susan Searle

Remuneration Committee Chair

21 May 2020