Sir John Chisholm
Chairman

QinetiQ

19th July 2007

Mr Chris Hodge
Corporate Governance Unit
Financial Reporting Council
Fifth Floor, Aldwych House
71-91 Aldwych
London WC2B 4HN

Dear Mr Hodge

FRC – Review of the Impact of the Combined Code

I refer to Sir Christopher Hogg's letter of 18 April 2007 which invited views on the content of the Combined Code consultation paper recently published by the FRC.

As you are no doubt aware, QinetiQ is now in its second year of reporting as a publicly listed company, following the company's IPO in February 2006, although we have used the Combined Code as a guide in the development of our corporate governance ever since QinetiQ's formation in 2001. Given that, as an organisation, we have had over six years experience of operating under the Combined Code, we believe that we are well placed to respond to your consultation paper on the impact and effectiveness of the Code.

Dealing with each of the issues raised in the review paper in turn:-

1. We believe that the Code does indeed support better board performance over time. This year, QinetiQ conducted its first board evaluation process, which was well received by the board, both as a process and in terms of the overall results of the exercise. The definitive guidance in the Code in areas such as board composition has caused us some difficulties but we welcome the flexibility afforded in other areas (eg demonstrating a sound system of internal control) which enhances the ability of the board to act as a cohesive unit and thereby delivers improved board performance.

2. We consider that in the same way that no two companies are identical in terms of business strategy, it follows that no two companies should be compelled to discharge their corporate governance in an identical manner. We believe that the "comply or explain" regime addresses this issue by providing listed companies with an effective framework to communicate governance issues with investors/key stakeholders, but without having to resort to an overly

formulaic (or "box ticking") approach. That having been said, we are also of the view that on occasion, there has been a tendency for investors/stakeholders to fail to analyse the substance of the explanation we have provided in cases of non-adherence with the terms of the Code, and resort to an automatic default position – namely that the company is non-compliant in that area. This is particularly true for companies such as ours which fall outside the FTSE 100. I have suggested on other occasions that organisations such as PIRC who provide advice to investors be monitored themselves on their record of departing from straight box ticking advice.

3. Although we have no firm evidence on the point, we believe it is safe to assume that the cost to QinetiQ of complying with the Code is proportionately higher than for larger companies. That having been said, we regard the compliance cost as necessary investment for building a long term relationship with investors and other key stakehoiders in our business.

4. We believe that the Combined Code disclosures in the annual report generally provide useful information to investors, which would not otherwise be available to them. It is clear that the level of regulation in terms of the content of the annual report has increased significantly in recent years – however, the Code has not been the only major contributor to this increasing disclosure requirement. We would comment, however, that over proscriptive requirements can lead to less useful information but circumscribing a management's ability to describe the state of the company in the most appropriate way.

If you would like to discuss any of the issues I have raised in this letter further, please do not hesitate to contact me.

Yours sincerely,

Sir John Chisholm

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