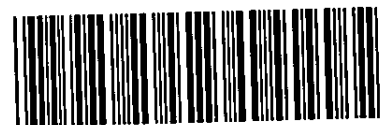


QinetiQ Holdings Limited

(Registered Number: 4154556)

Directors' report and
financial statements
for the year ended 31 March 2008

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QinetiQ Holdings Limited

Directors' report

The Director's present their directors' report and the financial statements for the year ended 31 March 2008.

Principal Activity

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

Business Review

The loss on ordinary activities before taxation was £7.6m (2007: profit £0.7m).

Research and development

The company had no research and development activity in the year (2007: £nil).

Dividend

On 26 March 2008 the company paid dividends of £40.0m (2007: £25.6m) to its parent undertaking. The Director's do not recommend the payment of a final dividend (2007: £nil).

Directors and Directors' interests

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

Graham Love

Doug Webb (resigned 30.5.2008)

Lynton Boardman (appointed 1.8.2008)

Employees

There were no persons employed by the company (including Directors) during the year (2007: nil).

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 (2007: £nil).

Disclosure of information to auditors

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

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



Lynton Boardman

Company Secretary

85 Buckingham Gate

London SW1E 6PD

19 November 2008

Deember

QinetiQ Holdings Limited

Statement of Directors' responsibilities in respect of the Directors' report and the financial statements

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 and applicable law (UK Generally Accepted Accounting Practice).

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 UK 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.

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 2008, which comprise the Profit & Loss account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Equity Shareholders' Funds 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

The Director's responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 2.

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. In addition we 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 2008 and of its loss 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

KPMG Audit Plc

Chartered Accountants

Registered Auditor

8 Salisbury Square

London EC4Y 8BB

United Kingdom

~~November 2008~~

19 December 2008

QinetiQ Holdings Limited

Profit & loss account

For the year ended 31 March

	Notes	2008 £m	2007 £m
Operating expenses		(0.9)	(2.0)
Operating loss	3	(0.9)	(2.0)
Loss on disposal of fixed assets	4	(7.2)	-
(Loss) / profit on ordinary activities before interest and taxation		(8.1)	(2.0)
Net interest receivable	5	0.5	2.7
(Loss) / profit on ordinary activities before taxation		(7.6)	0.7
Tax on (loss) / profit on ordinary activities	6	-	-
Retained (loss) / profit for the financial year		(7.6)	0.7

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 7 to 11 form an integral part of these financial statements.

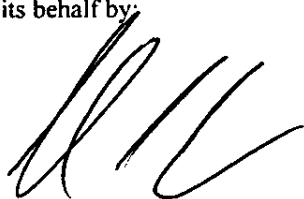
QinetiQ Holdings Limited

Balance Sheet as at 31 March

	Notes	2008 £m	2007 £m
Fixed assets			
Investment in subsidiary undertakings	8	222.0	204.5
Investment in joint ventures	8	45.9	-
		267.9	204.5
Current assets			
Debtors	9	168.2	210.4
Current asset investments	10	0.3	1.1
Cash at bank and in hand		-	0.1
		168.5	211.6
Creditors: amounts falling due within one year	11	(253.0)	(185.1)
Net current (liabilities)/assets		(84.5)	26.5
Net assets		183.4	231.0
Capital and reserves			
Called up share capital	12	0.1	0.1
Profit and loss account	13	183.3	230.9
Equity shareholders' funds		183.4	231.0

The accounting policies and notes on pages 7 to 11 form an integral part of these financial statements.

The financial statements on pages 4 to 11 were approved by the Board of Directors on 19 November 2008 and signed on its behalf by:



Graham Love
Director

QinetiQ Holdings Limited

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

	2008	2007
	£m	£m
(Loss)/profit for the year	(7.6)	0.7
Dividends paid	(40.0)	(25.6)
Total recognised losses for the year	(47.6)	(24.9)

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

	2008	2007
	£m	£m
Equity shareholders' funds at 1 April	231.0	255.9
(Loss)/profit for the year	(7.6)	0.7
Dividends paid	(40.0)	(25.6)
Equity shareholders' funds at 31 March	183.4	231.0

QinetiQ Holdings Limited

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.

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 accounting 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 14.

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

Notes to the financial statements

2. Directors and employees

None of the Directors received any emoluments from the company for their services during the year (2007: £nil). The company has no employees (2007: none)

3. Loss on ordinary activities before taxation

The company incurred an audit charge of £15,000 (2007: £15,000), paid by another group subsidiary.

4. Loss on disposal

	2008 £m	2007 £m
Loss on disposal of investments	(7.2)	-
	<u>(7.2)</u>	<u>-</u>

In August 2007 QinetiQ Holdings Limited disposed of its subsidiaries QinetiQ Nanomaterials Limited and QinetiQ Ventures Limited to QinetiQ Venture LP, a fund in which QinetiQ Holdings Limited owns a 50% stake with Coller Capital Limited. At this time QinetiQ Holdings Limited also acquired from QinetiQ Limited Omni-ID limited, Aurix Limited, ZBD Displays Limited, Stingray Geophysical Limited (investment) and Metalysis Limited (investment) and also sold these to QinetiQ Ventures LP. A loss of £7.2m arose on these transactions.

5. Net interest receivable and other similar income / (charges)

	2008 £m	2007 £m
Net interest payable to subsidiary undertakings	(13.4)	(9.1)
Net interest due from subsidiary undertakings	13.9	11.8
	<u>0.5</u>	<u>2.7</u>

6. Taxation

(a) Analysis of charge in the year

	2008 £m	2007 £m
Taxation on (loss) / 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:

	2008 £m	2007 £m
(Loss) / profit before tax	(7.6)	0.7
Tax on ordinary activities at 30%	(2.3)	0.2
Effect of:		
Expenses not deductible for tax purposes	2.4	-
Depreciation in excess of capital allowances	0.2	-
Group relief surrendered for nil consideration	(0.3)	(0.2)
UK corporation tax for the year	<u>-</u>	<u>-</u>

QinetiQ Holdings Limited

Notes to the financial statements (continued)

(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.

7. Dividends

On 26 March 2008 the company paid dividends of £40.0m (2007: £25.6m) to its parent undertaking. The Directors do not recommend the payment of a final dividend (2007: £nil).

8. Investments in subsidiaries and joint ventures

Investment in subsidiary undertakings

	£m
At 1 April 2007	204.5
Addition in year	17.5
At 31 March 2008	222.0

The addition in the year relates to the investment in Boldon James Holdings Limited.

Investment in joint ventures

	£m
At 1 April 2007	-
Addition in year	40.0
Non cash addition	2.6
Cash investment in year	3.3
At 31 March 2008	45.9

The addition in August 2007 relates to the investment in QinetiQ Ventures LP, a 50% joint venture with Collier Capital valued at £40.0m, with subsequent cash investment of £3.3m in the balance of the year and a £2.6m non cash addition reflecting an unequal cash distribution from the fund to one of the equity partners to refund funding made prior to the establishment of the fund.

Name:	Country of incorporation	Proportion of voting rights held	Nature of business
Subsidiaries:			
Boldon James Holdings Limited	England & Wales	100.0%	Research and development
Cuesim Limited	England & Wales	100.0%	Research and development
QinetiQ Employee Share Plans Limited	England & Wales	100.0%	Share plan company
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 Overseas Holdings Limited	England & Wales	100.0%	Holding company
QinetiQ Overseas Trading Limited	England & Wales	100.0%	Research and development
Trusted Experts Limited	England & Wales	100.0%	Research and development
Joint venture investments			
QinetiQ Ventures LP (a)	England & Wales	50.0%	Research and development
Other investments			
pSivida Limited (b)	Australia	1.4%	Research and development

(a) Joint venture held with Collier Capital

(b) An additional 3.5% is held by QinetiQ Limited

QinetiQ Holdings Limited

Notes to the financial statements (continued)

9. Debtors

	2008 £m	2007 £m
Amounts owed by subsidiary undertakings	168.2	210.4
	168.2	210.4

10. Current asset investment

	2008 £m	2007 £m
Cost	1.1	4.2
Impairment	(0.8)	(3.1)
	0.3	1.1

At 31 March 2008 the company held 10,053,203 (2007: 10,053,203) shares in pSivida Limited. The company's carrying value of this investment was impaired by £0.8m during the year (2007: £3.1m) to reflect its market value at 31 March 2008 of A\$0.08 per share (2007: A\$0.27). The impairment has been recorded within operating expenses.

11. Creditors: amounts falling due within one year

	2008 £m	2007 £m
Bank overdraft	10.3	-
Amount owed to subsidiary undertakings	3.2	3.0
Amount owed to ultimate parent undertaking	235.2	182.0
Other creditors	4.3	0.1
	253.0	185.1

12. Share capital

Shares authorised, allotted, called up and fully paid

	£	Number
Shares authorised		
Ordinary Shares of £1 each*	100,100	100,100
Special Share of £1	1	1
Total authorised share capital at 31 March 2008 and 2007	100,101	100,101
Shares allotted, called up and fully paid		
Ordinary Shares of £1 each	50,099	50,099
Special Share of £1	1	1
Total called up share capital at 31 March 2008 and 2007	50,100	50,100

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

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

	2008	2007
	£m	£m
At 1 April	230.9	255.8
(Loss)/ profit for the year	(7.6)	0.7
Dividends paid	(40.0)	(25.6)
At 31 March	183.3	230.9

14 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 Company Secretary, QinetiQ Group plc, Cody Technology Park, Ively Road, Farnborough, Hampshire, GU14 0LX.