

Remuneration Policy

Introduction

This section of the Remuneration Report contains the general principles operated by the Group in respect of the Group's Directors' Remuneration Policy which will underpin the Group's future remuneration payments. The Committee aims to maintain a Remuneration Policy, consistent with the Group business strategy and objectives, which:

- attracts, retains and motivates individuals of high calibre;
- is responsive to both Group and personal performance; and
- is competitive within relevant employment markets.

This Remuneration Policy covers the three-year period commencing 1 April 2014. The policy set out below complies with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 ('the Regulations').

The Remuneration Policy is built on the following philosophy:

- remuneration packages are structured to support business strategy and conform to current best practice;
- appropriate rewards are given for meeting specific target objectives set at the beginning of each year;
- congruence with pay and employment conditions elsewhere in the Group;
- incremental compensation is achieved for attaining stretch performance targets;
- objectives are measured on metrics designed to be consistent with sustainable long-term business performance;
- promotion of long-term alignment with shareholders through satisfaction of incentives in shares and required employee shareholding; and
- all decisions are made taking into account the diversity of our people.

The total remuneration levels of the Executive Directors are reviewed annually by the Committee, with due consideration for:

- composition of the reward package;
- performance of the Executive against specific targets set at the beginning of each year;
- competitive market practice and remuneration levels based on a consistent competitor group reviewed annually; and
- the general economic environment, particularly in the defence sector.

The Executive Directors' remuneration package is made up of the following components:



Directors' Remuneration report continued

These main elements of remuneration, how they are linked to, and support, the Group business strategy are summarised in the following policy table:

Policy for Executive Directors

Component	Purpose and link to strategy
Base salary	To attract and retain the talent needed to lead our business.
Bonus Banking Plan – NEW	Enabling the successful implementation of Group strategy through setting relevant targets to measure Executive Director performance. Aligns the interests of Executives with shareholders and contributes to the retention of key individuals by ensuring that Executives take part of their annual bonus in shares rather than cash.

Operation and performance measures

Reviewed annually, with any change effective from 1 September.

Reference is made to the market data provided by the advisors to the Committee which covers all aspects of reward.

Each year, the packages are benchmarked independently by our advisors, currently PwC, using two comparator groups: one group is based on company size, measured by market capitalisation, and the second group is sector specific.

The first group is used as the primary reference with cross-checking against the second group to capture any industry specific features; there are approximately 20 companies in each group. The lower quartile, mid-market and upper quartile reference points are captured and the packages of the CEO and CFO benchmarked against these to ensure that they remain competitive at the mid-market level. Other factors taken into account when considering whether or not to award a base salary increase include:

- the business environment for the year ahead;
- the salary increase budget for all employees for the coming year;
- all other aspects of remuneration (the reward mix);
- the critical nature of the appointment with respect to delivering business results;
- the performance of the Executive over the previous 12 months;
- the Executive's position in terms of career development, potential and experience; and
- retention risk.

Annual performance conditions and targets are set at the beginning of the plan year. As well as determining the performance conditions, targets and relative weighting, the Committee will also determine, within the approved range, the level of target bonus at the beginning of the plan year. Upon assessment of performance by the Committee, a contribution will be made by the Company into the participant's plan account and 50% of the cumulative balance will be paid in cash. Any remaining balance will be converted into shares.

100% of the balance in year 4 will be paid in shares to the participant. During the four-year plan period, 50% of the retained balance is at risk of forfeiture based on a minimum level of performance determined annually by the Committee.

Discretion by the Committee to adjust targets may be made in exceptional circumstances, for example:

- acquisitions and disposals;
- restructuring costs;
- business structure changes;
- restated corporate allocations;
- Board approved budget adjustments;
- final IAS 19 pensions finance cost.

However, where such targets are altered, the Committee will adjust the performance targets so that the revised target is not materially less challenging than the target as originally set.

Maximum payment and payment at threshold

Aim to pay base salaries in line with the market median against defined comparator groups.

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 role; or
- there is a material increase in scope or responsibility to the Executive Director's role.

Maximum = 225% of salary

Target = 90%–135% of salary

Threshold = 0% of salary

Directors' Remuneration report continued

Component	Purpose and link to strategy
Performance Share Plan (PSP) awards made from 31 March 2012 onwards	<p>To align Executive Directors' reward with returns to shareholders by a focus on increasing shareholder value over the medium to long term and ensuring long-term commitment to strategic objectives.</p> <p>The PSP focuses Executives on key measures which determine the sustainable performance of the Company and also ensures that the implementation of the Company's strategy is leading to above market levels of return for investors.</p>
Pension	To ensure that Executive Directors' total remuneration remains attractive and competitive.
Other benefits	To ensure that Executive Directors' total remuneration remains attractive and competitive.
Personal Shareholding Policy	To align Executive Directors' interests with those of shareholders through the build-up and retention of a personal holding in QinetiQ shares.
Provisions of previous policy that will continue to apply – Deferred Annual Bonus matching (DAB), Value Share Plan (VSP)	To align Executive Directors' interests with those of shareholders. No further awards are made under these plans.

Operation and performance measures

Awards are earned based on an equal weighting of absolute underlying EPS growth and relative TSR performance. The performance period runs for three years from the start of the financial year in which the award is granted.

The Committee has discretion to vary the weighting of performance metrics over the life of this Remuneration Policy to ensure alignment with business strategy.

If events occur which cause the Committee to consider that the performance targets are no longer an appropriate measure of Group performance, the Committee may alter the terms of performance targets as it considers appropriate, but so that the revised target is not materially less challenging than the target as originally set.

To guard against misconduct, a claw back facility will apply under which part, or all, of the award can be recovered for the following reasons (but not limited to these):

- a material misstatement of the Group's financial results has occurred;
- the Board has found that the participant has engaged in misconduct (as determined by the Board) in the period between the date of grant and vesting.

The Group's policy is to offer all UK employees membership in the QinetiQ Group Personal Pension (GPP) plan which is a defined contribution scheme. Executives whose benefits are likely to exceed the Lifetime Allowance may opt out of the GPP. In such cases, or if the annual allowance would be exceeded, the individual will be paid an allowance in lieu of pension contributions. This supplement will be a non-consolidated allowance and will not impact any incentive calculations.

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.

Executives have five years to accumulate the required shareholding.

Deferred shares held as part of the DAB will count towards this total (excluding unvested matching shares).

Unvested awards do not count towards the required shareholding.

Once the required level of shareholding has been achieved to satisfy the policy, the Director/Executive will be expected to maintain that level of shareholding irrespective of whether the share price increases or decreases. Accordingly, they will be considered to have satisfied the test in future years even if the share price decreases.

The outstanding awards under the previous DAB and VSP will continue to form part of the Remuneration Policy until vesting. Details on how these plans operate can be found in the Directors' Remuneration Report for the year of grant.

These plans vest on terms set out in the plan rules which have previously been approved by shareholders.

Maximum payment and payment at threshold

Individual participants' award levels are determined by the Committee annually.

For the Executive Directors:

Normal grant level = 150% of salary

Maximum grant level = 200% of salary

The percentages of the award which vest at threshold performance are 25% for EPS growth and 30% for relative TSR rising on a linear basis to 100% vesting at stretch performance.

Maximum pension contribution or salary supplement = 25% of base salary for CEO, 20% of base salary for CFO.

Benefit values vary year on year depending on premiums and the maximum potential value is the cost of the provision of these benefits.

The CEO and CFO are required to hold QinetiQ shares with a value equivalent to 100% of their base salary. Other defined members of the senior leadership team are required to hold shares with a value equivalent to 50% of base salary.

DAB – maximum 100% of deferred bonus.

VSP – pre-defined number of shares for each £1m of additional shareholder value created based on PBT and TSR.

The Annual Report on Remuneration will disclose achievements under these plans in the year performance is completed.

Directors' Remuneration report continued

Notes to the policy tables

Performance measures and targets in 2015

The performance targets are determined annually. The Committee selected the performance conditions, as detailed on page 95, for the Bonus Banking Plan because these are central to the Group's overall strategy and are the key metrics used by the Executive Directors to oversee the operation of the business. Further details are included in the Notice of AGM.

The Committee is of the opinion that the specific performance targets for the Bonus Banking Plan are commercially sensitive in respect of the Company and that it would be detrimental to the interests of the Company to disclose them. The targets will be disclosed after the end of the relevant financial year in that year's Remuneration Report.

The Performance Share Plan performance conditions, as defined on page 95, complement the performance conditions described in the Bonus Banking Plan, supporting sustainable performance.

Changes to remuneration policy from that operating in 2014

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

- the current suitability of the incentive arrangements for the Group;
- the change in strategy for the business and the requirement to be aligned to the revised strategy;
- the new BIS Regulations which require the Company to seek shareholder approval of the Remuneration Policy through a binding vote at the 2014 AGM;
- the increasing strength of shareholder views against the operation of a leveraged matching share plan and PSP, both of which measured performance against underlying EPS.

This has resulted in the Committee proposing to introduce the Bonus Banking Plan which if approved by shareholders will replace the Company's current Annual Bonus plan, DAB Plan and matching share arrangements.

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 opportunity available is based on the seniority and responsibility of the role. Participation in the PSP is available to Executive Directors; senior managers and selected employees throughout the organisation are also invited to participate.

Illustrations of application of Remuneration Policy

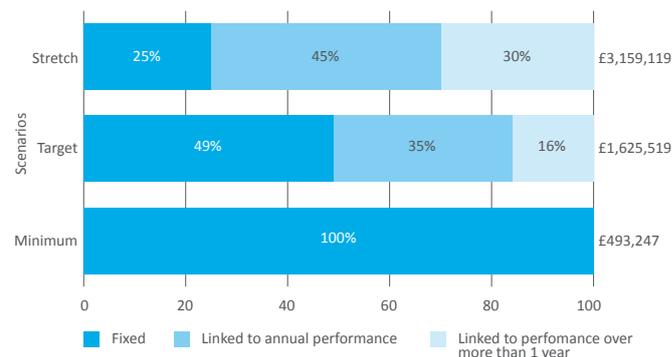
The tables below are for illustrative purposes and represent the minimum, target and maximum remuneration opportunity for both the CEO and CFO based on the following assumptions:

Fixed Pay: Estimated base salary for the year ending 31 March 2015 plus car allowance plus pension contribution.

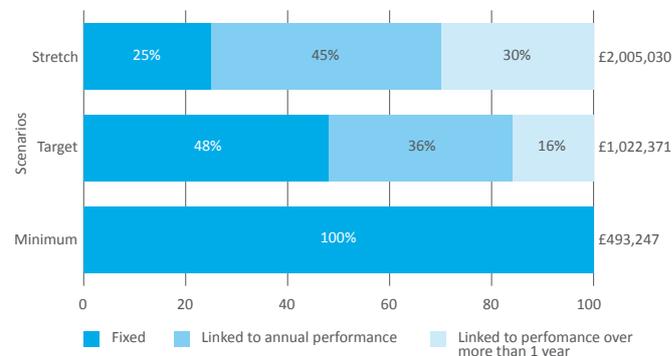
Remuneration linked to annual performance: 40% of maximum opportunity will pay out at target performance and 100% at stretch performance.

Remuneration linked to long-term performance: 27.5% of maximum opportunity will pay out at target performance and 100% at stretch performance.

The table below sets out the potential remuneration for the CEO at minimum, target and stretch performance levels:



The table below sets out the potential remuneration for the CFO at minimum, target and stretch performance levels:



Approach to recruitment remuneration

When recruiting Executive Directors, the Committee applies the following recruitment philosophy:

Components	Policy
General	The Committee's approach to recruitment remuneration is to pay competitively to attract the appropriate high calibre candidate to the role. We expect that the pay of any new recruit would be assessed following the same principles as for the Executive Directors.
Base salary and benefits	The base salary will be set taking into account the responsibilities of the individual and the salaries paid to similar roles in comparable companies as per our base salary policy. The Executive Director will be eligible to receive benefits in line with QinetiQ's benefits policy as set out in the policy table.
Pension	The Executive Director will be eligible to receive pension benefits in line with QinetiQ's Pension Policy as set out in the policy table.
Bonus Banking Plan	The Executive Director will be eligible to participate in the Bonus Banking Plan to the declared maximum potential as set out in the policy table.
Long Term Incentives	The Executive Director will be eligible to participate in the LTIPs to the declared maximum potential as set out in the policy table.
Share buy-outs/ replacement awards	Awards may be granted to replace those forfeited by the Executive Director on taking up the appointment where considered by the Committee to be appropriate. The Committee will seek to structure any replacement awards such that overall they are no more generous in terms of quantum or vesting period than the awards due to be forfeited. In determining quantum and structure of these commitments, the Committee will seek to replicate the fair value and, as far as practicable, the timing and performance requirements of remuneration foregone.
Sign-on payments/ recruitment awards	The Committee's policy is not to provide sign-on compensation. However, in exceptional circumstances where the Committee decides to provide this type of compensation it will endeavour to provide the compensation in equity, subject to a holding period during which cessation of employment will generally result in forfeiture and subject to the satisfaction of performance targets. In addition, where practical the Committee will endeavour to consult with its key shareholders prior to entering into any commitment. The maximum value of this one-off compensation will be proportionate to the overall remuneration offered by the Company and in all circumstances is limited to 150% of salary which will only be provided in exceptional circumstances.
Relocation policies	In instances where the new Executive Director is required to relocate or spend significant time away from their normal residence, the Company may provide one-off compensation to reflect the cost of relocation for the Executive Director. The level of the relocation package will be assessed on a case by case basis but will take into consideration any cost of living differences/housing allowance and schooling.

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

Service contracts

Copies of Directors' service contracts and letters of appointment are available for inspection at the Company's registered office, and available at the AGM.

Executive Directors' service agreements are of indefinite duration, terminable at any time by either party giving 12 month prior notice. It is the Company's policy not to provide notice periods greater than 12 months.

Under each of the Executive Directors' service agreements, QinetiQ has the right to make a payment in lieu of notice of termination, the amount of that payment being base salary and benefits that would have accrued to the Executive Director during the contractual notice period. In addition, the Committee reserves the right to allow continued participation in the annual bonus during the notice period provided that the individual is being required to work their notice period. It should be noted that the Company expects Executive Directors to mitigate.

Non-executive Directors' letters of appointment are renewed on a rolling 12-month basis subject to reappointment at the AGM. There are no provisions for compensation on early termination.

Directors' Remuneration report continued

Policy on payment for loss of office

When considering compensation for loss of office, the Committee will always seek to minimise the cost to the Company whilst applying the following philosophy:

Components	Policy
General	The Committee will honour Executive Directors' contractual entitlements. Service contracts do not contain liquidated damages clauses. If a contract is to be terminated, the Committee will determine such mitigation as it considers fair and reasonable in each case. There are no contractual arrangements that would guarantee a pension with limited or no abatement on severance or early retirement. There is no agreement between the Company and its Directors or employees, providing for compensation for loss of office or employment that occurs because of a takeover bid. 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.
Base salary and benefits	In the event of termination instigated by either the Company or Executive Director, the Executive Director may be entitled to receive compensation equivalent to salary and benefits they would have received if still in employment for their 12-month notice period.
Pension	In the event of termination instigated by either the Company or Executive Director, the Executive Director may be entitled to receive compensation equivalent to their Company pension contributions, or cash allowance, they would have received if still in employment for their 12-month notice period.
Bonus Banking	<p>In the event of termination instigated by either the Company or Executive Director, the Executive Director may be considered a good leaver and accrue service under the Bonus Banking Plan until the date they cease to hold employment if their reason for ceasing to hold employment is for the following reasons:</p> <ul style="list-style-type: none"> • death; • injury, ill-health or disability; • redundancy; • retirement with the Board's agreement; • the employing Company ceasing to be a member of the Group; • the business or part of the business to which the Participant's employment relates is transferred to a person who is not a member of the Group; or • any other reason (other than for dishonesty, fraud, misconduct, or any other circumstances justifying summary dismissal) as the Committee in its absolute discretion so permits in any particular case. The Committee will only use its general discretion to determine that an Executive Director is a good leaver in exceptional circumstances and will provide a full explanation to shareholders, if possible in advance, of the basis for its determination. <p>In addition, all balances in the participants' plan account will be paid.</p> <p>In normal good leaver circumstances, the bonus will be based on the normal performance period and paid on the normal payment date. However, the Board has discretion to accelerate the payment of bonus to an earlier date, subject to satisfaction of the performance conditions at that time.</p> <p>In the event that an Executive director is not a good leaver they will have no entitlement to a payment under the plan for the year of their cessation of employment and all balances in their plans will be forfeited.</p>

Components	Policy
Long Term Incentives (including matching awards under the DAB)	<p>An award which has not vested will lapse on the date the participant ceases to hold employment unless the reason for ceasing to hold employment is for one of the following reasons:</p> <ul style="list-style-type: none"> • death; • injury, ill-health or disability; • redundancy; • retirement with the agreement of the employing Company; It is the Committees Policy time; • the employing Company ceasing to be a member of the Group; • the business or part of the business to which the Participant's employment relates is transferred to a person who is not a member of the Group; or • any other reason (other than for dishonesty, fraud, misconduct, or any other circumstances justifying summary dismissal) as the Remuneration Committee in its absolute discretion so permits in any particular case. <p>The Committee will only use its general discretion to determine that an Executive Director is a good leaver in exceptional circumstances and provide a full explanation to shareholders, if possible in advance, of the basis for determination.</p> <p>Awards vest on the normal vesting date, subject to the performance conditions being satisfied. However, the Committee has discretion to accelerate the vesting of awards to an earlier date, subject to satisfaction of the performance conditions at that time. In either case, unless the Committee decides otherwise, awards are pro-rated to reflect the period in which the participant was not employed during the performance period.</p> <p>The Committee reserves the right to pay cash in lieu of shares if deemed appropriate.</p>

Directors' Remuneration report continued

Policy for Non-executive Directors

The Remuneration Policy for Non-executive Directors is summarised in the table below:

Component	Purpose & link to strategy
Fees	To attract and retain Non-executive Directors of the calibre required to assist the Company in setting and delivering its strategy.

Other Remuneration Committee discretions

Under the various reward plans, the Committee may apply its discretion in the event of the following:

- variation of the share capital of the Company;
- demerger or disposal of a substantial part of the Group's business;
- significant acquisition or disposal;
- change of control of the Company.

Bonus Banking Plan

The Participant will receive an award in cash immediately prior to the date of the change of control (and conditional on the change of control actually occurring) based on the level of satisfaction of the performance conditions at this date pro-rated to the amount of the Plan Year completed on the change of control subject to the Committee's discretion to waive or partially waive pro-rating. It is the Committee's policy in normal circumstances to pro-rate to time; however, in exceptional circumstances where the nature of the transaction produces exceptional value for shareholders and provided the performance targets are met, the Committee will consider whether pro-rating is equitable. All balances in Participants' Plan Accounts will vest in full on a change of control.

Performance Share Plan

In the event of a change of control of the Company it is the Committee's normal expectation that any outstanding awards will vest subject to the satisfaction of the Performance Targets and pro-rated to time. However, in exceptional circumstances, the Committee will consider whether pro-rating is equitable particularly where the nature of the transaction produces exceptional value for shareholders and, provided the Performance Targets are met, may waive some or the entire pro-rating requirement.

Alternatively in the event of a change of control of the Company any outstanding allocations shall, with the Remuneration Committee's consent, continue to subsist, but subject to such adjustments to the performance target as the Remuneration Committee shall determine.

The Committee may make adjustments to awards as it may determine to be appropriate under the DAB plan, Bonus Banking Plan and PSP, in accordance with the plan rules.

The Committee has discretion in several areas of policy as set out in this report. The Committee may also exercise operational and administrative discretions under relevant plan rules approved by shareholders as set out in those rules. In addition, the Committee has the discretion to amend 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. It is the Committee's intention that commitments made in line with its policies prior to the date of the 2014 AGM will be honoured, even if satisfaction of such commitments is made post the AGM and may be inconsistent with the remuneration policies.

Consideration of employment conditions elsewhere in the Group

The Committee gains an overview of the reward and retention of the whole employee population annually when the Human Resources Director is invited to present on the proposals for salary increase for the employee population generally, and on any other changes to Remuneration Policy within the Group. The information presented is taken into consideration when setting the pay levels of the Executive population.

The Committee also oversees arrangements for share-based reward in respect of managers and the wider workforce.

Operation

The Group Chairman reviews annually the fees of the Non-executive Directors, other than the Group Chairman's, and makes recommendations to the Board.

The Senior Independent Non-executive Director reviews the Group Chairman's fees and makes recommendations to the Board.

Non-executive Directors are paid a basic fee plus additional fees for chairing committees to take account of the additional responsibilities of the role.

Fees are neither performance-related nor pensionable. Non-executive Directors are not eligible to participate in bonus, profit sharing or employee share schemes.

Excluding the Group Chairman, an additional fee is payable to those Non-executive Directors attending meetings outside of their country of residence.

All Non-executive Directors are reimbursed for any travel and other business expenses incurred.

An annual accommodation allowance may be payable to the Group Chairman and as deemed appropriate for individuals who are not UK resident.

Maximum

Non-executive Director fee policy aims to pay at median level, when considering the same comparator group used for Executive Directors, and increases will generally be in line with that of employees.

Remuneration of employees in QinetiQ North America (QNA) is governed, according to the Proxy agreement, by their Compensation Committee. The chairs of the QNA Compensation and QinetiQ Group plc Remuneration Committee meet on a regular basis to exchange information. In addition the Remuneration Committee receive quarterly reporting on the QNA senior leaders' remuneration and any material changes.

Employee plans

The Share Incentive Plan is operated in the UK and Australia in the form of a share purchase award with a matching Company contribution to encourage employee ownership and engagement in the business.

Executive plans

In addition to the VSP and PSP, the Group operates the following executive share plans:

- QinetiQ Share Option Scheme (QSOS) – This plan expired in 2013
- Stock Award Plan – Restricted Stock Units (RSU) – RSU awards are allocated in QNA to retain and motivate senior managers. The RSU awards vest in four equal tranches over a four-year period. Grants are subject to a vesting schedule which is 50% time-based and 50% based on the achievement of profit growth targets.

Awards are granted based on business performance, balanced with the need to attract, retain and motivate high calibre employees.

Executive Directors do not participate in the two plans above.

The Company does not invite employees to comment on the Directors' Remuneration Policy. The Company does not use remuneration comparison measurements.

Consideration of shareholder views

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

The Committee consulted with its principal shareholders in relation to the proposal to introduce the 2014 Bonus Banking Plan and took into account views expressed during the consultation when agreeing the final design. The Remuneration Committee is grateful for shareholders' comments and engagement during the consultation process. At the end of this process, the Remuneration Committee was pleased that the majority of the shareholders consulted expressed support for the Bonus Banking Plan.