[SIR JONATHAN RICHARD SYMONDS.(Feb. 02, 2003). Appointment of director, director of ASTRZENECA PLC, ASTRAZENECA UK LIMITED, ASTRAZENECA TREASURY LIMITED, ASTRAZENECA LIMITED, QinetiQ Holdings Limited, Co. No. 4586941, Form 288a. Companies House (UK).

Package: 'Laserform'
by Laserform International Ltd.

288a

APPOINTMENT of director or secretary

(NOT for resignation (use Form 288b) or change of particulars (use Form 288c))

Please complete in typescript, or in bold black capitals.

CHFP025

Company Number 04586941

Company Name in full QINETIQ HOLDINGS LIMITED

	Day	Month	Year		Day	Month	Year
Date of appointment	2 8	0 2	2 0 0 3	†Date of Birth	2 8	0 2	1 9 5 9

Appointment form

Appointment as director: X as secretary: [ ]

Please mark the appropriate box. If appointment is as a director and secretary mark both boxes.

Notes on completion appear on reverse.

NAME *Style / Title: MR *Honours etc:

Forename(s): JONATHAN RICHARD

Surname: SYMONDS

Previous Forename(s): Previous Surname(s):

Usual residential address †† FLAT 1, 15 STANHOPE GATE

†† Tick this box if the address shown is a service address for the beneficiary of a Confidentiality Order granted under the provisions of section 723B of the Companies Act 1985 ✓

Post town: LONDON Postcode: W1Y 5LB

County / Region: Country: ENGLAND

†Nationality: BRITISH †Business occupation: ACCOUNTANT

†Other directorships (additional space overleaf): ASTRAZENECA PLC, ASTRAZENECA UK LIMITED

I consent to act as ** director / secretary of the above named company

Consent signature [signature] **Date** 7-4-03

* Voluntary details.
† Directors only.
**Delete as appropriate

A director, secretary etc must sign the form below.

Signed [signature] **Date** 7-4-03

(** a ~~director~~ / secretary / ~~administrator / administrative receiver / receiver manager / receiver~~)

You do not have to give any contact information in the box opposite but if you do, it will help Companies House to contact you if there is a query on the form. The contact information that you give will be visible to searchers of the public record.

LYNTON BOARDMAN, QINETIQ LIMITED
85 BUCKINGHAM GATE, LONDON, SW1E 6PD
Doc No 1/935475

Tel
DX number DX exchange

When you have completed and signed the form please send it to the Registrar of Companies at:

panies House, Crown Way, Cardiff, CF14 3UZ DX 33050 Cardiff
mpanies registered in England and Wales **or**
panies House, 37 Castle Terrace, Edinburgh, EH1 2EB
mpanies registered in Scotland **DX 235 Edinburgh**

Compa

Laserfo

A02E2JZA
A43 0633
COMPANIES HOUSE 10/04/03

935475

Company Number 04586941

† Directors only.

†Other directorships

I.C. INSURANCE HOLDINGS LIMITED, ASTRAZENECA TREASURY LIMITED, ASTRAZENECA INVESTMENTS LIMITED, QINETIQ GROUP LIMITED

NOTES

Show the full forenames, NOT INITIALS. If the director or secretary is a corporation or Scottish firm, show the name on surname line and registered or principal office on the usual residential line.

Give previous forenames or surname(s) except:

- for a married woman, the name by which she was known before marriage need not be given.
- for names not used since the age of 18 or for at least 20 years

A peer or individual known by a title may state the title instead of or in addition to the forenames and surname and need not give the name by which that person was known before he or she adopted the title or succeeded to it.

Other directorships.

Give the name of every company incorporated in Great Britain of which the person concerned is a director or has been a director at any time in the past five years.

You may exclude a company which either is, or at all times during the past five years when the person concerned was a director, was

- dormant
- a parent company which wholly owned the company making the return, or
- another wholly owned subsidiary of the same parent company.

Blueprint 2000 Company Secretary

288b

Terminating appointment as director or secretary

(NOT for appointment (use Form 288a) or change of particulars (use Form 288c))

Please complete in typescript, or in bold black capitals.

CHFP010

Company Number 4586941

Company Name in full QINETIQ HOLDINGS LIMITED

	Day	Month	Year
Date of termination of appointment	3 0	0 6	2 0 0 4

as director [X] as secretary [ ]

Please mark the appropriate box. If terminating appointment as a director and secretary mark both boxes.

NAME * Style / Title: MR * Honours etc:

Please insert details as previously notified to Companies House.

Forename(s): JONATHAN RICHARD

Surname: SYMONDS

	Day	Month	Year
† Date of Birth	2 8	0 2	1 9 5 9

A serving ~~director~~, secretary etc must sign the form below.

Signed [signature] **Date** 30.6.04

* Voluntary details.
† Directors only.
** Delete as appropriate.

(** serving director/secretary/administrator/administrative receiver/receiver manager/receiver)

Please give the name, address, telephone number and, if available, a DX number and Exchange of the person Companies House should contact if there is any query.

COMPANY SECRETARIAT
CODY TECHNOLOGY PARK
IVELY ROAD
FARNBOROUGH
HANTS GU14 0LX

DX number DX exchange

A15 COMPANIES HOUSE 0191 09/07/04

When you have completed and signed the form please send it to the Registrar of Companies at:

Companies House, Crown Way, Cardiff, CF14 3UZ **DX 33050 Cardiff**
for companies registered in England and Wales
or
Companies House, 37 Castle Terrace, Edinburgh, EH1 2EB
for companies registered in Scotland **DX 235 Edinburgh**

4586941

QinetiQ Holdings Limited Report and Financial Statements 2004

companies house proof

28/06/2004

Stage Number: 033

ID Number: C11643

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IMPORTANT

Every care has been taken in the production of this proof. However, mistakes occasionally happen.

Please check all aspects of the proof thoroughly and return this proof with your comments.

THANK YOU

QinetiQ

REPORT AND FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2004

CONTENTS

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements for the year to 31 March 2004.

Principal activity
The Company's principal activity is as the holding company of QinetiQ Group plc. The Group's principal activity is the supply of scientific and technical services.

Business review
The profit on ordinary activities of the Group before tax was £51.3m (period ending 31 March 2003: £26.8m).

Research and development
The Group undertakes funded research and development for customers. The Group also invests in the commercialisation of promising technologies across all areas of its business.

Proposed dividend
The Directors do not recommend the payment of a dividend.

Market value of land and buildings
Surplus properties, some of which will remain in use by QinetiQ for a considerable time, are held at the lower of net book value and Directors' valuation. In the opinion of the Directors the market value of the surplus properties is in excess of the book value of these assets at 31 March 2004.

Policy and practice on payment of suppliers
The policy of the Group is to agree terms of payment prior to commencing trade with a supplier and to abide by those terms based on the timely submission of satisfactory invoices. At 31 March 2004 the trade creditors of the Group represented 33 days of annual purchases (2003: 35 days).

MOD compliance
The Articles of Association for QinetiQ require the company to ensure that it can remain an independent advisor to the MOD. The Company has processes in place that ensure independence is achieved by maintaining firewalls between those giving advice to the MOD and those supporting industry. Other processes ensure that the Company does not conduct any manufacturing operations for the UK defence supply chain without the express agreement of the MOD.

These processes are described in the MOD compliance regime, which has been in place since QinetiQ ceased to be a trading fund of MOD and was established as a separate legal entity ('vesting'). They balance the MOD's objective of ensuring the protection of the defence and security interests of the United Kingdom and QinetiQ's pursuit of commercial opportunities. The regime:

- covers the provision of impartial advice and objective support to the MOD

- requires QinetiQ to seek permission wherever a potential conflict of interest could arise, including placing restrictions on defence manufacturing

- protects confidential information by requiring appropriate security arrangements; and

- forms part of QinetiQ's internal governance processes and is closely supervised by a specially created committee of the Board.

REPORT OF THE DIRECTORS

Where QinetiQ acts both in support of MOD and as partner with industry on the same MOD project, firewall arrangements are rigorously implemented to ensure that the interests of all parties are protected and safeguarded. A substantive audit programme is also carried out during the year to ensure that the controls are indeed being operated; this audit returned a satisfactory opinion for the financial year in question.

During the year a total of 22 permissions were sought of the MOD under the compliance regime (compared with 37 the previous year) where potential conflicts of interest were identified by QinetiQ. Of these requests 13 were approved, three were not pursued and six were outstanding at the end of March 2004. None was refused. This compares with last year's requests when 24 were approved, five opportunities were not pursued and eight were outstanding of which all were subsequently approved except two that remain outstanding.

At the end of the year 28 firewalls were in place with four being established and three being closed down. Of the firewalls in existence at vesting, 12 are extant within the overall figure of 28.

No breaches of the MOD compliance regime have been noted during the year.

Statement of Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the Company and Group 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 Group 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 Group and to prevent and detect fraud and other irregularities.

Directors and Directors' interests

The Directors in office during the year and at the date of this report are listed in the Directors' remuneration report opposite.

Directors' interests

The interests of the Directors in office at 31 March 2004 in the shares of QHL, all of which were purchased on 28 February 2003 and remain unchanged at 8 June 2004, were as follows:

Executive Directors	D ordinary shares of £1	Convertible non-voting A ordinary shares of £1	Convertible non-voting B ordinary shares of £1	Redeemable cumulative preference shares of £1
Sir John Chisholm	129,500	920	80	9,000
Hal Kruth	69,375	–	–	–
Graham Love	106,375	920	80	9,000

Share Options

The Executive Directors, as detailed above, have all been granted 40 £1 B ordinary share options in QinetiQ Holdings Limited. These were granted on 25 July 2003. Options are exercisable at or after an exit (i.e. flotation of the company or a sale) and must be exercised before the tenth anniversary of the date granted. If an option is not exercised within the dates, it will lapse.

Directors' remuneration

The following information on Directors' remuneration and Directors' interests has been audited.

	Notes	Salary/Fees	Bonus (a)	Benefits (e)	Total 2004	Total 2003
Executive Directors						
Sir John Chisholm		295,000	151,319	20,222(f)	466,541	39,363
Hal Kruth		204,083(d)	100,000	11,913(g)	315,996	25,499
Graham Love		232,000	127,600	56,401(h)	416,001	32,947
Non-executive Directors						
Dame Pauline Neville-Jones		133,334	–	–	133,334	9,651
Sir Denys Henderson		34,167	–	–	34,167	2,301
Jonathan Symonds		34,167	–	–	34,167	2,500
Colin Balmer	(b)	–	–	–	–	–
Trevor Woolley	(b) (c)	–	–	–	–	–
Glenn Youngkin	(b)	–	–	–	–	–
		932,751	**378,919**	**88,536**	**1,400,206**	**112,261**

(a) Includes performance bonuses approved but not paid in the financial period
(b) Do not receive fees for Non-executive Director appointment
(c) Appointed 29 October 2003
(d) Includes payment of £4,083 for a salary increase that was backdated to 1 September 2002 and so formally applies to 2003 package
(e) Benefits apart from pensions
(f) Includes life insurance, health insurance premium and chauffeur benefits
(g) Payment covers life insurance, health insurance premium and tax return fees
(h) Includes cash car allowance of £10,000 and £46,401 in lieu of pension contribution

Disclosures in relation to defined contributions

Details of the contributions payable to the Sir John Chisholm Retirement Benefits Scheme, as required under Schedule 7A section 12 (3) of the Companies Act 1985 and LR12.43A (c)(x) of the FSA's Listing Rules, are shown below:
The company contribution payable in respect of the year to 31 March 2004 was £80,736. In addition, a contribution of £163,562 is also payable in respect of the period from 1 July 2001 to 31 March 2003.

Executive Directors	Additional accrued pension earned in the year (including inflation) £pa	Additional accrued lump sum earned in the year (including inflation) £pa	Accrued pension entitlement at 31 March 2004 £pa	Accrued lump sum entitlement at 31 March 2004 £	Transfer value at 31 March 2003 £	Transfer value at 31 March 2004 £	Increase in transfer value less Director's contributions £
Sir John Chisholm	1,362	4,086	3,631	10,893	44,480	74,916	24,051

Pension benefits accrued to two Executive Directors. The accrued pension benefit of the highest paid Director was £74,916 at March 2004.

REPORT OF THE DIRECTORS

Employees
The Group is an equal opportunities employer and upholds the principles of the Employment Service's 'Two Ticks' symbol. Every possible consideration is given to applications for employment, regardless of gender, religion, disability or ethnic origin, having regard only to skills and competencies. This policy is extended to existing employees and any change which may affect their personal circumstances. The policy is supported by strategies for professional and career development.

QinetiQ seeks to utilise a range of communication channels to employees in order to involve them in the running of the organisation. This is done using various media including an in-house magazine, intranet, regular newsletters, bulletins, management briefings, trade union consultation and widespread training programmes.

Environment
The Group strives to manage its business in line with the voluntary international environmental management standard ISO14001 and is committed to compliance with environmental legislation to prevent pollution and to maximise environmental efficiency.

Post-balance sheet events
Shareholders' attention is drawn to the following events which occurred since the 31 March 2004 and up to 8 June 2004:

1. The Group has agreed to sell its 42.7% holding in pSiMedica to its partner pSivida for approximately £18.6m.
2. On 2 June 2004 the Group exchanged contracts for the sale of the Pyestock North freehold site for £54m. Completion of the sale is expected on 21 June 2004.
3. The Shareholders have approved the redemption of £75m of preference shares plus related accrued dividend of £8.9m. The redemption will be executed on 14 June 2004.

Political and charitable contributions
The Group made no political contributions during the year or in the prior period. Donations to UK charities amounted to £32,000 (2003: £3,666).

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.

Lynton Boardman
Company Secretary
85 Buckingham Gate
London SW1E 6PD
8 June 2004

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF QINETIQ HOLDINGS LIMITED

We have audited the financial statements on pages 6 to 32.

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 we have formed.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Annual Report and the Directors' report. As described on page 2, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if 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 Group is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards 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 Group'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 of the state of affairs of the Company and the Group as at 31 March 2004 and of the profit of the Group for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
One Canada Square
London
E14 5AG
8 June 2004

GROUP PROFIT AND LOSS ACCOUNT

	Notes	Year ended 31 March 2004 £m	Period ended 31 March 2003 (restated) £m
Turnover: Group and share of joint ventures	1	796.2	131.7
Less share of joint ventures		(0.8)	(0.1)
Group turnover		**795.4**	**131.6**
Cost of sales		(149.1)	(44.0)
Gross profit		**646.3**	**87.6**
Operating expenses		(583.3)	(57.6)
Group operating profit before exceptional items		63.0	31.3
Exceptional operating expenses	3(a)	–	(1.3)
Group operating profit	2	**63.0**	**30.0**
Share of operating loss in joint ventures and associates		(4.6)	(0.5)
Total operating profit		**58.4**	**29.5**
Profit/(loss) on disposal of fixed assets	3(b)	7.4	(2.1)
Profit on ordinary activities before interest and taxation		**65.8**	**27.4**
Net interest payable and other similar charges	4	(14.5)	(0.6)
Profit on ordinary activities before taxation	1	**51.3**	**26.8**
Tax on profit on ordinary activities	5	(10.1)	(8.0)
Profit on ordinary activities after taxation		**41.2**	**18.8**
Equity minority interest in subsidiary undertakings		1.5	0.1
Profit attributable to ordinary shareholders		**42.7**	**18.9**
Dividends	27	(11.1)	–
Retained profit for the financial year	20	**31.6**	**18.9**

All operations are continuing.
There is no difference between the profit for the period and that prepared on an historical cost basis.
The prior period restatement has resulted in an increase in profit before taxation of £0.1m to reflect the adoption of FRS5, Application Note G, as detailed in the accounting policies section.

BALANCE SHEET
AS AT 31 MARCH

	Notes	Group 2004 £m	Group 2003 (restated) £m	Company 2004 £m	Company 2003 £m
Fixed assets					
Intangible assets	9	(85.3)	(89.9)	–	–
Tangible assets	10	428.2	504.0	–	–
Investment in subsidiary undertakings	11(a)	–	–	92.3	94.3
Investment in associates	11(b)	0.4	–	–	–
		343.3	**414.1**	**92.3**	**94.3**
Current assets					
Stocks and work in progress	12	1.1	2.9	–	–
Debtors	13	310.4	285.7	131.3	188.2
Cash at bank and in hand		154.6	74.3	–	–
		466.1	**362.9**	**131.3**	**188.2**
Creditors: amounts falling due within one year	14	(277.0)	(239.2)	(16.6)	(15.7)
Net current assets		**189.1**	**123.7**	**114.7**	**172.5**
Total assets less current liabilities		**532.4**	**537.8**	**207.0**	**266.8**
Creditors: amounts falling due after more than one year	15	(142.1)	(192.3)	(85.0)	(141.8)
Provisions for liabilities and charges	16	(48.8)	(55.2)	–	–
Provision for investment in joint ventures					
– Share of gross assets		2.4	8.6	–	–
– Share of gross liabilities		(3.4)	(11.6)	–	–
	11(b)	(1.0)	(3.0)	–	–
Provision for investment in associates	11(b)	–	(0.1)	–	–
Net assets excluding pension liabilities		**340.5**	**287.2**	**122.0**	**125.0**
Defined benefit pension scheme net liabilities	26	(115.3)	(147.1)	–	–
Net assets	1	**225.2**	**140.1**	**122.0**	**125.0**
Capital and reserves					
Equity share capital	18	1.5	1.5	1.5	1.5
Preference shares	18	112.5	112.5	112.5	112.5
Share premium account	19	11.4	11.4	11.4	11.4
Profit and loss account	20	100.8	18.9	(3.4)	(0.4)
Equity shareholders' funds		**226.2**	**144.3**	**122.0**	**125.0**
Equity minority interest		(1.0)	(4.2)	–	–
		225.2	**140.1**	**122.0**	**125.0**

The accounting policies and notes on pages 10 to 32 form an integral part of these financial statements.
The financial statements on pages 6 to 32 were approved by the Board of Directors on 8 June 2004 and signed on its behalf by:

Sir John Chisholm
Chief Executive Officer

Graham Love
Chief Financial Officer

GROUP CASH FLOW STATEMENT

	Notes	Year ended 31 March 2004 £m	Period ended 31 March 2003 £m
Cash inflow from operating activities	21(a)	142.7	37.7
Returns on investments and servicing of finance	21(b)	(6.1)	(10.5)
Tax paid		(1.5)	–
Capital expenditure and financial investment	21(c)	(1.6)	10.6
Acquisitions and disposals	21(d)	(0.5)	(112.6)
Cash inflow/(outflow) before financing		**133.0**	**(74.8)**
Financing	21(e)	(52.7)	149.1
Increase in cash in the period		**80.3**	**74.3**

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	Notes	Year ended 31 March 2004 £m	Year ended 31 March 2004 £m	Period ended 31 March 2003 £m	Period ended 31 March 2003 £m
Increase in cash in the period			80.3		74.3
Long term loans acquired		–		(105.7)	
Loan notes issued	21(e)	–		(60.0)	
New loans	21(e)	(10.8)		(157.3)	
Loan repayments		4.3		–	
Term loan repayments		59.2		115.5	
Recapitalisation fee amortisation		(3.6)		–	
Recapitalisation fee addition		0.2	49.3	–	(207.5)
Change in net debt resulting from cash flows			**129.6**		**(133.2)**
Net debt at the start of the year			(133.2)		–
Net debt at the end of the year	22		**(3.6)**		**(133.2)**

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	Year ended 31 March 2004 £m	Period ended 31 March 2003 £m
Profit for the financial period excluding joint ventures and associates as reported		36.0	19.3
Share of losses in joint ventures and associates for the period		(4.4)	(0.5)
Prior period adjustment on adoption of amendment to FRS5*		–	0.1
Profit for the period as restated		**31.6**	**18.9**
(Loss)/gain arising on the refinancing of joint ventures and associates	11(b)	(0.6)	0.1
Exchange loss		(0.4)	–
Preference dividend accrual charged to the profit and loss account	27	11.1	–
Actuarial gain/(loss) recognised in the defined benefit pension scheme	26	10.1	(0.1)
Deferred tax asset on pension deficit	26	30.1	–
Total recognised gains for the period as restated		**81.9**	**18.9**

RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	Notes	Year ended 31 March 2004 £m	Period ended 31 March 2003 (restated) £m
Equity shareholders' funds at 1 April as restated		144.3	–
Profit for the period		31.6	18.9
Shares issued in the period		–	125.4
Exchange loss		(0.4)	–
(Loss)/gain arising on the refinancing of joint ventures and associates	11(b)	(0.6)	0.1
Preference dividend accrual charged to the profit and loss account	27	11.1	–
Actuarial gain/(loss) recognised in the defined benefit pension scheme	26	10.1	(0.1)
Deferred tax asset on pension deficit	26	30.1	
Equity Shareholders' funds at 31 March		**226.2**	**144.3**

*Details of the prior period adjustment are set out in the accounting policies note on page 10.

ACCOUNTING POLICIES

Except where otherwise stated the following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

Basis of preparation
The accounts are prepared under the historical cost convention and in accordance with applicable UK accounting standards.

Change in accounting policy
The Group's turnover recognition policy has been changed during the year following the adoption of Application Note G to FRS5 (Reporting the substance of transactions) which was issued in November 2003. Under the Group's new policy, turnover from all fixed price contracts is recognised in proportion to the fair value of the work performed and includes attributable profit. This represents a change from the previous policy for fixed price contracts with a duration of less than 12 months where turnover was recognised on achievement of substantive milestones and attributable profit was recognised on contract completion. The comparative figures in the primary statements and notes have been adjusted to reflect the new policy.

This change in accounting policy has resulted in an increase in the brought forward profits from the period ended 31 March 2003 by £0.1m. The change in accounting policy has also resulted in a fair value adjustment of £1.9m to the assets of QinetiQ Group Limited (subsequently renamed QinetiQ Group plc), acquired on 28 February 2003, with a corresponding change to goodwill on acquisition. At 31 March 2003 amounts recoverable on contracts have increased by £22.6m, with a decrease in work in progress of £20.6m.

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Company and its subsidiary undertakings up to 31 March 2004. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the period are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

On the acquisition of a business, or of an interest in a business, fair values, reflecting conditions at the date of acquisition, are attributed to the net assets. Where material, adjustments are also made to bring accounting policies into line with those of the Group.

An associate is an undertaking in which the Group has a long term interest, usually from 20% to 50% of the equity voting rights, and over which it exercises significant influence. A joint venture is an undertaking in which the Group has a long-term interest and over which it exercises joint control. The Group's share of the profits less losses of associates and joint ventures is included in the consolidated profit and loss account and its interest in their net assets, together with any loans to the entity, is included in investments in the consolidated balance sheet.

Where an associate or joint venture has net liabilities full provision is made for the Group's share of liabilities even where there is no obligation to provide additional funding to the associate or joint venture.

As permitted by section 230(4) of the Companies Act 1985, a separate profit and loss account dealing with the results of the Company has not been presented.

Turnover
Turnover represents the fair value of work performed for customers (net of value added tax) included attributable profit and after adjusting for foreseeable losses.

Profit recognition
Profit on the supply of professional services on cost plus or time and materials contracts is recognised as the work is performed.

Profit on fixed price contracts is recognised on a percentage of completion basis once the contract's ultimate outcome can be foreseen with reasonable certainty. The principal estimation method used by the Group in attributing profit on contracts to a particular accounting period is the preparation of forecasts on a contract by contract basis. These focus on the costs to complete and enable an assessment to be made of the final out-turn of each contract. Consistent contract review procedures are in place in respect of contract forecasting.

Losses on completion are recognised in full as soon as they are foreseen.

Amounts recoverable on contracts
Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

Stocks and work in progress
Stocks and work in progress are stated at the lower of cost and net realisable value.

Goodwill and other intangible assets
Purchased goodwill (representing the excess of the fair value of the consideration given and associated costs over the fair value of the separable net assets acquired) arising on consolidation is capitalised. Other intangible assets are initially recorded at cost.

Positive goodwill and other intangible assets are amortised to nil by equal annual instalments over their estimated useful lives. On the subsequent disposal or termination of a business, the profit or loss on disposal or termination is calculated after charging the unamortised amount of any related goodwill. Impairment reviews are carried out to ensure that goodwill and intangible assets are not carried at above their recoverable amounts. Any amortisation or impairment write-downs are charged to the profit and loss account as operating items.

Negative goodwill (representing the excess of the fair value of net assets acquired over the fair value of consideration given) arising in respect of acquisitions is included within fixed assets and released to the profit and loss account in the periods in which the fair values of the non-monetary assets purchased on the same acquisitions are recovered, whether through depreciation or sale.

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

Tangible fixed assets and depreciation
Tangible fixed assets are stated at cost less depreciation. Freehold land is not depreciated. Other tangible fixed assets are depreciated on a straight line basis over their useful economic lives to their estimated residual value as follows:

Freehold buildings	20-25 years
Leasehold land and buildings	Over the unexpired term of the lease
Plant & machinery	10 years
Fixtures & fittings	5 years
Computers	3 years
Motor vehicles	3 years

All software costs, whether purchased or developed internally, are written off to the profit and loss account as incurred.

Surplus properties are stated at the lower of net book value and open market value from the date on which a formal announcement of sale has been made. Prior to this date surplus properties are stated at cost and are depreciated on a straight line basis over the remainder of their useful economic lives as they remain in use in the business.

Assets in the course of construction are included in tangible fixed assets on the basis of expenditure incurred at the balance sheet date. In the case of assets constructed by the Group, the value includes the cost of own work completed, including directly attributed overheads but excluding interest.

Loan issue costs
Costs associated with the issue of loans are capitalised and netted off against the loan amount in the balance sheets. If it becomes clear that the instrument will be redeemed early, the amortisation of the issue costs will be accelerated.

Share capital issue costs
Where allowable, costs associated with the issue of share capital are netted off against the Share Premium arising.

ACCOUNTING POLICIES

Foreign currencies
Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction unless designated forward foreign exchange contracts have been entered into in which case the rate specified in such contracts is used. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date, unless hedged, in which case the forward contract rate is used. Gains and losses on translation are included in the profit and loss account.

Assets and liabilities of overseas subsidiary and associated undertakings and joint ventures, including any related goodwill, are translated to sterling at the rate of exchange at the balance sheet date. The results and cash flows of overseas subsidiary and associated undertakings and joint ventures are translated to sterling using the average rates of exchange during the period. Exchange adjustments arising from the retranslation of the opening net investment and the results for the period to the year end rate are taken directly to reserves and reported in the statement of total recognised gains and losses.

Leased assets
The Group currently holds no finance leases. Rentals payable under operating leases are charged to the profit and loss account evenly over the term of the lease.

Post-retirement benefits
The Group provides both defined contribution and defined benefit pension arrangements to existing employees.

Costs associated with the provision of defined benefit pension schemes are recognised in accordance with advice received from independent qualified actuaries. Costs associated with the provision of defined contribution schemes reflect the contributions payable by the Group in the period.

The balance sheet valuation of defined benefit schemes is calculated by independent, qualified actuaries in accordance with FRS17, and represents the market valuation of scheme assets at the balance sheet date, less the present value of long-term liabilities discounted at a rate determined by the market return on corporate bonds.

Research and development expenditure
Research and development costs incurred on behalf of a customer as part of a specific project are chargeable to the customer on whose behalf the work is undertaken. The costs and the related income are included in cost of sales and turnover respectively.

Internally funded development expenditure is capitalised in the balance sheet where there is a clearly defined project, the expenditures are separately identifiable, the project is technically and commercially feasible, all costs are recoverable by future revenue and the resources exist to complete the project. All other research and development costs are written off to the profit and loss account in the period in which they are incurred.

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.

NOTES TO THE FINANCIAL STATEMENTS

1. Segmental analysis

Classes of business

Year ended March 2004

	Turnover £m	Before operating loss of joint ventures and associates, profit on disposal and interest £m	Operating loss of joint ventures and associates £m	Profit on disposal £m	Interest £m	Group total £m	Net Assets £m
		Profit on ordinary activities before taxation					
Integrated Services	264.0	13.9	(0.4)	–		13.5	(3.3)
Sensors & Electronics	146.7	17.5	(3.5)	–		14.0	16.7
Knowledge & Information Systems	153.6	6.1	(0.7)	–		5.4	34.1
Future Systems & Technology	211.8	19.2	–	–		19.2	49.9
Corporate and Other	20.1	6.3	–	7.4	(14.5)	(0.8)	131.4
Total	**796.2**	**63.0**	**(4.6)**	**7.4**	**(14.5)**	**51.3**	**228.8**
Net debt							(3.6)
Group total	**796.2**	**63.0**	**(4.6)**	**7.4**	**(14.5)**	**51.3**	**225.2**

Period ended March 2003

	Turnover £m	Before operating loss of joint ventures and associates, loss on disposal and exceptional items and interest £m	Operating loss of joint ventures and associates £m	Loss on disposal and exceptional items* £m	Interest £m	Group total £m	Net Assets £m
		Profit on ordinary activities before taxation					
Integrated Services	38.2	4.5	–	–		4.5	33.5
Sensors & Electronics	24.7	5.3	(0.4)	–		4.9	22.5
Knowledge & Information Systems	23.3	8.2	(0.1)	–		8.1	27.2
Future Systems & Technology	38.7	13.3	–	–		13.3	58.9
Corporate and Other	6.8	–	–	(3.4)	(0.6)	(4.0)	131.2
Total	**131.7**	**31.3**	**(0.5)**	**(3.4)**	**(0.6)**	**26.8**	**273.3**
Net debt							(133.2)
Group total	**131.7**	**31.3**	**(0.5)**	**(3.4)**	**(0.6)**	**26.8**	**140.1**

*The prior year figures have been restated to be on a basis comparable with the current year.

Geographical markets

The table below shows turnover in each geographic area in which customers are located.

	Year ended 31 March 2004 £m	Period ended 31 March 2003 £m
United Kingdom	741.2	124.2
Continental Europe	17.1	2.9
North America	16.6	3.0
Rest of world	21.3	1.6
	796.2	**131.7**

No segmental analysis is presented by origin as substantially all of the Group's business originates from within the United Kingdom.

NOTES TO THE FINANCIAL STATEMENTS

2. Operating profit

Group operating profit is stated after charging:	Year ended 31 March 2004 £m	Period ended 31 March 2003 £m
Remuneration of the auditors, including expenses:		
audit fee – Group	0.3	0.3
non-audit fee – taxation	0.2	–
non-audit fee – other services	0.1	–
Depreciation and other amounts written off tangible and intangible fixed assets:		
depreciation of tangible fixed assets	42.0	3.6
amortisation of intangible fixed assets	(4.3)	(0.4)
Operating lease rentals:		
land and buildings	9.8	0.3
plant and machinery	0.5	0.1
Foreign exchange loss	0.2	–

3. Exceptional operating items

The following exceptional items were credited/(charged) to the profit and loss account:	Year ended 31 March 2004 £m	Period ended 31 March 2003 £m
(a) Exceptional operating expenses	**–**	**(1.3)**

Exceptional operating expenses in the prior period related to restructuring costs incurred as part of the Public Private Partnership (PPP) transaction. There was £0.2m of tax relief credited to the profit and loss account in respect of this item, with a total net cash outflow of £1.3m.

(b) Exceptional profit/(loss) on disposal of fixed assets	**7.4**	**(2.1)**

During the year the Group disposed of the Chertsey property for £48.5m generating a profit on disposal of £4.1m. £7.8m of the Chertsey proceeds have been received, with the remaining £40.7m due in September 2005. This receivable is held as security against the MOD Aquila/Chertsey Loan Note (see note 17). A further £7.5m is receivable once certain contractual conditions have been satisfied. Additional consideration is due upon the purchaser obtaining additional planning consents, with the quantum dependent on the scope of consent achieved, and accordingly a reliable estimate cannot be made of the amount of future additional profits that will be recognised.

Additional profits on disposal have been recognised from the sale of other properties, including West Drayton, Aberporth and Bedford, generating cash proceeds of £2.8m. £0.5m of profit has been recognised from other fixed asset disposals.

No chargeable gain is expected to arise on the profits to date in respect of the disposal of the Chertsey property due to differences between the accounting and tax base costs. The chargeable gains arising on the disposal of the other properties have been offset against brought forward tax losses in the Group.

4. Net interest payable and similar charges

		Year ended 31 March 2004 £m		Period ended 31 March 2003 £m
Amounts receivable on bank deposits		(5.7)		–
Amounts payable on bank loans	10.4		0.5	
Amounts payable on Aquila/Chertsey Loan Note	2.0		–	
Deferred finance fees amortisation	3.6		0.4	
Release of discount on MOD indemnity	(1.9)		–	
Net interest payable		14.1		0.9
Net interest charge/(credit) on pension scheme under FRS17:				
Expected return on defined benefit scheme assets	(19.2)		(2.0)	
Interest on defined benefit scheme liabilities	25.3	6.1	1.7	(0.3)
		14.5		**0.6**

5. Taxation

(a) Analysis of charge in period

	Year ended 31 March 2004 £m	Period ended 31 March 2003 £m
Current tax:		
UK corporation tax at 30%	–	–
Overseas withholding tax in respect of previous periods	1.5	–
Share of joint ventures' and associates' taxation credit	(0.3)	–
	1.2	–
Deferred tax (note 16)	8.9	8.0
Tax on profit on ordinary activities	**10.1**	**8.0**

(b) Factors affecting tax charge in period

The Group has no current UK Corporation tax charge in the period as explained below.

Profit before tax	51.3	26.8
Tax on ordinary activities at 30%	15.4	8.0
Effect of:		
Expenses not deductible for tax purposes, tax relief and non-taxable items arising on consolidation	(8.6)	(0.6)
Capital allowances (in excess of)/less than depreciation	(2.8)	0.9
Utilisation of tax losses	(8.6)	(8.8)
Other timing differences	2.5	(0.1)
Unprovided tax losses of UK subsidiaries, joint ventures, associates and non-trade losses	1.3	0.4
Unprovided tax losses of overseas subsidiaries	0.8	0.2
Current tax charge for the period	**–**	**–**

(c) Factors affecting future tax charges

It is anticipated that the Group will start incurring a current tax charge within the next two years as brought forward losses have now been fully utilised. Research and development relief will continue to be a major contributory factor in reducing the future tax charge.

6. Employee information

The average number of persons employed by the Group (including Directors) during the year (2003: period) analysed by class of business was:

	2004 Number	2003 Number*
Integrated Services	2,753	2,896
Sensors & Electronics	1,403	1,472
Knowledge & Information Systems	1,801	1,977
Future Systems & Technology	2,182	2,354
Corporate and Other	759	766
	8,898	**9,465**

The aggregate payroll costs of these persons were as follows:

	Year ended 31 March £m	Period ended 31 March* £m
Wages and salaries	280.1	18.1
Social security costs	25.0	7.9
Other pension costs	43.8	3.5
	348.9	**29.5**

*The prior year figures have been restated on a comparable basis with the current year.

NOTES TO THE FINANCIAL STATEMENTS

7. Post-balance sheet events
On 28 April 2004 an Extraordinary General Meeting of the Company approved the redemption of £75m of preference shares. This redemption, together with payment of £8.9m of accrued dividend, will be made on 14 June 2004.

On 31 May 2004 the Group agreed to sell its 42.7% interest in pSiMedica Limited to its partner pSivida Limited for approximately £18.6m. The consideration will be settled by £1.7m in cash and £16.9m by way of the issue of 37.5m new pSivida Limited shares, representing 17.6% of its share capital. The Group has agreed to retain at least 19.76m of the pSivida shares for 12 months from completion.

On 2 June 2004 the Group exchanged contracts for the sale of the Pyestock North site for £54m. Completion of the sale is expected on 21 June 2004.

8. Acquisitions and disposals
On 28 February 2003 QinetiQ Holdings Limited (QHL) acquired the whole of the share capital of QinetiQ Group Limited (subsequently renamed QinetiQ Group plc) for a consideration of £94.3m. As disclosed in the accounting policies note the Group adopted Application note G to FRS5 during the year. Retrospective application of this has resulted in an increase in the net assets acquired on 28 February 2003 by £1.9m. This has been treated as a fair value adjustment with a corresponding adjustment to negative goodwill arising on consolidation to £91.2m (2003: negative £89.3m).

The analysis of the adjusted fair value of assets acquired is presented below.

	Book value Total £m	2004 Fair value adjustment Total £m	Fair value at acquisition Total £m
Intangible assets	0.9	–	0.9
Investments	(2.7)	–	(2.7)
Tangible fixed assets	518.8	–	518.8
Current assets	237.7	1.9	239.6
Current liabilities	(214.7)	–	(214.7)
Cash borrowings	(62.2)	–	(62.2)
Loans	(105.7)	–	(105.7)
Provisions for liabilities and charges	(45.5)	–	(45.5)
Defined benefit pension scheme net liabilities	(147.0)	–	(147.0)
Minority interests	4.0	–	4.0
Net assets acquired	**183.6**	**1.9**	**185.5**
Goodwill			(91.2)
			94.3

Consideration satisfied by:	
Cash	39.7
Shares issued for non-cash consideration	78.1
Pension indemnity	(34.2)
Related costs of acquisition	10.7
Total consideration	**94.3**

On 5 June 2003 the Metrology unit of QinetiQ Limited was sold to a joint venture, ASAP Calibration Limited. At the time of the disposal the fair value of net assets totalled £990,000, including £450,000 of cash. QinetiQ Limited's consideration for this disposal was paid through the issue of shares in the joint venture company resulting in the Group holding a 45% interest in ASAP Calibration Limited.

During the year, shareholder loans to Quintel Technology Limited (accounted for as a subsidiary through management control) have been repaid through the issue of new shares to existing shareholders. The net effect of this transaction is a reduction of the minority interest asset by £5m, reflecting the injection of additional capital by the minority shareholder. There was no effect on the profit and loss account.

9. Intangible fixed assets

	Other £m	Goodwill arising on QinetiQ Group acquisition £m	Total £m
Cost			
At 1 April 2003 as reported	0.9	(89.3)	(88.4)
Prior period adjustment on adoption of amendment to FRS5	–	(1.9)	(1.9)
As at 1 April restated	0.9	(91.2)	(90.3)
Additions	0.3	–	0.3
Disposals	(0.1)	–	(0.1)
At 31 March 2004	1.1	(91.2)	(90.1)
Amortisation			
At 1 April 2003	–	0.4	0.4
(Charge)/credit for the year	(0.2)	4.5	4.3
Disposals	0.1	–	0.1
At 31 March 2004	(0.1)	4.9	4.8
Net book value			
At 31 March 2004	**1.0**	**(86.3)**	**(85.3)**
At 31 March 2003 (restated)	0.9	(90.8)	(89.9)

10. Tangible fixed assets

	Land and buildings £m	Surplus properties £m	Plant, machinery and vehicles £m	Computers and office equipment £m	Assets under construction £m	Total £m
Cost						
At 1 April 2003	353.5	72.7	62.0	11.1	6.3	505.6
Additions	0.1	–	0.7	1.3	12.3	14.4
Disposals	(1.3)	(45.4)	(0.6)	(0.5)	(1.5)	(49.3)
Transfers	1.7	0.1	5.4	0.6	(7.8)	–
At 31 March 2004	354.0	27.4	67.5	12.5	9.3	470.7
Depreciation						
At 1 April 2003	0.7	0.1	0.8	–	–	1.6
Charge for the year	13.2	0.2	21.9	6.7	–	42.0
Disposals	(0.3)	(0.2)	(0.2)	(0.4)	–	(1.1)
At 31 March 2004	13.6	0.1	22.5	6.3	–	42.5
Net book value:						
At 31 March 2004	**340.4**	**27.3**	**45.0**	**6.2**	**9.3**	**428.2**
At 31 March 2003	352.8	72.6	61.2	11.1	6.3	504.0

Transfers of fixed assets shown above relate to assets constructed by the Group. These are initially recorded within assets under construction and, on completion, transferred to the relevant asset category.

Under the terms of the Business Transfer Agreement with the MOD, certain restrictions have been placed on freehold land and buildings, surplus properties and certain plant and machinery related to them. These restrictions are detailed in note 24 'Transactions with related parties'. Included within the net book value of land and buildings at 31 March 2004 is £0.9m (2003: £0.8m) of leasehold properties. The remainder of the properties are freehold.

NOTES TO THE FINANCIAL STATEMENTS

11. Investments

	Company 2004 £m	Company 2003 £m
(a) Subsidiary undertakings		
At 1 April	94.3	–
Additions	–	94.3
Indemnity payment from shareholder	(2.0)	–
Net investment in subsidiary undertakings at 31 March	**92.3**	**94.3**

	Group Joint Ventures £m	Group Associates £m	Group Total £m
(b) Fixed asset investments			
At 1 April 2003	(3.0)	(0.1)	(3.1)
Reclassified	(0.7)	0.7	–
Non cash additions	–	0.6	0.6
Cash additions	1.1	1.7	2.8
Share of post tax loss	(2.5)	(1.9)	(4.4)
Exchange variation	(0.3)	–	(0.3)
Change in value from refinancing (see note below)	–	(0.6)	(0.6)
Loans capitalisation	4.4	–	4.4
At 31 March 2004	**(1.0)**	**0.4**	**(0.6)**

The net loss in refinancing of joint ventures and associates of £0.6m (2003: gain of £0.1m) has been taken to reserves through the statement of total recognised gains and losses. Gains and losses arise when the Group and/or its partners invest differing amounts of cash or other assets into the joint ventures and associates and, as a result of the increased investment, the share of the net assets owned by the Group changes in value.

12. Stocks and work in progress

	Group 2004 £m	Group 2003 (restated) £m	Company 2004 £m	Company 2003 £m
Raw materials and consumables	0.8	0.8	–	–
Work in progress	0.3	2.1	–	–
	1.1	**2.9**	**–**	**–**

13. Debtors

	Group 2004 £m	Group 2003 (restated) £m	Company 2004 £m	Company 2003 £m
Trade debtors	150.4	135.1	–	–
Amounts owed by Group undertakings	–	–	95.2	152.2
Amounts recoverable under contracts	61.7	88.8	–	–
Other debtors	84.5	48.8	36.1	36.0
Prepayments	13.8	13.0	–	–
	310.4	**285.7**	**131.3**	**188.2**

Within amounts recoverable under contracts above is £11.8m (2003: £nil) due over one year, and within Group other debtors £81.9m (2003: £45.1m) due over one year, including £36.1m (2003: £34.2m) of amounts recoverable in future years relating to a pension indemnity as described in note 26.

14. Creditors: amounts falling due within one year

	Note	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Bank loan	17	20.8	18.1	20.8	18.1
Deferred financing costs	17	(4.3)	(2.6)	(4.3)	(2.6)
Loan notes		–	0.1	–	–
Payments received on account		83.3	65.1	–	–
Trade creditors		17.7	16.8	–	–
Taxation and social security		41.2	33.4	–	–
Other creditors		15.9	1.6	–	–
Accruals and deferred income		102.4	106.7	0.1	0.2
		277.0	**239.2**	**16.6**	**15.7**

15. Creditors: amounts falling due after more than one year

	Note	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Bank loans	17	95.8	146.9	85.0	146.9
Deferred financing costs	17	–	(5.1)	–	(5.1)
Aquila/Chertsey Loan Note	17	45.9	50.1	–	–
Other creditors		0.4	0.4	–	–
		142.1	**192.3**	**85.0**	**141.8**

16. Provisions for liabilities and charges

	Deferred taxation £m	Reorganisation £m	Other £m	Total £m
At 1 April 2003	18.7	16.4	20.1	55.2
Utilised in year	–	(8.0)	(6.6)	(14.6)
Released in year	–	(1.7)	(5.2)	(6.9)
Created in year	8.9	0.9	5.3	15.1
At 31 March 2004	**27.6**	**7.6**	**13.6**	**48.8**

Other provisions are comprised principally of amounts payable with respect to certain fixed assets, and settlements with respect of outstanding legal disputes, which are expected to fall due within one year.

NOTES TO THE FINANCIAL STATEMENTS

16. Provisions for liabilities and charges (continued)
Analysis of deferred tax balance:

The amounts provided for deferred taxation are set out below:	Group 2004 £m	Group 2003 £m
Difference between accumulated depreciation, amortisation and capital allowances	29.8	27.0
Short term timing differences	(2.2)	0.3
Tax losses	–	(8.6)
Total deferred taxation liability provided	**27.6**	**18.7**

A deferred tax asset of £30.1m has been recognised in the year, which is offset directly against the pension fund deficit (note 26).

The amounts of deferred taxation not provided are set out below:	Group 2004 £m	Group 2003 £m
On pension deficit under FRS17	–	(43.1)
Tax losses	(12.6)	(9.1)
Total deferred taxation asset not provided	**(12.6)**	**(52.2)**

The unprovided deferred tax asset is in respect of the tax losses of overseas subsidiaries, joint ventures, associates and non-trade losses, which primarily will be recovered in the event that there are sufficient relevant future taxable profits.

17. Financial instruments
The disclosures set out below exclude short term debtors and creditors and deferred tax as permitted under FRS13.

(a) Borrowing facilities
At 31 March 2004, the following committed facilities were available to the Company and Group:

	Total £m	Drawn £m	Undrawn £m	Facility expiry date
Tranche A – bank facility	105.8	105.8	–	31 March 2008
Tranche B – bank facility	160.0	10.8	149.2	28 February 2011
Tranche C – bank facility	130.0	0.5	129.5	28 February 2011
Aquila/Chertsey Loan Note	45.9	45.9	–	See (b) below
Committed facilities March 2004	**441.7**	**163.0**	**278.7**	
Committed facilities March 2003	505.2	216.3	288.9	

The amount drawn under Tranche A was drawn by QHL and amounts surplus to the requirements of QHL were loaned to a Group company at interest rates related to LIBOR.

(b) Maturity of financial liabilities

	Bank loans and loan notes 2004	Bank guarantee 2004	Deferred finance costs 2004	Total 2004	Bank loans and loan notes 2003	Deferred finance costs 2003 £m	Total 2003 £m
Due in one year or less	20.8	–	(4.3)	16.5	18.2	(2.6)	15.6
Due in more than one year but not more than two years	66.7	–	–	66.7	28.9	(2.6)	26.3
Due in more than two years but not more than five years	75.0	0.5	–	75.5	168.1	(2.5)	165.6
	162.5	**0.5**	**(4.3)**	**158.7**	**215.2**	**(7.7)**	**207.5**

The Company has a syndicated bank facility structured in three tranches.

17. Financial instruments (continued)
Tranche A bears interest at rates related to LIBOR. The facility is repayable in varying half yearly instalments until maturity on 31 March 2008. The amount outstanding at 31 March 2004 was £105.8m (2003: £165m).

Tranche B is available to fund expenditure under the Long Term Partnering Agreement (note 24). Drawings bear interest at rates related to LIBOR. The facility will reduce in varying half yearly instalments commencing in September 2008 until maturity on 28 February 2011. The amount outstanding at 31st March 2004 was £10.8m (2003: £nil).

Tranche C is available to finance the working capital requirements of the Group including guarantees and ancillary requirements. At 31 March 2004, the amount drawn against this tranche was £0.5m (March 2003: £1.1m) by way of bank guarantees. The facility expires on 28 February 2011.

In addition, a subsidiary company has issued the 'Aquila/Chertsey Loan Note' to the MOD. The original capital sum of £60m is repayable only from the proceeds of sale of the Aquila and Chertsey properties. During the year £4.2m (2003: £9.9m) was repaid to the MOD following the sale of one of the identified assets. The loan note was interest free to 30 June 2003 from when interest has been charged at rates relating to LIBOR. The loan note becomes interest free, once more, on 28 August 2004.

Other loan notes issued by QinetiQ Group plc totalling £0.1m were redeemed during the year. The loan notes carried interest at 5% per annum.

(c) Currency risk
The majority of the Group's trading activities are located in the United Kingdom. Accordingly the majority of transactions are denominated in sterling and do not give rise to a foreign currency exposure. The Group uses forward currency controls to hedge transactions in foreign currencies where the exposure exceeds a predefined limit. For those transactions in non-sterling currency forward foreign currency contracts are used to hedge material exposures.

At 31 March 2004 cash at bank and in hand was predominantly in sterling. The Group held cash balances and deposits in other currencies of US$1.9m (2003: US$3.1m), €0.3m (2003: €0.7m) and Yen 4.7m (2003: Yen 36.3m). All borrowings were in sterling.

At 31 March 2004 there were contracts hedge to US$ forward which came to a net total of $1.1m of US$ sold forward. Marking these contracts to market rates at forward rates applicable at 31 March 2004 or the contracted month of delivery gave an unrealised gain of £80,000 which will be recognised in the profit and loss account when the underlying transaction occurs – principally during the financial year to 31 March 2005. There were also hedge contracts in Euros and Singapore dollars at 31 March 2004, but the amounts involved were immaterial.

(d) Interest
Interest charges on bank borrowings and on the Aquila/Chertsey Loan Note are at floating rates 1.5% above LIBOR. Interest rate swaps and collars have been transacted to fix the interest rate on 100% of the Group's borrowings. The fixed rate hedges have a weighted average life to expiry of 2.7 years and a weighted average interest rate of 5.6%. At the balance sheet date these hedges have a fair value of £2.6m (2003: £nil).

(e) Fair value of financial assets and liabilities
There is no significant difference between the fair value and the book value of cash at bank and fixed asset investments as at 31 March 2004 (2003: no significant difference).

(f) Other creditors due after more than one year
Other creditors due after more than one year, which are not detailed in the above sections of this note, are recorded at monetary amount. The liabilities all exist in sterling and fair value is deemed to reflect their monetary value as recorded at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

18. Share capital

	2004 Amount £	2004 Number
Authorised share capital:		
Attributable to equity interests:		
Convertible A Ordinary Shares of 1p each	115,534	11,533,367
Convertible B Ordinary Shares of 1p each	9,667	966,733
Convertible C Ordinary Shares of £1 each	450,489	450,489
D Ordinary Shares of £1 each	555,000	555,000
Convertible Non-Voting A Ordinary Shares of £1 each	425,960	425,960
Convertible Non-Voting B Ordinary Shares of £1 each	37,040	37,040
Convertible Preferred Shares of 1p each	37,527	3,752,686
	1,631,217	**17,721,275**
Attributable to non-equity interests:		
Redeemable Cumulative Preference Shares of £1 each	112,500,000	112,500,000
First Deferred Shares of 1p each	115,534	11,553,367
Second Deferred Shares of £1 each	450,489	450,489
Special Rights Redeemable Share of £1	1	1
	113,066,024	**124,503,857**
Total authorised share capital	**114,697,241**	**142,225,132**

Shares allotted, called up and fully paid:	Nominal amount allotted 1 April 2003 £	Issued in year* £	Total amount allotted 31 March 2004 £	2004 Number
Attributable to equity interests:				
Convertible A Ordinary Shares of 1p each	77,010		77,010	7,700,981
Convertible B Ordinary Shares of 1p each	5,833		5,833	583,333
Convertible C Ordinary Shares of £1 each	416,635	31,700	448,335	448,335
D Ordinary Shares of £1 each	527,250		527,250	527,250
Convertible Non-Voting A Ordinary Shares of £1 each	425,960		425,960	425,960
Convertible Non-Voting B Ordinary Shares of £1 each	37,040		37,040	37,040
Convertible Preferred Shares of 1p each	37,527		37,527	3,752,686
	1,527,255	**31,700**	**1,558,955**	**13,475,585**
Attributable to non-equity interests:				
Redeemable Cumulative Preference Shares of £1 each	112,500,000		112,500,000	112,500,000
Special Rights Redeemable Share of £1	1		1	1
	112,500,001	–	**112,500,001**	**112,500,001**
Total called up share capital	**114,027,256**	**31,700**	**114,058,956**	**125,975,586**

*31,700 Convertible C Ordinary Shares of £1 each were issued on 17 September 2003 at the nominal value of £1.

Except as noted below, all shares rank *pari passu* in all respects.

Rights attaching to the Redeemable Cumulative Preference Shares of £1 each

The Redeemable Cumulative Preference Shares carry the right to a fixed cumulative preferential dividend at the rate of 9% per annum excluding any associated tax credit. The preference dividend shall not be paid, but shall accrue until redemption of the shares. The right to the preference dividend has priority over the rights of the holders of any other class of shares to any dividend or other distribution of income.

The preference dividend accrues from day to day and compounds annually on 31 March.

18. Share capital (continued)
In the event of a return of capital or liquidation of the Company the assets available for distribution among the shareholders shall be applied, after repayment of the Special Rights Redeemable Share, firstly to repay the accrued preference dividends and secondly to repay the amount paid for the Redeemable Cumulative Preference Shares on issue.

Except as provided above, the Redeemable Cumulative Preference Shares carry no rights to any further participation in the profits or assets of the Company.

The Company shall redeem all the Redeemable Cumulative Preference Shares in the event of a sale, listing or a winding up of the Company.

The company may, with the written consent of the holders of a majority of the Redeemable Cumulative Preference Shares, redeem some or all of the shares at any time. In the event of only some of the shares being redeemed the redemption shall (unless the Company, with the written consent of the holders of a majority of the Redeemable Cumulative Preference Shares notifies each Preference Shareholder to the contrary) take place pro rata, as nearly as possible, to each shareholder's holding. On redemption the Company shall pay a cash sum in respect of each redeemed share equal to the nominal amount of the share, plus any premium paid on issue, plus the preference dividend accrued to the date of redemption.

The holders of the Redeemable Cumulative Preference Shares are not entitled to receive notice of, nor to attend, speak or vote at, general meetings of the Company, by virtue of their holdings of Redeemable Cumulative Preference Shares, unless the Company is in default over payment on redemption or payments of dividends, or if the facilities under the Facilities Agreement become or remain repayable prior to their specified maturity or have been subject to a demand for repayment.

Rights attaching to the Convertible Preferred Shares of 1p each
The Convertible Preferred Shares, until conversion, have the right to participate in any ordinary dividend declared and paid by the Company. Each Convertible Preferred Share in issue shall entitle the holder to the same dividend declared and paid by the Company on each Convertible A Ordinary Share.

The holders of the Convertible Preference Shares shall not be entitled to receive notice of, attend, speak or vote at any general meeting of the Company.

In the event of a sale, listing or winding up, each Convertible Preferred Share shall convert by way of reclassification into 1 Convertible A Ordinary Share.

Rights attaching to the Ordinary Shares and the Special Rights Redeemable Share
Except as noted below, the Convertible A Ordinary Shares of 1p each, the Convertible B Ordinary Shares of 1p each, the Convertible Non-Voting A Ordinary Shares of £1 each, the Convertible Non-Voting B Ordinary Shares of £1 each, the Convertible C Ordinary Shares of £1 each and the D Ordinary Shares of £1 each (together 'the Ordinary Shares') shall rank *pari passu* in all respects.

No dividend shall be declared or paid by the Company on the Ordinary Shares unless the Redeemable Cumulative Preference Shares have been redeemed in full.

On a return of capital on a liquidation the Special Rights Redeemable Share will be repaid the amount paid on issue in priority to all other shares. The Special Rights Redeemable Share has no other right to share in the capital or profits of the Company.

Only the holders of the Convertible 'A' Ordinary Shares and the Convertible 'B' Ordinary Shares are entitled to receive notice of, attend, speak and vote at general meetings of the Company. The holder of the Special Rights Redeemable Share is entitled to receive notice of any general meeting and any class meeting, and may attend and speak, but not vote, at such meetings.

In the event of a sale, a listing or a winding up of the Company the Articles provide for certain of the Convertible A Ordinary Shares of 1p each, the Convertible B Ordinary Shares of 1p each, the Convertible Non-Voting A Ordinary Shares of £1 each, the Convertible Non-Voting B Ordinary Shares of £1 each and the Convertible C Ordinary Shares of £1 each to be converted into First Deferred Shares of 1p each or Second Deferred Shares of £1 each. The effect of this conversion will be to increase the return to the holders of the Convertible C Ordinary Shares of £1 each and the D Ordinary Shares of £1 each. The number of shares converted will be dependent on the Company meeting certain investment performance criteria.

NOTES TO THE FINANCIAL STATEMENTS

18. Share capital (continued)

Rights attaching to the First Deferred Shares and the Second Deferred Shares (together 'the Deferred Shares')

Holders of the Deferred Shares shall not be entitled to receive notice of and shall not be entitled to attend or vote at general meetings of the Company by virtue of their holding of Deferred Shares.

On a return of capital on liquidation the holders of the Deferred Shares shall be entitled to receive a distribution of 1p per share after £10,000,000 has been distributed on each of the Ordinary Shares, the Convertible Preferred Shares and the Redeemable Cumulative Preference Shares. Holders of the Deferred Shares are not entitled to any other participation in the profits or assets of the company.

Immediately prior to a sale, a listing or a winding up of the Company the Company shall redeem for cash for an aggregate amount of £1 (split pro rata between the holders of the Deferred Shares with a minimum payment of 1p to each holder) in total all the Deferred Shares.

Transfer restrictions

General restriction – a transferor may only transfer all or a proportion of shares of any one class held to a transferee if, at the same time, all or the same proportion of other classes of shares held are also transferred to the same transferee.

Convertible A Ordinary Shares and Convertible B Ordinary Shares may be transferred freely, unless the holders of 75% of the total of the Convertible A Ordinary Shares and the Convertible B Ordinary Shares agree otherwise; or on or after a listing; or in acceptance of an offer which would reduce the Carlyle shareholding below 50% ('tag-along rights'); or when required to comply with a compulsory purchase notice issued by a transferee following the acquisition of more than 50% of the Convertible A Ordinary Shares owned by the MOD or Carlyle at 28 February 2003 ('ring-along rights'); or to any permitted transferee.

Convertible Non-Voting A Ordinary Shares and Convertible Non-Voting B Ordinary Shares may not be transferred except with the written consent of the Board; or to a replacement trustee of the Co-Invest trust; or on and after a listing; or in accordance with the tag-along rights or bring-along rights described above.

Convertible C Ordinary Shares and D Ordinary Shares may not be transferred except with the written consent of the Board; or on or after listing; or in accordance with the tag-along rights or bring-along rights described above; or by compulsory transfer after the holder ceases to be an employee or Director or consultant of the Company or any of its subsidiary undertakings.

Convertible Preferred Shares may only be transferred to the same transferee and at the same time as Convertible A Ordinary Shares are transferred by the holder.

Redeemable Cumulative Preference Shares may only be transferred to the same transferee and at the same time as Convertible A Ordinary Shares, Convertible B Ordinary Shares, Convertible Non-Voting A Ordinary Shares and/or Convertible Non-Voting B Ordinary Shares are transferred by the holder.

The Deferred Shares may not be transferred.

The Special Rights Redeemable Share may only be transferred to the Crown, or as it directs.

Other rights attaching to the Special Rights Redeemable Share ('Special Share')

Following the acquisition of QinetiQ Group Limited (subsequently renamed QinetiQ Group plc) on 28 February 2003 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 confers certain rights on the holder:

a) 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;
b) to refer matters to the Board or the Compliance Committee for its consideration in relation to the application of the Compliance Principles:
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;

18. Share capital (continued)

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 Group. The Special Shareholder has the right to purchase any defined Strategic Assets which the Group wishes to sell. Strategic Assets are normally testing and research facilities (see note 24).

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 QinetiQ to redeem the Special Share at par. If QinetiQ is wound up the Special Shareholder will be entitled to be repaid the capital paid up on the Special Share before other shareholders receive any payment. The Special Shareholder has no other right to share in the capital or profits of QinetiQ.

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

The Special Shareholder may, from time to time, appoint one or two Non-executive Directors. These may be removed or replaced at any time. Should the Special Share be redeemed by QinetiQ such persons cease to be Directors. The Special Shareholder may appoint the appointed Directors to any committee established by the Board or any committee of the Board of Directors. Any information gained in the position of such a special Director may be passed to MOD unless it has been designated commercially sensitive within QinetiQ or might be such information as could be used by the MOD in its commercial dealings with QinetiQ.

19. Share Premium

Premium on shares issued:	Total paid £	Number	Group 2004 premium amount £	Company 2004 premium amount £
Convertible A Ordinary Shares of 1p each	7,700,981	7,700,981	7,623,971	7,623,971
Convertible B Ordinary Shares of 1p each	583,333	583,333	577,500	577,500
Convertible Preferred Shares of 1p each	3,752,686	3,752,686	3,715,159	3,715,159
Stamp duty on share issue charged to share premium			(586,990)	(586,990)
			11,329,640	**11,329,640**

20. Profit and loss account

	Group Year ended 31 March 2004 £m	Group Period ended 31 March 2003 (restated) £m	Company Year ended 31 March 2004 £m	Company Period ended 31 March 2003 £m
At 1 April as reported	18.8	–	(0.4)	–
Prior year adjustment on adoption of amendment to FRS5*	0.1	–	–	–
At 1 April as restated	**18.9**	–	**(0.4)**	–
Profit/(loss) retained for the period	31.6	18.9	(14.1)	(0.4)
Exchange loss	(0.4)	–	–	–
(Loss)/gain arising on the refinancing of joint ventures and associates	(0.6)	0.1	–	–
Preference dividend credited to shareholders' funds	11.1	–	11.1	
Deferred tax asset created against defined benefit pension scheme liability	30.1	–	–	–
Actuarial gain/(loss) recognised in the defined benefit pension scheme	10.1	(0.1)	–	–
At 31 March	**100.8**	**18.9**	**(3.4)**	**(0.4)**
Profit and loss reserve excluding defined benefit pension liability	69.1	19.0	(3.4)	(0.4)
Post 28 February 2003 actuarial gain/(loss) recognised in the defined benefit pension scheme	31.7	(0.1)	–	–
Profit and loss reserve including defined benefit pension liability	**100.8**	**18.9**	**(3.4)**	**(0.4)**

*Further details are set out in the accounting policies note.

NOTES TO THE FINANCIAL STATEMENTS

21. Notes to the Group cash flow statement
(a) Reconciliation of operating profit to operating cash flows

	Year ended 31 March 2004 £m	Period ended 31 March 2003 (restated) £m
Operating profit	58.4	29.5
Depreciation	42.0	3.6
Amortisation of intangibles	(4.3)	(0.4)
Share of loss in joint ventures and associates	4.6	0.5
Decrease in stocks and work in progress	1.6	2.7
Decrease/(increase) in debtors	18.2	(17.5)
Increase in creditors	37.5	17.9
Net movement in provisions	(15.3)	1.4
Net cash inflow from operating activities	**142.7**	**37.7**

(b) Returns on investments and servicing of finance

Interest received	5.8	–
Interest paid	(11.9)	(10.5)
	(6.1)	**(10.5)**

(c) Capital expenditure and financial investment

Purchase of tangible fixed assets	(13.4)	(0.7)
Sale of tangible fixed assets	14.2	11.4
Cash investment in joint ventures and associates	(2.4)	(0.1)
	(1.6)	**10.6**

(d) Acquisitions and disposals

Net liabilities acquired excluding cash	–	(185.5)
Cash and cash equivalents (disposed)/acquired	(0.5)	(62.2)
	(0.5)	(247.7)
Less goodwill on acquisition	–	91.2
Less shares issued for non-cash consideration	–	78.1
Plus non-cash pension indemnity	–	(34.2)
Cash outflow	**(0.5)**	**(112.6)**

(e) Financing

Repayment of MOD loans	–	(105.6)
Repayment of other loans	(0.1)	–
Issue of Aquila/Chertsey Loan Note	–	60.0
Repayment of Aquila/Chertsey Loan Note	(4.2)	(9.9)
New long-term loans	10.8	157.3
Repayment of bank loans	(59.2)	–
Proceeds from issue of share capital	–	47.3
	(52.7)	**149.1**

22. Analysis of net debt

	At 1 April £m	Cash flow £m	Non-cash movements £m	At 31 March 2004 £m
Bank and cash	74.3	80.3	–	154.6
Due within one year				
Bank loans	(18.1)	(2.7)	–	(20.8)
Recapitalisation fee	2.6	–	1.7	4.3
Other borrowings	(0.1)	0.1	–	–
	(15.6)	(2.6)	1.7	(16.5)
Due after one year				
Bank loans	(146.9)	51.1	–	(95.8)
Recapitalisation fee	5.1	–	(5.1)	–
Aquila/Chertsey Loan Note	(50.1)	4.2	–	(45.9)
	(191.9)	55.3	(5.1)	(141.7)
Total net debt	**(133.2)**	**133.0**	**(3.4)**	**(3.6)**

23. Commitments

(a) Capital commitments at 31 March, for which no provision has been made, are:

	2004 £m	2003 £m
Contracted	6.4	1.0

(b) Annual commitments under non-cancellable operating leases are:

	Buildings 2004 £m	Other 2004 £m	Buildings 2003 £m	Other 2003 £m
Leases expiring within:				
– one year	2.0	0.6	1.8	–
– one to two years	0.3	0.3	0.4	–
– two to five years	0.5	–	0.3	0.5
– over five years	0.5	–	0.8	–
	3.3	**0.9**	**3.3**	**0.5**

(c) The Group's share of capital commitments of joint ventures and associates as at 31 March 2004 was £nil (2003: £nil).

NOTES TO THE FINANCIAL STATEMENTS

24. Transactions with related parties
Excluding the Special Share (see below) the economic interest in the fully diluted equity share capital of QinetiQ Holdings Ltd is owned 56% by the MOD, 31% by The Carlyle Group and 13% by QinetiQ employees and Directors.

51% of the QinetiQ Holdings Limited voting equities are owned by The Carlyle Group, with the MOD retaining 49%. Consequently management control and responsibility is held by The Carlyle Group, with the MOD retaining all other benefits conventionally held by a major shareholder.

The MOD retains sole ownership of one Special Share in the Company, QinetiQ Group plc and QinetiQ Ltd, the latter being a wholly owned subsidiary of QinetiQ Group plc.

Detailed below are the agreements that have been entered into and the trading that has taken place with the MOD and other H.M. Government related parties.

Trading
The MOD is a major customer of the Group. During the period sales of £643.7m (2003: £108.5m) were made to the MOD and at the period end the MOD had an outstanding trade debtor balance of £102.9m (2003: £55.7m). The Group also purchased services of £14.9m (2003: £0.6m) from the MOD during the period and at the period end had an outstanding pension indemnity debtor of £36.1m (2003: £34.2m) and an outstanding trade creditor of £0.8m (2003: £2.8m).

Freehold land and buildings and surplus properties
Under the terms of the QinetiQ Limited acquisition of part of the business and certain assets of DERA from the MOD on 1 July 2001, the MOD retained certain rights in respect of the freehold land and buildings and surplus properties transferred. These are:

(a) Restrictions on transfer of title
The property title deeds include a clause that prevents their transfer without the approval of the MOD;

(b) Property clawback agreement
The MOD retains an interest in future profits on disposal, or revaluation following a 'trigger event'. A 'trigger event' includes the granting of planning permission for development and/or change of use, and the disposition of any of the acquired land and buildings. During the 12 years from 1 July 2001, following a 'trigger event', the MOD is entitled to clawback a proportion of the gain on each individual property transaction over and above a 30% gain over a July 2001 professional valuation. The proportion of the gain due to the MOD is based on a sliding scale which reduces over time from 50% to 9%. The July 2001 valuation was approximately 16% greater in aggregate than the consideration paid for the land and buildings on 1 July 2001.

Loans
The Aquila/Chertsey Loan Note payable to MOD is repayable only from the net proceeds of the disposal of the Chertsey and Aquila properties. At the year end the amount repayable on this loan was £45.9m (2003: £50.1m). This loan was non-interest bearing to 30 June 2003, with interest relating to LIBOR until 28 August 2004 when it will become non-interest bearing again.

Compliance regime
Information on the Compliance regime is included in the Report of the Directors.

Strategic assets
Under the Business Transfer Agreement with the MOD, the Group is not permitted without the written consent of the MOD, to:
a) dispose of or destroy all or any part of a strategic asset; or
b) voluntarily undertake any closure of, or cease to provide a strategic capability by means of, all or any part of a strategic asset.

The net book value of assets identified as being strategic assets as at 31 March 2004 was £28.7m (2003: £35.8m), the principal items being plant and machinery of £19.7m (2003: £26.8m) and vehicles £5.3m (2003: £8.3m).

24. Transactions with related parties (continued)

Long Term Partnering Agreement

On 27 February 2003 QinetiQ entered into a Long Term Partnering Agreement to provide the Test and Evaluation (T&E) facilities and training support services to the MOD. This is a 25 year contract with a total value of £5.6bn under which QinetiQ is committed to providing the T&E services with increasing efficiencies through cost saving and innovative service delivery.

Other related parties

Except for the issues referred to above, there are no other related party transactions.

25. Contingent liabilities

Under the Group's bank facilities all named borrowers including the Company, cross guarantee all indebtedness. At 31 March 2004 subsidiaries had drawn £10.8m under Tranche B and £0.5m of bank guarantees to third parties under Tranche C.

Subsidiary undertakings have given unsecured guarantees of £1m in favour of a joint venture company.

The company is aware of claims and potential claims by or on behalf of current and former employees, including former employees of the MOD and DERA and contractors, in respect of intellectual property, wrongful dismissal and industrial illness and injury which involve or may involve legal proceedings against the Group. The Directors are of the opinion, having regard to legal advice received, the Group's insurance arrangements and provisions carried in the balance sheet, that it is unlikely that these matters will, in aggregate, have a material effect on the Group's financial position, results of operations and liquidity.

26. Post-retirement benefits

Introduction and background to FRS17

QinetiQ has elected to comply with Financial Reporting Standard 17 (Retirement Benefits). This standard requires QinetiQ to include in the balance sheet the surplus or deficit on the scheme calculated as at the balance sheet date. It is a snapshot view which can be significantly influenced by short-term market factors. The calculation of the surplus or deficit is, therefore, dependent on factors which are beyond the control of QinetiQ – principally the value at the balance sheet date of equity shares in which the scheme has invested and long-term interest rates which are used to discount future liabilities. The funding of the scheme is based on long-term trends and assumptions relating to market growth, as advised upon by qualified actuaries.

As part of the agreement on 28 February 2003 whereby QHL acquired QinetiQ Group Ltd (subsequently renamed QinetiQ Group plc) the MOD gave an indemnity to QHL to pay to QHL, on the earlier of a flotation or sale or on 28 February 2008, a sum up to a maximum of £45m as a funding contribution to the pension scheme deficit. A discount rate of 5.65% has been applied to this amount, resulting in a discounted amount of £36.1m being included in the 31 March 2004 (2003: £34.2m) balance sheet of QHL as a long-term debtor.

The QinetiQ scheme

In the UK the Group operates the QinetiQ Pension Scheme, a mixed benefit scheme. The Defined Benefit (DB) section of the scheme provides future service pension benefits to transferring Civil Service employees. All Group employees who were members, or eligible to be members, of the Principal Civil Service Pension Scheme or the UKAEA principal Non-Industrial Superannuation Scheme were invited to join the DB section of the scheme from 1 July 2001, together with all new employees who were previously members of schemes who are part of the Public Sector Transfer Club. The Defined Contribution (DC) section of the scheme was set up for all employees who were not eligible or did not wish to join the DB section of the scheme.

There were no outstanding or prepaid contributions at the balance sheet date (2003: £nil) for either the Defined Benefit or Defined Contribution sections of the scheme.

Defined Benefit section

The most recent full actuarial valuation of the DB scheme was undertaken as at 30 June 2002 and resulted in an actuarially assessed deficit of £29.0m. On the basis of the 30 June 2002 full valuation the Trustees and the company agreed that the 17.5% employer contribution rate would continue and in addition a further £2.0m cash payment would be paid per annum until the next valuation, due in June 2005, to cover the past service deficit.

NOTES TO THE FINANCIAL STATEMENTS

26. Post-retirement benefits (continued)

QinetiQ Holdings Limited

Set out below is a summary of the overall FRS17 defined benefit pension scheme liability. The liability calculated in accordance with FRS17 is £145.4m, less a £30.1m deferred tax asset recognised in the year against the deficit and £36.1m recoverable over one year in respect of an indemnity held by the Company.

	31 March 2004 £m	31 March 2003 £m
FRS17 calculated liability	145.4	147.1
Deferred tax asset	(30.1)	–
Net pension liability disclosed below	**115.3**	**147.1**
MOD pension indemnity (note 13)	(36.1)	(34.2)
Net pension liability	**79.2**	**112.9**

Assumptions

The major assumptions used in the year end FRS17 valuation were:

	2004	2003
Rate of increase in salaries	4.30%	4.30%
Rate of increase to benefits in deferment	2.80%	2.60%
Rate of increase to pensions in payment	2.90%	2.70%
Discount rate applied to scheme liabilities	5.50%	5.60%
Inflation assumption	2.80%	2.60%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice. It is important to note that these assumptions are long term and, in the case of the discount rate and the inflation rate, measured by external market indicators.

Scheme assets

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Value at 2004 £m	Value at 2003 £m
Equities	286.7	167.5
Corporate bonds	38.6	20.3
Government bonds	50.2	88.5
Cash	4.4	5.4
Total market value of assets	**379.9**	**281.7**
Present value of scheme liabilities	(525.3)	(428.8)
Deferred tax	30.1	–
Deficit in the scheme – pension liability	**(115.3)**	**(147.1)**

Expected long term rate of return:

	2004	2003
Equities	7.70%	7.50%
Corporate bonds	5.00%	4.80%
Government bonds	4.70%	4.50%
Cash	4.20%	4.00%
Weighted average	**7.00%**	**6.20%**

26. Post-retirement benefits (continued)

Movement in deficit during the period:

	Year 2004 £m	Period 2003 £m
Deficit in scheme brought forward this year/acquired last period	(147.1)	(147.0)
Current service cost	(40.0)	(3.3)
Loss on curtailments	(5.3)	(0.3)
Contributions paid	43.0	3.3
Other finance (costs)/income	(6.1)	0.3
Actuarial gain/(loss)	10.1	(0.1)
Deferred tax	30.1	–
Deficit in the scheme at 31 March	**(115.3)**	**(147.1)**

Pension costs charged in arriving at operating profit were:

	Year 2004 £m	Period 2003 £m
Current service cost	**40.0**	**3.3**

Analysis of amounts included in other finance (costs)/income:

	Year 2004 £m	Period 2003 £m
Expected return on pension scheme assets	19.2	2.0
Interest on pension scheme liabilities	(25.3)	(1.7)
	(6.1)	**0.3**

Analysis of amount recognised in statement of total recognised gains and losses:

	Year 2004 £m	Period 2003 £m
Actual return less expected return on scheme assets	42.0	(0.1)
Experience gains and losses arising on scheme liabilities	(8.4)	–
Changes in assumptions underlying the present value of scheme liabilities	(23.5)	–
Actuarial gain/(loss) recognised in statement of total recognised gains and losses	**10.1**	**(0.1)**

History of experience gains and losses:

	2004 %	2004 £m	2003 %	2003 £m
Difference between the expected and actual return on scheme assets:				
Amount		42.0		(0.1)
Percentage of period end scheme assets	11.1		–	
Experience gains and losses on scheme liabilities:				
Amount		(8.4)		–
Percentage of period end present value of scheme liabilities	(1.6)		–	
Total amount recognised in statement of total recognised gains and losses:				
Amount		10.1		(0.1)
Percentage of period end present value of scheme liabilities	1.9		–	

Defined Contribution section

Payments to the DC section totalled £3.8m in the period ended 31 March 2004 (2003: £0.2m).

NOTES TO THE FINANCIAL STATEMENTS

27. Dividends

The Company has not declared equity dividends in the year (2003: £nil).

The accrued dividend payable to preference shareholders was £11.1m (2003: £nil). This has been charged to the profit and loss account in the year. It is not represented as a creditor as there are insufficient distributable reserves for the payment to be made and therefore a credit has been posted to the statement of total recognised gains and losses.

28. Investments

The principal subsidiaries, associates and joint ventures at 31 March 2004, all of which are included in the consolidated financial statements, are shown below:

Name of company		Principal area of operation	Country of incorporation	Proportion of voting rights held(3)	Financial year end(1)	Nature of business
Subsidiary undertakings						
QinetiQ Group plc	(2)	Great Britain	England & Wales	100%		Holding company
QinetiQ Limited		Great Britain	England & Wales	100%		Research and development
cueSim Limited		Great Britain	England & Wales	100%		Research and development
QinetiQ Nanomaterials Limited		Great Britain	England & Wales	100%		Research and development
QinetiQ Survey and Surveillance Limited		Great Britain	England & Wales	100%		Research and development
Quintel Technology Limited	(4)	Great Britain	England & Wales	50.0%		Research and development
Motionbase (Holdings) Limited		Great Britain	England & Wales	100%		Holding company
QinetiQ Ventures Limited		Great Britain	England & Wales	100%		Holding company
QinetiQ Overseas Holdings Limited		Great Britain	England & Wales	100%		Holding company
QinetiQ Investments Limited		Great Britain	England & Wales	100%		Holding company
Precis (2188) Limited		Great Britain	England & Wales	100%		Holding company
QinetiQ Estates Limited		Great Britain	England & Wales	100%		Holding company
Trusted Experts Limited		Great Britain	England & Wales	100%		Resource management
Precis (2187) Limited		Great Britain	England & Wales	100%		Property holding company
QinetiQ Insurance PCC Limited		Great Britain	Guernsey	100%		Insurance
Science Enterprises Inc.		USA	USA	100%	31 Dec.	Holding company
QinetiQ North America Inc.		USA	USA	100%		Holding company
QinetiQ Trusted Information Management, Inc.		USA	USA	100%		Information systems security
QinetiQ Inc.		USA	USA	100%		Research and development
QinetiQ Technology Extension Corporation		USA	USA	100%		Research and development
QinetiQ Philippines Company Inc.		Philippines	Philippines	100%		Research and development
Joint ventures and associates						
ZBD Displays Limited		Great Britain	England & Wales	32%	31 July	Research and development
Holographic Imaging LLC		USA	USA	50%	31 Dec	Research and development
20/20 Speech Limited		Great Britain	England & Wales	50%	30 June	Research and development
pSiMedica Limited		Great Britain	England & Wales	42.7%		Research and development
QS4 Group Limited	(5)	Great Britain	England & Wales	50%	31 Dec	Holding company
QS4 Limited	(6)	Great Britain	England & Wales	50%		Research and development
ASAP Calibration Limited		Great Britain	England & Wales	45%		Calibration and Engineering

(1) Accounting reference date is 31 March unless otherwise stated.
(2) Shares held directly by QinetiQ Holdings Limited.
(3) Group interest in ordinary share capital unless otherwise stated.
(4) Disclosed as a subsidiary due to management control.
(5) Change of name during the year from Quintel Group Limited.
(6) Change of name during the year from Quintel S4 Limited.

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