QinetiQ Group Limited

Balance Sheet as at 3 January 2006

	Notes	**3 January 2006** **£'000**
Fixed assets		
Investments	2	92,317
Current assets		
Debtors	3	41,724
Cash at bank		48,000
		89,724
Creditors: amounts falling due within one year	4	**(10,592)**
Net current assets		**79,132**
Total assets less current liabilities		**171,449**
Creditors: amounts falling due after one year		
Amounts due to subsidiary undertakings		(28,216)
Net assets		**143,233**
Capital and reserves		
Called up share capital	5	39,071
Share premium account	6	11,376
Capital redemption reserve		1,946
Profit and loss account		90,840
Shareholders' funds		**143,233**

The balance sheet and associated notes on pages 2 to 8 were approved by the Board on 8 January 2006 and signed on its behalf by:

Douglas Webb
Director

QinetiQ Group Limited

Notes to the Balance Sheet

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's balance sheet and associated notes.

Basis of preparation
The balance sheet and associated notes have been prepared under the historical cost convention, on a going concern basis, and in accordance with applicable UK accounting standards.

Investments
Fixed asset investments are stated at the lower of cost and net realisable value.

2. Fixed asset investment

	Investments in subsidiary undertakings £'000
At 3 January 2006	92,317

Name:	Country of incorporation	Proportion of voting rights held	Nature of business
Subsidiary:			
QinetiQ Holdings Limited	England and Wales	100%	Holding company

3. Debtors

	£'000
MOD pension indemnity	39,753
Amounts due from subsidiary undertakings	1,797
Other debtors	174
	41,724

The MOD pension indemnity of £39,753,000 is due after one year.

4. Creditors: amounts falling due within one year

	£'000
Preference share dividends payable	(10,494)
Other creditors	(98)
	(10,592)

QinetiQ Group Limited

Notes to the Balance Sheet (continued)

5. Share capital

	3 January 2006 £'000	3 January 2006 Number
Authorised:		
Attributable to equity interests:	116	11,553,367
Convertible A Ordinary Shares of 1p each	10	966,733
Convertible B Ordinary Shares of 1p each	450	450,489
Convertible C Ordinary Shares of £1 each	555	555,000
D Ordinary Shares of £1 each	426	425,960
Convertible Non-Voting A Ordinary Shares of £1 each	37	37,040
Convertible Non-Voting B Ordinary Shares of £1 each	38	3,752,686
Convertible Preferred Shares of 1p each		
	1,632	17,741,275
Attributable to non-equity interests:		
Redeemable Cumulative Preference Shares of £1 each	112,500	112,500,000
First Deferred Shares of 1p each	116	11,553,367
Second Deferred Shares of £1 each	450	450,489
Special Rights Redeemable Share of £1	-	1
	113,066	124,503,857
Total authorised share capital	114,698	142,245,132
Shares allotted, called up and fully paid		
Attributable to equity interests:		
Convertible A Ordinary Shares of 1p each	77	7,700,981
Convertible B Ordinary Shares of 1p each	6	583,333
Convertible C Ordinary Shares of £1 each	450	450,135
D Ordinary Shares of £1 each	537	537,250
Convertible Non-Voting A Ordinary Shares of £1 each	426	425,960
Convertible Non-Voting B Ordinary Shares of £1 each	37	37,040
Convertible Preferred Shares of 1p each	38	3,752,686
	1,571	13,487,385
Attributable to non-equity interests:		
Redeemable Cumulative Preference Shares of £1 each	37,500	37,500,000
Special Rights Redeemable Share of £1	-	1
	37,500	37,500,001
Total called up share capital	39,071	50,987,386

Notes to the Balance Sheet (continued)

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.

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 the 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.

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.

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

QinetiQ Group Limited

Notes to the Balance Sheet (continued)

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 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 pursuant to this performance ratchet will be dependent on the meeting of certain investment performance criteria.

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.

QinetiQ Group Limited

Notes to the Balance Sheet (continued)

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 ('bring-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 a 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.

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 and then QinetiQ Holdings Limited) 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 Group 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 interest of the United Kingdom;
e) to demand a poll at any of the Group'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.

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 Group to redeem the Special Share at par. If the Group 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 the Group.

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 the Group such persons shall 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 the Group, or might be such information as could be used by the MOD in its commercial dealings with the Group.

Share options
At 3 January 2006, 304,640 options to subscribe for 'B' ordinary shares at an exercise price of £1 were outstanding. The share options were granted on 25 July 2003 and are exercisable upon flotation or sale of QinetiQ Group Limited and no later than 25 July 2013.

6. Share premium

	3 January 2006 Total paid £'000	3 January 2006 Number	3 January 2006 Premium £'000
Convertible A Ordinary Shares of 1p each	7,701	7,701,081	7,624
Convertible B Ordinary Shares of 1p each	583	583,333	578
Convertible C Ordinary Shares of £1 each	9	1,800	7
Convertible D Ordinary Shares of £1 each	49	10,000	39
Convertible Preferred Shares of 1p each	3,753	3,752,686	3,715
Stamp duty on share issue			(587)
			11,376

THE COMPANIES ACT 1985

PUBLIC COMPANY LIMITED BY SHARES

MEMORANDUM AND ARTICLES OF ASSOCIATION

OF

QINETIQ GROUP PLC

Registered Number: 4586941

Incorporated: 11th November 2002