

QinetiQ Holdings Limited (formerly QinetiQ Group plc)

(Registered Number: 4154556)

Directors' report and
financial statements
for the year ended 31 March 2006



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QinetiQ Holdings Limited (formerly QinetiQ Group plc)

Directors' report

The Directors present their report and the audited financial statements for the year ended 31 March 2006.

Principal Activity

The company's principal activity is to act as a holding company.

Business Review

The profit on ordinary activities before taxation was £4.3m (2005: £27.7m). On 8 December 2005 the company changed its name from QinetiQ Group plc to QinetiQ Holdings Limited and the company re-registered as a limited company rather than a public limited company. On 15 February 2006 QinetiQ Group plc (the "Group") successfully listed on the London Stock Exchange.

Research and development

The company's principal activity is that of a holding company and had no research and development activity in the year (2005: £nil).

Dividend

An interim dividend of £95,000,000 (2005: £27,000,000) was declared on 15 December 2005. The Directors do not recommend the payment of a final dividend in respect of the period ended 31 March 2006 (2005: £nil).

Directors and Directors' interests

The Directors who held office during the year were as follows:

Sir John Chisholm	
Graham Love	
Hal Kruth	resigned 12 September 2005
Doug Webb	appointed 12 September 2005
Dame Pauline Neville-Jones	(non-executive) resigned 12 September 2005
Colin Balmer	(non-executive) resigned 18 January 2006
Sir Denys Henderson	(non-executive) resigned 12 September 2005
Glenn Youngkin	(non-executive) resigned 18 January 2006
Trevor Woolley	(non-executive) resigned 18 January 2006
Nick Luff	(non-executive) resigned 18 January 2006
Peter Fellner	(non-executive) resigned 18 January 2006
Noreen Doyle	(non-executive) resigned 18 January 2006
Richard Gillingwater	(non-executive) appointed 1 August 2005 and resigned 18 January 2006
Sir David Lees	(non-executive) appointed 1 August 2005 and resigned 18 January 2006

None of the Directors who held office at the end of the financial year had any disclosable interest in the shares of the company or any other subsidiary of QinetiQ Group plc (the immediate parent undertaking). No rights to subscribe for shares in or debentures of the company were granted to any of the Directors or their immediate families, or exercised by them, during the year. The interests of the Directors in the shares of QinetiQ Group plc (the ultimate parent undertaking) are disclosed in the accounts of that company.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that as far as they are each aware there is no relevant audit information of which the company's auditors are unaware; and each director has taken all steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

QinetiQ Holdings Limited (formerly QinetiQ Group plc)

Directors' report (continued)

Employees

There were no persons employed by the company (including Directors) during the year (2005: nil)

Environment

The company strives to manage its' business in line with the voluntary international environmental management standard BS EN ISO14001:1996 and is committed to compliance with environmental legislation to prevent pollution and to maximise environmental efficiency.

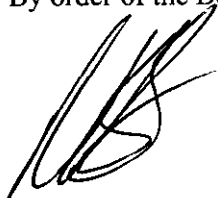
Political and charitable contributions

The company made no political contributions during the year or in the prior year. Donations to UK charities amounted to £nil (2005: £nil).

Auditor

In accordance with Section 385 of the Companies Act 1985, a resolution to re-appoint KPMG Audit Plc as auditor of the company is to be proposed at the forthcoming annual general meeting.

By order of the Board



Doug Webb

Director

85 Buckingham Gate

London SW1E 6PD

14 August 2006

QinetiQ Holdings Limited (formerly QinetiQ Group plc)

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report to the members of QinetiQ Holdings Limited

We have audited the financial statements of QinetiQ Holdings Limited for the year ended 31 March 2006, which comprise the Profit & Loss account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions that we have formed.

Respective responsibilities of Directors and auditors

As described in the Statement of Directors' responsibilities on page 3, the company's Directors are responsible for the preparation of financial statements in accordance with applicable UK law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' report is consistent with the financial statements. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the company is not disclosed. We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in The Directors' report is consistent with the financial statements.


KPMG Audit Plc

Chartered Accountants

Registered Auditor

8 Salisbury Square

London EC4Y 8BB

United Kingdom

14 August 2006

QinetiQ Holdings Limited (formerly QinetiQ Group plc)

Profit & loss account

For the year ended 31 March

	Notes	2006 £m	2005 £m
Operating expenses		(1.5)	(0.5)
Operating loss	2	(1.5)	(0.5)
Profit on disposal of fixed assets	3	-	3.7
(Loss)/profit on ordinary activities before interest and taxation		(1.5)	3.2
Net interest receivable and other similar charges	4	5.8	7.0
Dividends receivable	6	-	17.5
Profit on ordinary activities before taxation		4.3	27.7
Tax on profit on ordinary activities	5	-	-
Retained profit attributable to ordinary shareholders		4.3	27.7

All operations are continuing.

There is no difference between the profit for the year and that prepared on an historic cost basis.

The notes on pages 8 to 12 form an integral part of these financial statements.

QinetiQ Holdings Limited (formerly QinetiQ Group plc)

Balance Sheet as at 31 March

	Notes	2006 £m	2005 £m
Fixed assets			
Investment in subsidiary undertakings	8	204.5	205.5
		204.5	205.5
Current assets			
Debtors	9	219.2	137.6
Current asset investments	10	3.1	3.6
Cash at bank and in hand		0.1	-
		222.4	141.2
Creditors: amounts falling due within one year	11	(171.0)	(0.1)
Net current assets		51.4	141.1
Net assets		255.9	346.6
Capital and reserves			
Called up share capital	12	0.1	345.8
Profit and loss account	13	255.8	0.8
Equity shareholders' funds		255.9	346.6

The accounting policies and notes on pages 8 to 12 form an integral part of these financial statements.

The financial statements on pages 5 to 12 were approved by the Board of Directors on 14 August 2006 and signed on its behalf by:



Graham Love
Director



Doug Webb
Director

QinetiQ Holdings Limited (formerly QinetiQ Group plc)

Statement of total recognised gains and losses For the year ended 31 March

	2006	2005
	£m	£m
Profit for the year	4.3	27.7
Dividends paid	(95.0)	(27.0)
Total recognised (losses)/gains for the year	(90.7)	0.7

Reconciliation of movements in equity shareholders' funds For the year ended 31 March

	2006	2005
	£m	£m
Equity shareholders' funds at 1 April	346.6	345.9
Profit for the year	4.3	27.7
Dividends paid	(95.0)	(27.0)
Equity shareholders' funds at 31 March	255.9	346.6

QinetiQ Holdings Limited (formerly QinetiQ Group plc)

Notes to the financial statements

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements except as noted below.

In these financial statements the following new standards have been adopted for the first time;

- FRS 21 'Events after the balance sheet date';
- FRS 28 'Corresponding amounts'

The accounting policies under these new standards are set out below with an indication of the effects of their adoption. FRS 28 'Corresponding amounts' has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.

Basis of preparation

The financial statements have been prepared in accordance with applicable UK Accounting Standards (UK Generally Accepted Accounting Practice) and under the historical cost convention rules.

The company is exempt by virtue of S.228 of the Companies Act 1985 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about it as a group.

Under FRS1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

Related party disclosures

As the company is a wholly owned subsidiary of QinetiQ Group plc the company has taken the advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of QinetiQ Group plc, within which this company is included, can be obtained from the address given in note 15.

Investments

In the company's financial statements, investments in subsidiary undertakings, associates and joint ventures are stated at cost less any impairment in value.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction and gains and losses on translation are included in the profit and loss account. If designated forward foreign exchange hedging contracts have been entered into, gains and losses are matched against the foreign exchange movements on the underlying transaction.

Taxation

The taxation charge is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is provided, without discounting, in respect of all timing differences that have arisen but not reversed by the balance sheet date. Deferred tax assets are only provided to the extent that they are regarded as recoverable.

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements

QinetiQ Holdings Limited (formerly QinetiQ Group plc)

Notes to the financial statements

2. Operating loss

The operating loss is stated after charging

	2006	2005
	£	£
Auditors remuneration: audit	5,000	5,000

3. Profit on disposal of fixed assets

	2006	2005
	£m	£m
Profit on disposal of fixed assets	-	3.7

On 4th August 2004 the Company sold its interest in pSiMedica Limited to pSivida Limited for £4.7m. The consideration was settled by £0.5m in cash and £4.2m by way of the issue of new pSivida Limited shares (see note 10). The Company recorded a profit on disposal of £3.7m after an impairment of £0.6m.

4. Net interest payable and other similar charges

	2006	2005
	£m	£m
Net interest payable to fellow subsidiary undertakings	(1.0)	-
Net interest due from fellow subsidiary undertakings	6.8	7.0
	<u>5.8</u>	<u>7.0</u>

5. Taxation

(a) Analysis of charge in the year

	2006	2005
	£m	£m
Taxation on profit on ordinary activities	-	-

(b) Factors affecting the tax charge in the period

The principal factors reducing the Company's current year tax charge below the UK statutory rate are explained below:

	2006	2005
	£m	£m
Profit before tax	4.3	27.7
Tax on ordinary activities at 30%	1.3	8.3
Effect of:		
Exempt capital gain	-	(1.1)
Dividend from UK Group company	-	(5.3)
Group relief	(1.3)	(1.9)
UK corporation tax for the year	<u>-</u>	<u>-</u>

(c) Factors affecting future tax charges

It is anticipated that the Company will continue to benefit from a low effective tax rate in future years. The availability of research and development relief to other group companies will continue to be a major contributory factor in reducing the future tax charge.

QinetiQ Holdings Limited (formerly QinetiQ Group plc)

Notes to the financial statements (continued)

6. Dividends

On 15 December 2005 the Company paid dividends of £95.0m (2005: £27.0m) to its parent undertaking. The Directors do not recommend the payment of a final dividend (2005: £nil).

On 11 March 2005 the Company received dividends of £17.5m from its subsidiary undertakings QinetiQ Limited, Precis 2187 Limited, Precis 2188 Limited and QinetiQ Investments Limited.

7. Employee information

There were no persons employed by the Company (including Directors) during the year (2005: nil)

The directors received no remuneration for services for the company (2005: £nil). The Directors' remuneration in respect of the QinetiQ Group is disclosed in the annual report of QinetiQ Group plc.

8. Investments

Subsidiary undertakings

	£m
Net investment in subsidiary undertakings at 1 April 2005	205.5
Impairment on wind up of Motionbase Holdings Ltd	(1.0)
Net investment in subsidiary undertakings at 31 March 2006	204.5

The Company's investment in Motionbase Holdings Ltd was fully impaired in the year on wind up of Motionbase Holdings Ltd. The impairment has been recorded within operating expenses.

Name:	Country of incorporation	Proportion of voting rights held	Nature of business
Subsidiaries:			
Cuesim Limited	England & Wales	100.0%	Research and development
QinetiQ Employee Share Plans limited	England & Wales	100.0%	Share plan company
Trusted Experts Limited	England & Wales	100.0%	Research and development
QinetiQ Insurance PCC Limited	England & Wales	100.0%	Insurance company
QinetiQ Investments Limited	England & Wales	100.0%	Research and development
QinetiQ Limited	England & Wales	100.0%	Research and development
QinetiQ Nanomaterials Limited	England & Wales	100.0%	Research and development
QinetiQ Overseas Holdings Limited	England & Wales	100.0%	Holding company
QinetiQ Ventures Investments 1 SARL	England & Wales	100.0%	Holding company
QinetiQ Ventures Limited	England & Wales	100.0%	Holding company

9. Debtors

	2006 £m	2005 £m
Amounts owed by fellow subsidiary undertakings	219.2	120.1
Other debtors	-	17.5
	219.2	137.6

QinetiQ Holdings Limited (formerly QinetiQ Group plc)

Notes to the financial statements (continued)

10. Current asset investment

	2006 £m	2005 £m
Cost	4.2	4.2
Impairment	(1.1)	(0.6)
	<u>3.1</u>	<u>3.6</u>

At 31 March 2006 the Company held 10,053,203 (2005: 10,053,203) shares in pSivida Limited. The Company's carrying value of this investment was impaired by £0.5m during the year (2005: £0.6m) to reflect its market value at 31 March 2006 of A\$0.75 per share (2005: A\$0.88). The impairment has been recorded within operating expenses.

11. Creditors: amounts falling due within one year

	2006 £m	2005 £m
Bank overdrafts	20.7	-
Amount owed to fellow subsidiary undertakings	2.5	-
Amount owed to ultimate parent undertaking	147.7	-
Other creditors	0.1	0.1
	<u>171.0</u>	<u>0.1</u>

12. Share capital

Shares authorised, allotted, called up and fully paid

	31 March 2004 and 31 March 2005 £	Capital reduction £	31 March 2006 £	Number
Shares authorised				
Ordinary Shares of £1 each*	345,880,038	345,779,938	100,100	100,100
Special Share of £1	1	-	1	1
Total authorised share capital	345,880,039	345,779,938	100,101	100,101
Shares allotted, called up and fully paid				
Ordinary Shares of £1 each*	345,830,039	345,779,940	50,099	50,099
Special Share of £1	1	-	1	1
Total called up share capital	345,830,040	345,779,940	50,100	50,100

* Following a written resolution passed by the Company on 11 October 2005 the company cancelled and extinguished 345,779,940 Ordinary Shares on 9 November 2005 upon registration of the order of the High Court with the Registrar of Companies, at which date the balance of £345.7m on the account became a distributable reserve of the Company included within the profit and loss account.

Special share - The nature of the work performed by the Company is of strategic interest to the defence of the United Kingdom. As a result H.M. Government, acting through the MOD, retains ownership of the Special Share. The Special Share gives certain rights to the holder:

- to require the Company to implement and maintain the Compliance System (as defined in the Articles of Association) so as to make effective at all times the Company's application of the Compliance Principles, in a manner acceptable to the Special Shareholder;
- to refer matters to the Board or the Compliance Committee for its consideration in relation to the application of the Compliance Principles;

QinetiQ Holdings Limited (formerly QinetiQ Group plc)

Notes to the financial statements (continued)

- c) to veto any contract, transaction, arrangement or activity which the Special Shareholder considers,
- i) may result in circumstances which constitute unacceptable ownership, influence or control over the Company contrary to the defence or security interests of the United Kingdom, or
 - ii) would not, or does not, ensure the effective application of the Compliance Principles or would be or is otherwise contrary to the defence or security interests of the United Kingdom;
- d) to require the Board to take any action (including but not limited to amending the Compliance Principles or Compliance Guidelines), or rectify any omission in the application of the Compliance Principles, if the Special Shareholder is of the opinion that such steps are necessary to protect the defence or security interests of the United Kingdom;
- e) to demand a poll at any of the Company's meetings (even though it has no voting rights except those given to it as a Special Shareholder).

The Special Shareholder has an option to purchase defined Strategic Assets of the Company. The Special Shareholder has the right to purchase any defined Strategic Assets which the Company wishes to sell. Strategic Assets are normally testing and research facilities.

The Special Share may only be issued to, held by and transferred to H.M. Government (or as it directs). At any time the Special Shareholder may require the Company to redeem the Special Share at par.

The Special Shareholder must give consent to a general meeting held on short notice.

13. Profit and loss account

	2006	2005
	£m	£m
At 1 April	0.8	0.1
Profit for the year	4.3	27.7
Dividends paid	(95.0)	(27.0)
Capital restructuring	345.7	-
At 31 March	255.8	0.8

During the year the company undertook a capital restructuring resulting in a credit to the Profit and Loss account of £345.7m (see note 12).

14. Change of company name

On 8 December 2005 the company changed its name from QinetiQ Group plc to QinetiQ Holdings Limited. On the same day QinetiQ Holdings limited, the ultimate parent undertaking of the Group, changed its name to QinetiQ Group plc.

15. Parent undertaking

The ultimate parent undertaking is QinetiQ Group plc a company registered in England and Wales. The Financial Statements of QinetiQ Holdings Limited are consolidated in the Financial Statements of QinetiQ Group plc. Copies of the consolidated Financial Statements of QinetiQ Group plc are available from the Secretary, QinetiQ Group plc, Cody Technology Park, Ively Road, Farnborough, Hampshire, GU14 0LX.