Remuneration

"Excellent progress was made by the CEO, Global Leadership Team and our employees to deliver a fifth year of growth and a 6% organic increase in FY21 operating profit."

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

Directors' remuneration report

Dear Shareholder,

As the Group Chairman outlined in his statement on page 6, the last year has been like no other, with every aspect of our lives impacted by the COVID-19 pandemic. However, building on a strong first half of the financial year, the Group has continued to perform very strongly throughout FY21, despite the impact of COVID-19. Excellent progress was made by the CEO, Global Leadership Team and our employees to deliver a fifth year of growth and a 6% organic increase in FY21 operating profit.

One of the reasons why the company has weathered the storm so well is the swift and decisive remuneration-related actions taken by leadership in FY21 to contain costs and conserve cash. The CEO and CFO both agreed to a temporary base salary reduction of 34% and 32% respectively, and Non-executive Directors agreed to a 25% reduction in fees, which were in place for six months in FY21 and not repaid. The company 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 would be no base salary increases in FY21.

The annual contribution to the Bonus Banking Plan (BBP) pool for FY21 for the CEO and CFO is 95.7% of the maximum for both, recognising their strong performance and an excellent year for the company.

The FY21 contingent share award under the Deferred Share Plan (DSP) will be made at 97.3% of the maximum available reflecting excellent revenue growth in-year. This DSP award will not vest in full unless the level of underlying operating profit for FY21 (i.e. £150.0m adjusted for in-year acquisitions) is at least matched in FY24; if not, as a minimum, 50% of the initial award will lapse. The Committee has agreed that the FY22 DSP strategic growth performance measure will remain as Group revenue growth (excluding in-year acquisitions) to incentivise the delivery of growth across the whole Group.

The FY21 CEO single figure on page 100 is higher than that for FY20 as it includes the first award under the DSP based on FY18 performance, which I am pleased to confirm has now ceased to be contingent as the performance underpin has been met; that is, our excellent FY21 profit performance of £150.0m exceeded that delivered in FY18 of £122.5m. The FY18 DSP vests as shares which must be retained for a further two years and the value is disclosed in the FY21 single figure.

The business context and incentive out-turn for FY21

Five 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 FY21.

The FY21 BBP out-turn was 95.7% of the maximum for the CEO and the CFO which reflects excellent financial and operational performance by the Company and the Executive Directors. During the year incentive targets were reviewed in the light of the impact of COVID-19 on the business; however, the Committee and executives determined to retain the original targets set pre-COVID-19, which were considered to be stretching even before the pandemic.

The Committee considered the FY21 BBP out-turn in detail from the perspective of our key stakeholders (shareholders, customers and employees) and agreed that it was appropriate not to exercise the discretion available to amend the outcome; that is, no adjustment was made to FY21 incentive targets or outcomes to reflect the impact of COVID-19 given the exceptional performance delivered. The 50% due in June 2021 will be paid in cash and the other 50% is deferred into the BBP pool, where it will remain at risk of forfeiture. These deferred amounts are reported as remuneration for the year they were earned.

Remuneration continued

The FY21 DSP award will be granted at 97.3% of the maximum based on the achievement of the Group revenue growth target and the achievement of the FY21 margin underpin. The Award will remain contingent based on the achievement of the profit performance underpin. The level of Group profit for FY21 £150.0m must be achieved in FY24 or, at a minimum, 50% of the FY21 DSP award will lapse.

Implementation for FY22

The Bonus Banking Plan for FY22 is based on the same financial metrics as in FY21 (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 goals. Payment for target performance is 50% of the maximum.

The Committee considered return on investment as an annual incentive metric and is monitoring it for potential future use. At this time it is not considered appropriate as it may not drive the right behaviours at this point in the company investment cycle.

In support of the ISBP, the FY22 DSP strategic growth performance measure is revenue growth across the Group excluding in-year acquisitions, as per FY21. Underpins ensure that FY22 profit margins are strong and Group operating profitability must be at least equal to FY22 performance in FY25 for full vesting, as detailed on page 104. .

Employee engagement and reward

QinetiQ's employees are key to the delivery of the growth strategy. Our employees have been outstanding this year, demonstrating extraordinary agility, focus, commitment and drive to continue to deliver to our customers.

The CEO and the Group HR Director have held regular discussions with our Global Employee Voice on reward matters. The people section on page 42 details our employee engagement activity.

I met with the Chair and the Deputy Chair of the Global Employee Voice group during the year and I 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 predetermined range from target to stretch. For FY21, the maximum payment for stretch performance was increased from £1,000 to £1,250. I am pleased to confirm that the AEIS will pay £1,217 to each employee for FY21, a significant increase from the £740 paid in FY20. The AEIS is an important element of the company's Rewarding for Performance strategy and aligns employees and shareholder interests by incentivising and rewarding profitable growth. The Company will operate the AEIS again for FY22 and thereafter.

The Directors' Remuneration Policy and pensions

The Directors' Remuneration Policy was presented for the triennial binding vote at the AGM in July 2020 and the Committee noted that we received a 87% vote in favour of the Policy and an 89% vote in favour of the Annual Report on Remuneration for FY20.

The Policy approved at the 2020 AGM confirmed that incumbent Executive Directors' pension allowances would be reduced to the UK employee level (10.5% of salary) over the three-year life of the 2023 Policy. This reduction from 20% to 10.5% has been brought forward for the CEO and CFO to be effective from 1 January 2023.

The Committee acknowledges that the incentive plans can appear complex as we have had this feedback from shareholders. However, the plans are embedded and well understood by executives; they are delivering alignment, driving the right behaviours and incentivised the delivery of excellent performance in FY21.

Conclusion

Implementing the Directors' Remuneration Policy in the interests of shareholders and considering the Company's response to the COVID-19 pandemic have been the primary areas of focus of the Remuneration Committee in FY21.

FY21 was an excellent year for QinetiQ delivering growth in a very challenging environment for the company and its leadership. The Remuneration Committee carefully scrutinises financial performance as it relates to incentive payments and is satisfied that FY21 payments are appropriate and fair, reflecting performance in this extraordinary year during which our share price increased by some 5% and our dividend was paid at an enhanced level to the prior year having initially been deferred in response to COVID-19.

As we look to FY22, there is still a great deal of uncertainty as governments manage the impact of the COVID-19 crisis and global economies hopefully recover swiftly. The Remuneration Committee will continue to monitor closely the impact of COVID-19 on the business as it relates to incentives and other elements of remuneration.

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 Annual Report on Remuneration at the AGM on 21 July 2021.

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

20 May 2021

Remuneration at a Glance

Components, alignment, application and changes

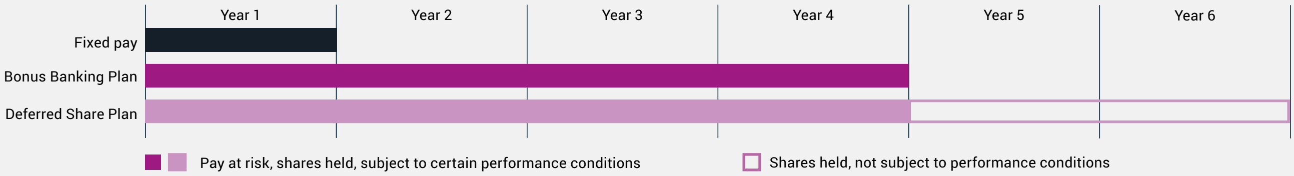
F Annual fixed pay	Link to strategy	Application in FY22
Salary Executive Directors' base salaries are set on appointment and reviewed annually or when there is a change in position or responsibility. Typically, base salaries will be increased by a similar percentage to the average pay increase for all 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%, as will existing ones effective January 2023.

M Medium-term variable pay (One to Four Years)	Link to strategy	Application in FY22
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 goals). 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)	Link to strategy	Application in FY22
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.	The DSP enables us to reward Executive Directors for delivering against key strategic priorities. We retain the flexibility to select an appropriate strategic growth metric on an annual basis ensuring that the DSP is agile and drives the long-term strategic success of the Group. With a four year vesting period, and a further two year holding requirement, the DSP is inherently long-term in nature with various underpins ensuring growth is both sustainable and profitable over the long-term.	No change to current operation.

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.



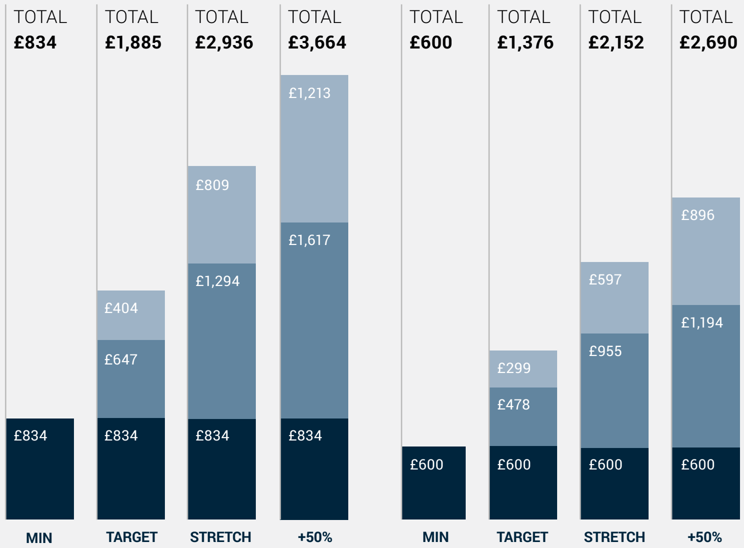
Single Figure FY21 (£'000)

F Fixed pay

M Medium-term variable pay

L Long-term variable pay

Illustration of FY22 potential (£'000)



Minimum – Fixed Pay (FY22 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)

Fixed pay

Medium-term variable pay

Long-term variable pay

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, while delivering sustainable levels of performance.

Aligned

While 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.

Summary Directors' Remuneration Policy

The Directors' Remuneration Policy was approved by shareholders at the AGM on 14 July 2020. The full Policy is provided in the Corporate Governance section on the Company's website, and it will remain in effect until the 2023 AGM. When developing the Policy, the Committee was mindful of the six factors as set out in the Code: clarity, simplicity, proportionality, predictability, alignment of culture and risk. A summary of the Policy is set out below:

Element	Policy summary description	Maximum opportunity
Base salary	When determining an appropriate level of salary, the Committee considers: – general salary rises to employees – remuneration practices within the Group – any change in scope, role and responsibilities – the general performance of the Group – the experience of the relevant Director – the economic environment – when the Committee determines a benchmarking exercise is appropriate, salaries within the ranges paid by the companies in the comparator groups used for remuneration benchmarking	Typically, the base salaries of Executive Directors in post at the start of the Policy period and who remain in the same role throughout the Policy period will be increased by a similar percentage to the average annual percentage increase in salaries of all other employees in the Group. The exceptions to this rule may be where: – an individual is below market level and a decision is taken to increase base pay to reflect proven competence in the role; or – there is a material increase in scope or responsibility to the Executive Director's role.
Pension	The Company provides a non-consolidated pension contribution allowance in line with practice relative to its comparators.	Any new Executive Directors will have a maximum contribution of 10.5% which is the level available to UK employees. The allowances paid to the CEO and CFO will reduce to 10.5% effective 1 January 2023.
Benefits	Benefits include car allowance, health insurance, life assurance, income protection and membership of the Group's employee Share Incentive Plan which is open to all UK employees.	Benefit values can vary year-on-year depending on premiums and the maximum is the cost of providing the relevant benefits.
Incentive Plan	The Incentive Plan supports the Company's objectives by: – allowing the setting of annual targets based on the strategic objectives at that time; and – providing substantial deferral in shares and ongoing adjustment by requiring a threshold level of performance to be achieved during the deferral period. The Incentive Plan consists of two elements: **Bonus Banking Plan (BBP)** Annual contributions are earned based on the satisfaction of the performance conditions. Contributions are made for three years with payments made over four years. Half the value of a participant's bonus account is paid out annually for three years with 100% of the residual value paid out at the end of year four. Half of the unpaid balance of a participant's bonus account is at risk of annual forfeiture. **Deferred Share Plan (DSP)** Deferred share-based element earned based on the satisfaction of pre-grant annual performance assessment, which is subject to a three-year vesting period and a further two-year holding period. A minimum 50% of the unvested award will lapse after three years if a performance underpin, set annually by the Committee, is not achieved.	Maximum 325% of salary (200% of salary under the Bonus Banking Plan and 125% of salary under the Deferred Share Plan). **Bonus Banking Plan** Maximum = 200% of salary. Target = 80%–120% of salary. Threshold = 0% of salary. **Deferred Share Plan** Maximum = 125% of salary. Target = 30%–75% of salary. Threshold = 0% of salary.
Shareholding requirements	Executives have five years to accumulate the required shareholding by retaining at least 50% of the post-tax vested shares from Company incentive plans. 300% of base salary for the CEO. 200% of base salary for the CFO.	n/a
Chairman and Non-executive Directors		
Fees	Fees are reviewed annually based on equivalent roles in the comparator group used to review salaries paid to the Executive Directors.	The fees for Non-executive Directors and the Group Chairman are broadly set at a competitive level against the comparator group.

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 2021.

Audited information

Executive Directors' single total figure of remuneration

Executive Director	Year	Salary £'000	Benefits £'000	Pension £'000	Total fixed pay	Bonus Banking Plan £'000	Deferred Share Plan £'000	Performance Share Plan £'000	Total variable pay	Total remuneration £'000
Steve Wadey (CEO)	2021	512	68	123	703	1,179	711	–	1,890	2,593
	2020	610	49	122	781	1,069	–	128	1,197	1,978
David Smith (CFO)	2021	392	37	93	522	892	541	–	1,433	1,955
	2020	462	36	92	590	803	–	–	803	1,393

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 reviewed effective 1 July, which is the same timing for the rest of the UK employee population. There was no base salary review in FY21 as part of the response to COVID-19 and both the CEO and CFO entered into a voluntary salary waiver for six months of the year of £104,450 and £74,450 respectively.

	Salary as at June 2020 £'000	Increase in the year	Salary as at July 2020 £'000	FY21 salary actually paid £'000
CEO	616	0.0%	616	512
CFO	466	0.0%	466	392

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
CEO	33	19	16	68
CFO	5	13	19	37

Pensions

Neither of the Executive Directors participate in the QinetiQ pension scheme for FY21 or have done so in prior years. The pension figure consists of cash in lieu of pension equating to 20% of full base salary (i.e. not reduced in-line with base salary).

	Cash in lieu of pension £'000	Total in lieu of pension £'000
CEO	123	123
CFO	93	93

Bonus Banking Plan

The Bonus Banking Plan operates on a three-year performance cycle mirroring the financial year, with a four-year payment cycle, i.e. running from 1 April to 31 March. FY21 represents the first year of cycle 3 as detailed on page 101.

Each year any incentive award earned is added to the total plan balance, with 50% of the total plan balance being paid in cash in June after the FY. The remaining 50% is held in the plan in notional shares. In year four, the total remaining plan balance is paid in shares.

	BBP cycle 3 balance brought forward £'000	Dividend equivalent payment £'000	BBP award in year £'000	June 2021 payment in cash (50% value) £'000	BBP cycle 3 balance carried forward £'000
CEO	–	–	1,179	589	590
CFO	–	–	892	446	446

Performance Share Plan (legacy plan)

For FY20 the PSP figure represents the actual vesting of the of the 2017 award replacing the estimate provided last year. The share price at vesting was 314.7p and the FY20 figure includes £5,092 paid as income in respect of a dividend equivalent payment.

Deferred Share Plan

The FY18 Deferred Share Plan award achieved the performance underpin based on FY21 profit exceeding that in FY18 (£122.5m) and, therefore, the shares ceased to be contingent and are disclosed in the single figure for FY21 above. The 100% vesting refers to the shares which have passed the underpin of those initially granted based on FY18 performance, which was 62.5% of the maximum available.

	FY18 Shares Awarded	Vesting %	Shares Vesting	Value at 321.9p per share £'000
CEO	220,785	100%	220,785	711
CFO	167,975	100%	167,975	541

Bonus Banking Plan

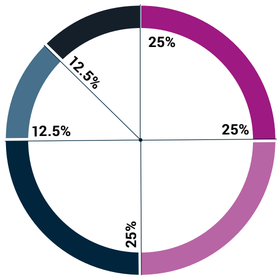
FY21 performance measures and operation

For the year ended 31 March 2021 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 2021, 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

FY21 performance outcomes

	Weighting (%)	Threshold	Target	Stretch	Actual	% of maximum reward achieved	CEO contribution	CFO contribution
CEO/CFO financial performance measures:								
Orders[1]	25%	£855.4m	£972.0m	£1,088.6m	£1,147.2m	100.0%	£308,000	£233,000
Underlying operating profit[1, 2]	25%	£127.5m	£139.0m	£150.5m	£150.0m	97.8%	£301,260	£227,901
Underlying net cash flow from operations[1, 2]	25%	£129.3m	£141.0m	£152.7m	£182.9m	100.0%	£308,000	£233,000
CEO/CFO shared strategic and operational objectives (as detailed on page 102):								
Strategy: – Performance against key stretching objectives relating to the UK business, international and innovation	12.5%	40%	50%	100%	80%	80%	£123,200	£93,200
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%	£138,600	
CFO individual personal objectives: – Performance against stretching objectives relating to business support and operational performance	12.5%	40%	50%	100%	90%	90%		£104,850
CEO overall results[3]						95.7%	£1,179,060	
CFO overall results[3]						95.7%		£891,951

1. Performance measures exclude the contribution from businesses acquired during the year and have been adjusted for disposals during the year.
2. Definition of underlying measures and performance can be found in the glossary on page 182.
3. Based on full FY21 base salary, not actual salary paid.

Remuneration continued

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 is the contribution from businesses acquired in the year and an adjustment of £13.7m to FY21 cash flow to reflect the payment of FY20 annual incentives in shares.

	Orders	Underlying operating profit	Underlying cash flow
Per KPIs on page 28/29	£1,151.0m	£151.8m	£199.0m
Metric used for BBP	£1,147.2m	£150.0m	£182.9m
Difference	£3.8m	£1.8m	£16.1m

Shared strategic and operational measures (12.5% award)

Measures	FY21 Performance	Outcome (% maximum)
Strategic		
Safety & Security Culture – 40% weighting	Stretch performance levels were met to improve the Safety First and security culture through increased engagement, high visibility safety and security tours including exchanges between businesses, and leading safety and security engagements. In light of the Pendine incident, management, with the Remuneration Committee's agreement, reduced the outturn for this element.	
Employee Engagement – 30% weighting	Employee engagement improved by 6% in FY21 as measured by the independent Peakon tool, leaders delivered diversity and inclusion events with strong engagement and feedback, Q-talk and Employee Roadshow attendance improved significantly.	
Productivity & Efficiency – 30% weighting	Leaders simplified processes and drove innovation to improve productive utilisation of our facilities and resources and reduce our cost base.	
Total		80%

Personal objectives (12.5% award)

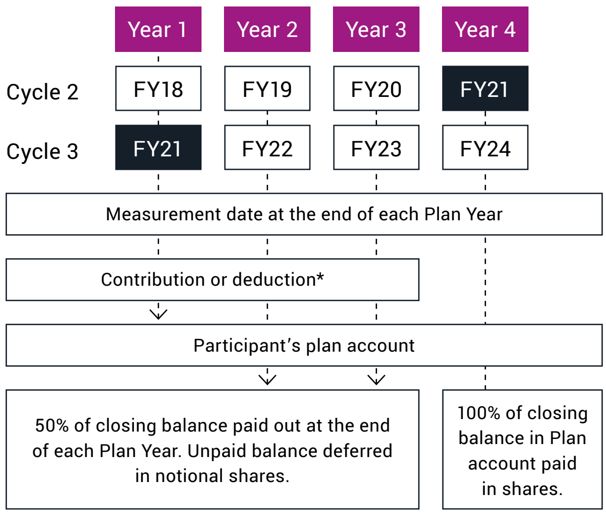
Objectives	FY21 Performance	Outcome (% maximum)
CEO		
Growth	Successfully navigated the impact of COVID-19 to deliver organic profitable growth in FY21. Delivered RLTPA commitments with improved customer satisfaction. Through active management of the portfolio, strategic acquisitions and disposals, drove higher margin businesses and strengthened strategy implementation. Implemented the next phase of the group transformation programme.	
Leadership	Delivered operational and functional performance targets including the globalisation of the functions. Matured organisation and people development plans with improved customer focus, promoting from within and attracting new leadership talent, enabling a high performance culture.	
Total		90%
CFO		
Strategic	Developed a global integrated governance and internal control structure.	
Growth	Drove right decisions on investment plans, disposals and acquisitions.	
Operational	Delivered key financial metrics through consistent operational performance.	
Total		90%

Bonus Banking Plan continued

How the plan operates

- The Plan operates on a fixed three-year performance cycle with a four-year vesting cycle. FY21 represents year four of Cycle 2 and year one of Cycle 3. 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 FY21

Cycle 2

	Notional shares on account at start of Plan year 4 (1 April 2020)	30-day average share price to 31 March 2021 (p)	Share value as at measurement date (£)	Bonus plan contribution for Plan year 4 (£)	Dividend equivalent payment (£)	Bonus pool total value as at measurement date (£)	Gross payment in cash for Plan year 4 (£)	Bonus pool total value after payment (£)	Notional shares on account at end of Plan year 4 (31 March 2021)
CEO	318,006	321.9	1,023,661	–	20,988	1,044,650	–	–	324,526
CFO	238,598	321.9	768,047	–	15,747	783,794	–	–	243,489

Cycle 3

	Notional shares on account at start of Plan year 1 (1 April 2020)	30-day average share price to 31 March 2021 (p)	Share value as at measurement date (£)	Bonus plan contribution for Plan year 1 (£)	Dividend equivalent payment (£)	Bonus pool total value as at measurement date (£)	Gross payment in cash for Plan year 1 (£)	Bonus pool total value after cash payment (£)	Notional shares on account at end of Plan year 1 (31 March 2021)
CEO	–	321.9	–	1,179,060	–	1,179,060	(589,530)	589,530	183,140
CFO	–	321.9	–	891,951	–	891,951	(445,975)	445,976	138,544

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 £110m for FY21. FY21 Group underlying operating profit was £150m (excluding contribution from acquisitions) therefore no notional shares were forfeited and the Cycle 2 notional shares will vest as actual shares on 30 June 2021. For BBP Cycle 3 a forfeiture level of profit has been set for FY22.

Discretion

For BBP Cycle 3, for the year ended 31 March 2021, targets were achieved or exceeded providing a contribution of 95.7% of the maximum award for both the CEO and the CFO. £1,179,060 and £891,951 has been reported in the single figure table which represents the contributions to the plan related to FY21 performance. No discretion was applied to these contributions as the Committee considers them appropriate reflecting strong performance. In reviewing the BBP outturn the Remuneration Committee was mindful of the wider stakeholder experience across the financial year.

Deferred Share Plan (DSP)

Scheme interests awarded during the financial year ended 31 March 2021

The Deferred Share Plan was first approved by shareholders at the 2017 AGM and further approved as a key element of the Directors' Remuneration Policy at the 2020 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 FY21

The FY21 DSP performance measure was group revenue growth excluding in-year acquisitions. Calibration was set with a maximum of 125% of salary available for achieving stretch and 50% of the maximum payable at target performance. The performance targets were set by the Remuneration Committee so as to be stretching.

Audited information

FY21 performance outcome

The FY21 Deferred Share Plan award was measured against Group revenue growth with the following calibration.

Measure	Weighting	Threshold	Target	Stretch	Actual	% Max award achieved	% Salary awarded	Total £'000
Group Revenue	100%	£1,076m	£1,176m	£1,276m	£1,270.6m	97.3%	121.6%	
CEO								£749,210
CFO								£566,773

The FY21 DSP award was also subject to a pre-grant performance underpin that FY21 profit margins are higher than 10%, which was achieved. Group revenue growth achieved at £1,270.6m was between the Target and Stretch levels of performance resulting in a FY21 DSP contingent award of shares at 97.3% of the maximum available.

The FY21 DSP award will be subject to a further 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 (£150.0m) for FY21 which must be achieved in FY24

The FY21 DSP award which vests based on the achievement of the FY24 performance underpin must be held as shares for a further two years.

The FY18 DSP award achieved the performance underpin based on FY21 profit exceeding that in FY18 (£122.5m) and, therefore, the shares ceased to be contingent and will be released on 8 June 2021. Had the FY21 profit not been greater than FY18, 50% of the DSP award would have lapsed. The net shares vesting from the FY18 DSP must be retained for a further two years. The value of this award is shown in the single figure table, in line with the reporting regulations, calculated as CEO £710,707 and CFO £540,711 based on the share amounts due to vest of 220,785 and 167,975 respectively and a share price of 321.9p (30 day average to 31 March 2021). Actual share values at vesting and the cash payment in lieu of dividends will be reported in the FY22 single figure.

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 is building up to his shareholding requirement and currently holds actual shares equivalent to 276% of base salary using a share price of 314.6p (three-month average to 31 March 2021).

The CFO does not currently meet the minimum shareholding requirement; with a current holding of actual shares equivalent to 141% of base salary using a share price of 314.6p (three-month average to 31 March 2021).

In June 2021 the FY18 DSP award will vest as shares, as the performance underpin has been achieved, and the BBP Cycle 2 awards will vest as shares, as the forfeiture level has been passed. The Committee anticipates that these events will increase the shareholdings of the Executive Directors significantly, and in the case of the CEO he will meet his shareholding requirement, as the net of tax shares will be retained.

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 2021
Steve Wadey	540,114	464,435	610	1,005,159
David Smith	208,289	352,376	610	561,275
Michael Harper	40,000	–	–	40,000
Admiral Sir James Burnell-Nugent (Resigned 31 December 2020)	15,567	–	–	15,567
Paul Murray (Resigned 14 July 2020)	83,214	–	–	83,214
Susan Searle	43,300	–	–	43,300
Ian Mason	10,000	–	–	10,000
Lynn Brubaker	12,000	–	–	12,000
Neil Johnson	50,000	–	–	50,000
Shonaid Jemmett-Page (Appointed 19 May 2020)	7,000	–	–	7,000
General Sir Gordon Messenger (Appointed 12 October 2020)	–	–	–	–

Shares beneficially owned comprise shares purchased under the Share Incentive Plan (SIP) and shares owned by the Director and any connected persons. SIP matching shares are identified as shares not subject to performance conditions.

On 9 April 2021 Steve Wadey and David Smith purchased 75 shares each, then on 10 May 2021 they purchased 60 shares each, through their participation in the SIP. There have been no other changes to the shares shown above between 31 March 2021 and 20 May 2021.

Shares subject to performance conditions comprise awards made under the Deferred Share Plan which remain contingent subject to the performance underpin as detailed on page 104.

Notional shares held by the CEO and CFO in the BBP Cycle 2 and Cycle 3 do not appear in the table above as they are not actual shares at 20 May 2021. However, in reviewing compliance with the shareholding requirement, the net of tax value of notional shares (i.e. 53% in the UK) of the 50% of the BBP balance which is not subject to forfeiture is included within the calculation.

Remuneration continued

Audited information

Total scheme interests summary

Total scheme interests, including those awarded during the financial year ended 31 March 2021, are as follows.

Steve Wadey

Plan name	Date of grant	Number 1 April 2020	Granted in year (maximum potential of awards)	Vested in year	Lapsed in year	Number 31 March 2021	Share price on date of grant	Vest date
PSP 2017	22 Jun 17	102,136	–	39,169	62,967	–	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
		566,571	–	39,169	62,967	464,435		

David Smith

Plan name	Date of grant	Number 1 April 2020	Granted in year (maximum potential of awards)	Vested in year	Lapsed in year	Number 31 March 2021	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
		352,376	–	–	–	352,376		

The contingent share award in relation to the FY21 DSP will be granted in June 2021. The Committee estimates that 232,746 contingent shares will be awarded to Steve Wadey and 176,070 to David Smith. This is calculated based on awards of 97.3% of salary and a share price of 321.9p (based on the 30 day average to 31 March 2021).

The average three month market share price to 31 March 2021 of the FY18 DSP was 314.6p, leading to an estimated gain of £239,773 and £182,421 for the CEO and CFO respectively based on share price appreciation of the shares due to vest on 8 June 2021.

There have been no other changes to the interests shown above between 31 March 2021 and 20 May 2021.

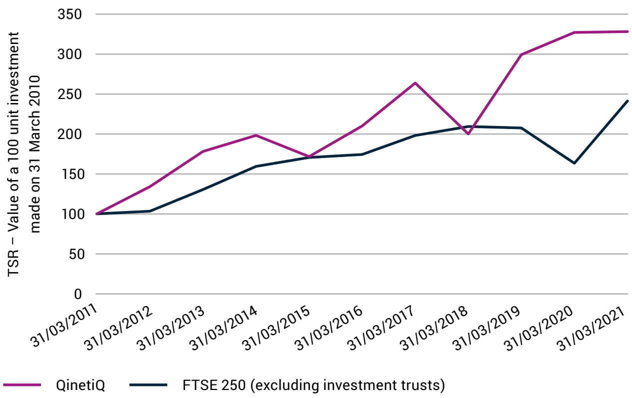
Payments to past Directors and payment for loss of office

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

Performance review

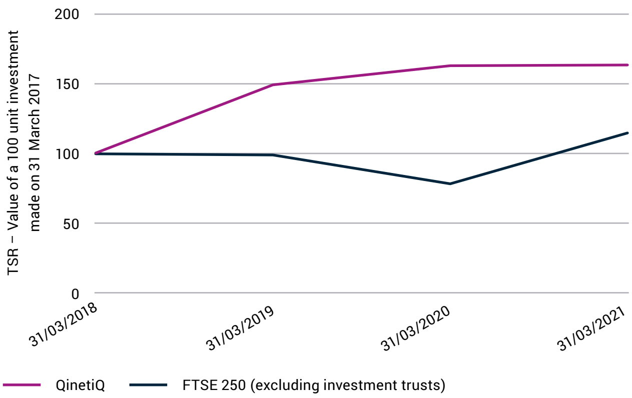
The ten-year and three-year charts show the Company's Total Shareholder Return over the period from 31 March 2011 to 31 March 2021 and 31 March 2018 to 31 March 2021 compared with the FTSE 250 (excluding investment trusts) over the same period based on spot values. The Committee has chosen to demonstrate the Company's performance against this index as it is the index in which the Company is listed.

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 2011 to 31 March 2021):

Year ended 31 March	CEO	Salary/fees	Single figure	Annual bonus (% of maximum)	Long-term incentives (% of maximum vesting)
2021	Steve Wadey	511,550	2,592,523	95.7%	100.0%
2020	Steve Wadey	610,357	1,978,247	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 FY21 'single figure' for the CEO of £2,592,523 and similar calculations for the UK workforce (i.e. 'Option A' as defined by the Companies (Miscellaneous Reporting) Regulations 2018). The Remuneration Committee chose Option A as it is the approach generally favoured by investors and GC100. The calculations for the UK workforce were performed as at 21 March 2021.

Total remuneration

Ratio of the CEO's pay to UK employees

Year	25th Percentile	Median	75th Percentile
FY21	70 : 1	52 : 1	39 : 1
FY20	56 : 1	41 : 1	31 : 1

The CEO pay ratios have widened between FY20 and FY21. The primary reason for this is the higher CEO single figure for FY21 which is a result of this being the first year that a DSP award has been included, as well as the higher incentive outturn due to strong financial and operational performance and share price appreciation. Some of the increase to the FY21 CEO single figure was offset by the lower fixed pay following the voluntary waiver of base salary for six months, which was not repaid.

Year on year movements in the CEO pay ratio are likely to be volatile due to the wide range of incentive outcomes for the CEO single figure, but the Remuneration Committee does note the ratio and it will monitor long term trends.

Total pay of UK employees

£	25th Percentile	Median	75th Percentile
Total pay and benefits	£36,959	£50,147	£65,685
Salary component.	£30,959	£43,537	£53,354

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 £1,217 to all eligible employees for the excellent performance delivered in FY21.

Remuneration continued

Remuneration policy for all employees

All employees of QinetiQ are entitled to base salary, benefits and pension. UK and Australia-based employees are entitled to participate in the QinetiQ Share Incentive Plan. The maximum incentive opportunity available is based on the seniority and responsibility of the role. Participation in the DSP is available to Executive Directors, senior leaders 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 FY21 the Company element of the AEIS achieved a level between Target and Stretch resulting in a payment of £1,217 to every eligible employee, plus the opportunity to earn an additional payment based on personal performance. The AEIS will be operated again in FY22 and thereafter.

The Committee reviews (but does not decide) the general reward policy for all employees and any significant changes proposed. Alignment with the workforce is delivered through the Rewarding for Performance framework, including a transparent and consistent approach to the annual salary review, the AEIS to drive Company and personal performance, recognition schemes and market competitive benefits in our countries.

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 2021 and the preceding year. Amounts in brackets were waived in FY21.

	Salary/fees £'000		Benefits £'000		Committee Chair fees £'000		US/UK attendance fee £'000		Single figure £'000	
Non-executive Director	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Lynn Brubaker	46 (7)	51	2	9	–	–	3	25	51	85
Admiral Sir James Burnell-Nugent (Resigned 31 December 2020)	33 (7)	51	–	2	6 (1)	10	–	–	39	63
Mark Elliott	–	77	–	27	–	–	–	–	–	104
Michael Harper	46 (7)	51	–	–	9 (1)	12	–	–	55	63
Shonaid Jemmett-Page (Appointed 19 May 2020)	41 (3)	–	–	–	7 (1)	–	–	–	48	–
Neil Johnson	219 (31)	187	–	1	–	–	–	–	219	188
Ian Mason	46 (7)	51	–	1	–	–	–	–	46	52
General Sir Gordon Messenger (Appointed 12 October 2020)	25	–	–	–	–	–	–	–	25	–
Paul Murray (Resigned 14 July 2020)	17 (5)	51	–	–	2 (1)	10	–	–	19	61
Susan Searle	46 (7)	51	–	1	9 (1)	8	–	–	55	60

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.

Lynn Brubaker is a US resident and 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 is a payment of £10,000p.a. as Senior Independent Director.

Percentage change in Directors’ remuneration

The following table compares the percentage change in each of the Director’s salary/fees, bonus and benefits to the average percentage change in salary, bonus and benefits for a comparison group (4,000 employees) in the UK business in service between 1 April 2020 and 31 March 2021.

	Salary / Fees	Benefits	Annual bonus
Steve Wadey	-16.2%	35.9%	10.3%
David Smith	-15.2%	0%	11.1%
Neil Johnson	17.1%	-100%	–
Michael Harper	-15.9%	0%	–
Susan Searle	-6.8%	-100%	–
Ian Mason	-9.8%	-100%	–
Admiral Sir James Burnell-Nugent	-36.1%	-100%	–
Paul Murray	-68.9%	0%	–
Lynn Brubaker	-35.5%	-77.8%	–
Average UK employee	1.2%	-1.2%	62.2%

1 UK employees were chosen in order to avoid the impact of exchange rate movements over the year. QinetiQ Group plc has no employees so QinetiQ Group Ltd employees were used.

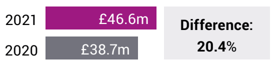
The reduction in salary and fees which the Board implemented as a waiver for six months in FY21 impacted the analysis above, as did the reduced travel and physical meeting attendance as the benefits paid to Non-executive Directors are largely travel and subsistence expenses incurred in relation to the execution of their duties with the Company that are considered by HMRC to be taxable.

Relative importance of spend on pay

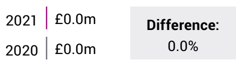
The graph below shows actual spend on all employee remuneration, shareholder dividends and buybacks and any other significant use of profit and cash within the previous two financial years.

Total Employee remuneration

Share-based profit distribution



Other significant profit distribution



Gender related pay

QinetiQ is subject to gender pay reporting for UK employees and a copy of our 2021 report is available on the Company’s website.

Remuneration continued

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 78).

Director	Date appointed	Arrangement	Notice period
Lynn Brubaker	27 January 2016	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.	–
Shonaid Jemmett-Page	19 May 2020	Initial term of three years from date of appointment, subject to annual reappointment at the AGM.	–
Neil Johnson	02 April 2019	Initial term of three years from date of appointment, subject to annual reappointment at the AGM.	–
General Sir Gordon Messenger	12 October 2020	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, 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 2021

Fees

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

- Basic fee £52,000
- Committee Chair fee £10,000
- Senior Independent Director fee £10,000

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

Fees are reviewed in line with Policy. In FY21 a voluntary fee waiver was implemented for six months as detailed on page 108.

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 served as a Non-executive Director of Motability Operations Group plc from 1 July 2010 until 30 June 2020. Non-executive Director fees, as reported in the 2020 Motability Operations Group plc annual report, were £38,000 for the part-year he served which were 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 2022

At the 11 May 2021 meeting of the Remuneration Committee, base salary increases of 5.0% (to £646,800p.a.) and 2.5% (to £477,600p.a.) were approved for the CEO and CFO respectively, effective 1 July 2021. Both salary reviews are aligned with the Rewarding for Performance guidance used for all UK employees and the increase for the CEO reflects the fact that he is low to market when benchmarked to other UK quoted Aerospace & Defence sector CEOs.

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 FY22 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 goals	12.5%
	Personal goals	12.5%

For FY22, the Remuneration Committee set the target level of performance at 50% of stretch for the financial measures, collective and personal goals. 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 FY22 the strategic growth performance measure is revenue growth (excluding in-year acquisitions) across the Group to incentivise our senior leaders globally to collaborate across the Group to deliver sustainable profitable growth, as per FY21. There will be a pre-grant margin underpin to ensure that profit performance remains strong in FY22.

The Remuneration Committee will continue to discuss the impact of the COVID-19 crisis on performance and remuneration. Performance metrics have been set for FY22 based on the ISBP FY22. 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 the rewards overall to executives are balanced and fair in the context of the shareholder journey.

The FY22 DSP award will be subject to a performance underpin before vesting:

- Group underlying profit outturn for FY22 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 FY22 DSP award, this will be the actual underlying operating profit (£m) for FY22 which must be achieved in FY25

Awards of contingent shares will be made in June 2022 based on FY22 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.

Remuneration Committee meetings, activities and decisions FY21

The following table provides a summary of all the key activities during the year. The attendance at each meeting is detailed on page 64. The membership of the Remuneration Committee in FY21 was Susan Searle (Chair), Michael Harper, Neil Johnson, Lynn Brubaker, Ian Mason, Paul Murray (resigned 14 July 2020), Admiral Sir James Burnell-Nugent (resigned 31 December 2020), General Sir Gordon Messenger (joined 12 October 2020) and Shonaid Jemmett-Page (joined 19 May 2020).

During FY21 a sub-committee reviewed a five-year storyboard looking at company performance delivered versus returns to key stakeholders to review whether targets set were appropriate and returns balanced; it determined this to be the case.

Remuneration continued

Remuneration Committee meetings, activities and decisions FY21 continued

Base salary	Incentives	Share awards	Governance	Resourcing
May 2020	FY20 final results for BBP and DSP	2017 PSP vesting (CEO only) 2020 DSP awards (not granted)	Directors' Remuneration Policy preparation for AGM Approve Directors' Remuneration Report.	
July 2020	Impact of COVID-19 on incentive targets		AGM Preparation	
November 2020	Trends in executive remuneration FY21 half year forecast	FY21 half year forecast	Review of Executive Committee shareholdings Review of Company reward practices	
March 2021	FY21 provisional results FY22 target setting	FY18 DSP provisional vesting		Terms of a GLT-level appointment

Effectiveness review

In 2021, the effectiveness review was conducted in-house via a questionnaire distributed by the Company Secretary. This process is described further on page 80.

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 after a competitive tendering exercise. Fees paid during the year for services provided were £75,698.

FIT provided the following additional services during the year:

- Implementation support for the Company on paying FY20 incentives in company shares; 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 – 2020

Votes for	419,169,261 (89.3%)
Votes against	50,195,251 (10.7%)
Total votes cast	469,403,409 (82.7% of share capital)
Abstained	2,576,013

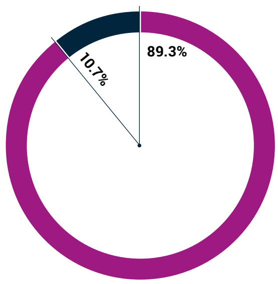
Directors' Remuneration Policy – 2020

Votes for	393,525,108 (87.0%)
Votes against	59,006,721 (13.0%)
Total votes cast	452,570,726 (79.7% of share capital)
Abstained	19,408,696

Details on the voting on all resolutions at the 2021 AGM will be announced via the RNS and posted on the QinetiQ website after the AGM.

Susan Searle
Remuneration Committee Chair
20 May 2021

Annual Report on Remuneration 2020 % of votes (%)



Directors' Remuneration Policy 2020 % of votes (%)