Registration number: 01877695

QinetiQ Target Systems Limited

Annual report and financial statements

for the year ended 31 March 2020

QinetiQ Target Systems Limited
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QinetiQ Target Systems Limited
Company information

Directors	Peter Longstaff John Clark Andy Thorp
Company secretary	Jon Messent
Registered office	Cody Technology Park Ively Road Farnborough Hampshire GU14 0LX
Independent auditors	PricewaterhouseCoopers LLP Savannah House 3 Ocean Way Southampton SO14 3TJ

QinetiQ Target Systems Limited
Strategic report for the year ended 31 March 2020

The Directors present their Strategic Report for the year ended 31 March 2020.

Principal activities
The principal activities of the Company during the period was the manufacture of target drones for the armed forces and the performance of related services.

Business review
The profit before taxation was £6.8m for the year ended 31 March 2020 (2019 restated: £7.3m) and the Company has net assets of £18.1m as at 31 March 2020 (2019 restated: £19.8m).

The Company's key financial and other performance indicators during the period were as follows:

	Unit	2020	2019 restated*
Orders	£ m	22.3	24.1
Revenue	£ m	30.3	29.8
Revenue growth	%	1.7	35.4
Profit before taxation	£ m	6.8	7.3
Profit for the financial year	£ m	5.6	6.0

*Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 23 for details.

Orders were £1.8m (7.5%) lower due to weaker demand in the Middle East.

Revenue remained strong with year on year increase of 1.7% due to growth in the Middle East offset by weaker demand in Asia (last year was assisted by strong product sales in Asia which were not repeatable in current year). Profit before taxation remained strong at 22.4% (2019: 24.5%) of total revenue, although margin was lower by 2% mainly due to the different mix of revenue.

Principal risks and uncertainties
The key risks and uncertainties impacting on the Company relate to the following:

- Reduced spending in the core markets in which the Company operates. This, and modernising ways of evaluating capability, results in a risk that our approaches/offerings may not remain relevant. There remains the potential for this risk to be exacerbated by the impact of COVID-19 on Government spending and the EU exit should the UK experience a loss of market confidence and further reduction in collaborative EU funding. To monitor this risk, the Company proactively engages with our major customers to allow us to support our customers with their efficiency challenges as well as ensuring that we provide the right services as the threat environment continues to evolve and post Brexit will maintain relationships with the UK Government to support bilateral relationships with Europe.
- Failure to create a culture of innovation, develop relevant technology and business models or to attract and retain the right talent, to enable the realisation of new ideas for our customers and our organisation. To manage this risk we continue to mature our innovation approach, including clear articulation across the organisation, to ensure the importance of innovation to both our organisation and our customers is clearly understood and initiatives are supported.
- Failure to meet customers' cost, quality and delivery standards or quality as preferred suppliers. To monitor this risk, the Company continuously maintains a positive engagement with customers with a focus on continuous improvement in product and service base.
- The Company operates in highly regulated environments and recognises that its operations have the potential to have an impact on a variety of stakeholders. The Company's robust policies, procedures and mandatory training defines clear expectations for the Company and its employees. Key areas of focus include safety of products and services, health, safety and environment, international trade controls, bribery and ethics. The Company adopts a zero tolerance approach to bribery and corruption.

Principal risks and uncertainties (continued)

- A breach of physical or data security, cyber attacks or IT systems failure could have an adverse impact on our customers' operations. Information systems are designed with consideration to single points of failure and comply with relevant accreditation standards. Mandatory security awareness training for all staff also mitigates this risk.
- The Company operates in highly regulated environments and recognises that its operations have the potential to have an impact on a variety of stakeholders. The Company has robust policies, procedures and training in place. The QinetiQ Code of Conduct defines clear expectations for the Company and its employees. Key areas of focus for the Company include the following: safety of products and services, health, safety and environment, bribery and ethics, and international trade controls.
- The COVID-19 pandemic disrupts the Company operations with the restrictions on travel and requirements to implement social distancing and some customers have delayed trial activity and reduced orders for targets. In March 2020, this caused operation and trial cancellations in the Middle East and Europe. This disruption has led to the furlough of some production and support staff. QinetiQ's crisis management process is well embedded, flexible and exercised. It operates at strategic, tactical and operational levels across the Group allowing the Company to respond rapidly to the pandemic and government requirements. The process has been held under regular review and modification enacted where required to ensure an effective response to the pandemic. The Company has engaged with all relevant stakeholders including government, customers, suppliers and employees as the pandemic has progressed. Ways of working have been adapted to facilitate remote working from home where possible and to meet public health requirements where not.

Approved by the Board on 18 August 2020 and signed on its behalf by:

J. Messent
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Jon Messent
Company Secretary
Cody Technology Park
Ively Road
Farnborough
Hampshire
GU14 0LX

QinetiQ Target Systems Limited
Directors' report for the year ended 31 March 2020

The Directors present their report and the audited financial statements for the year ended 31 March 2020.

QinetiQ Target Systems Limited ('the Company') is a private company limited by shares and is incorporated, registered and domiciled in the United Kingdom and its registered number is 01877695. The address of the registered office is Cody Technology Park, Ively Road, Farnborough, Hampshire, GU14 0LX. The Company is a wholly owned subsidiary of QinetiQ Group plc.

Directors of the company

The Directors who held office during the year and up to the date of signing the financial statements were:

Peter Longstaff

Michael Collier (resigned 20 December 2019)

John Clark (appointed 20 December 2019)

Iain Farley (resigned 1 April 2020)

Andy Thorp (appointed 1 April 2020)

Research and development

The Company incurred £3.3m (2019: £3.5m) research and development costs in the year. The Company capitalised some of these research and development costs as set out in Note 8 to the financial statements.

Financial risk management

The Company is exposed to a variety of financial risks as a result of its operations that include the effects of changes in foreign exchange risk, credit risk and liquidity risk.

Foreign exchange risk

The majority of the Company's income and expenditure is settled in sterling. The Company's policy is to use financial instruments to hedge all material transaction exposure at the point of commitment to the underlying transaction. The Company does not typically hedge uncommitted future transactions, although transaction risks are fully considered and appropriately mitigated when bidding for new work.

Credit risk

Credit risk is the risk of financial loss to the company if a customer fails to meet its contractual obligations. To mitigate this risk the Company performs credit checks as appropriate and only contracts with customers who meet certain creditworthiness requirements.

Liquidity risk

The Company maintains sufficient cash or short term financing facilities to ensure it has available funds for its operations.

The Directors will revisit the appropriateness of this approach to risk management should the Company's operations change in size or nature.

Dividends

The Company paid interim dividends of £7.3m during the year (2019: £nil) to its parent undertaking QinetiQ Holdings Limited.

The Directors have not recommended the payment of a final dividend in respect of the year ended 31 March 2020.

Donations

The Company made no political contributions or charitable donations during the year (2019: £nil).

Employees
The Company is committed to the fair treatment of people with disabilities in relation to applications, training, promotion and career development. If an existing employee becomes disabled, we make every effort to enable them to continue their employment and career development, and to arrange appropriate training, wherever practicable.

Environment
The Company has successfully transitioned to ISO 14001 certification in the UK.

Future developments
The Company expects to continue operating with its principal activity as outlined in the Strategic Report for the foreseeable future.

The Directors are comfortable that the Company has the right strategy in place to drive future growth with further enhancement planned on its product range. In light of the COVID-19 pandemic the Company has reviewed the financial and operational plan for FY21 and put various actions in place to minimise the impact on business performance.

Independent auditors
Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework' and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

QinetiQ Target Systems Limited
Directors' report for the year ended 31 March 2020 (continued)

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Approved by the Board on 18 August 2020 and signed on its behalf by:

J. Messent
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Jon Messent
Company Secretary
Cody Technology Park
Ively Road
Farnborough
Hampshire
GU14 0LX

Independent auditors' report to the members of QinetiQ Target Systems Limited

Report on the audit of the financial statements

Opinion

In our opinion, QinetiQ Target Systems Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the 'Annual Report'), which comprise: the Balance sheet as at 31 March 2020; the Statement of comprehensive income, the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

Independent auditors' report to the members of QinetiQ Target Systems Limited (continued)

Reporting on other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities set out on page 5, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Independent auditors' report to the members of QinetiQ Target Systems Limited (continued)

Responsibilities for the financial statements and the audit (continued)

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

K. Godfrey

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Kevin Godfrey BSc FCA (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP,
Chartered Accountants and Statutory Auditors
Southampton

Date: 19 August 2020

QinetiQ Target Systems Limited
Statement of comprehensive income for the year ended 31 March

	Note	2020 £ 000	2019 restated* £ 000
Revenue	3	30,294	29,770
Cost of sales		(18,281)	(17,378)
Gross profit		12,013	12,392
Distribution costs		(1,558)	(1,446)
Administrative expenses		(3,572)	(3,583)
Operating profit	4	6,883	7,363
Finance expenses - net	5	(80)	(90)
Profit before taxation		6,803	7,273
Tax on profit	7	(1,233)	(1,291)
Profit and total comprehensive income for the year		5,570	5,982

*Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 23 for details.

There is no other comprehensive income for the year.

All amounts derive from continuing operations.

QinetiQ Target Systems Limited
Balance sheet as at 31 March 2020

	Note	2020 £ 000	2019 restated* £ 000
Fixed assets			
Intangible assets	8	3,181	1,543
Property, plant and equipment	9	3,954	3,023
		7,135	**4,566**
Current assets			
Inventories	10	12,553	10,880
Trade and other receivables	11	8,438	6,952
Deferred tax assets	12	-	121
Cash and cash equivalents		-	7,127
		20,991	**25,080**
Current liabilities			
Creditors: amounts falling due within one year	13	(7,396)	(7,366)
Provisions	15	(138)	(175)
Deferred tax liabilities	12	(621)	(291)
		(8,155)	**(7,832)**
Net current assets		**12,836**	**17,248**
Total assets less current liabilities		**19,971**	**21,814**
Non-current liabilities			
Creditors: amounts falling due after more than one year	14	(1,743)	(1,902)
Provisions	15	(169)	(145)
Net assets		**18,059**	**19,767**
Capital and reserves			
Called up share capital	16	5	5
Retained earnings		18,054	19,762
Total shareholders' funds		**18,059**	**19,767**

* Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 23 for details.

The financial statements of QinetiQ Target Systems Limited (company number 01877695) on pages 10 to 33 were approved by the Board on 18 August 2020 and signed on its behalf by:

J Clark

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John Clark
Director

QinetiQ Target Systems Limited
Statement of changes in equity for the year ended 31 March 2020

	Share capital £ 000	Retained earnings £ 000	Total shareholders' funds £ 000
At 1 April 2018 - previously reported	5	13,915	13,920
Restatement in respect of IFRS 16	-	(135)	(135)
At 1 April 2018 restated*	5	13,780	13,785
Profit and total comprehensive income for the year restated*	-	5,982	5,982
At 31 March 2019 restated*	**5**	**19,762**	**19,767**

	Share capital £ 000	Retained earnings £ 000	Total shareholders' funds £ 000
At 31 March 2019 - previously reported	5	19,933	19,938
Restatement in respect of IFRS 16	-	(171)	(171)
At 31 March 2019 restated*	5	19,762	19,767
Profit and total comprehensive income for the year	-	5,570	5,570
Dividends	-	(7,300)	(7,300)
Share based payments - capital contribution	-	22	22
At 31 March 2020	**5**	**18,054**	**18,059**

*Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 23 for details.

QinetiQ Target Systems Limited
Notes to the financial statements

1 Basis of preparation and accounting policies

The following accounting policies have been applied consistently to all periods presented in dealing with items which are considered material in relation to the financial statements.

Basis of preparation
The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'). The financial statements have been prepared on the historical cost basis, modified by financial assets and liabilities held at fair value through profit and loss, that the financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies using FRS101.

In these financial statements, the Company has applied the exemptions available under FRS101 in respect of the following disclosures:

- a cash flow statement and related notes;
- disclosures in respect of transactions with wholly owned subsidiaries;
- disclosures in respect of capital management;
- disclosures in respect of share based payment;
- disclosures in respect of the compensation of key management personnel;
- presentation of a third statement of financial position as at the beginning of the preceding period;
- disclosures in respect of the reconciliation of the opening carrying amount for property, plant and equipment;
- disclosures in respect of the reconciliation of the opening carrying amount for intangible assets; and
- the effects of new but not yet effective IFRSs;

Going concern
The Company meets its day-to-day working capital requirements through its available cash funds and its bank facilities. The COVID-19 crisis has introduced considerably more uncertainty across markets globally. As such the market conditions in which the Group operates are expected to be challenging as spending from the Company's key customers comes under pressure. Despite these challenges, and considering the decisive action already taken by management to maintain the strength of our business, the Directors believe that the Company is well positioned to manage its overall business risk successfully.

After making enquiries, the Directors have reasonable expectations that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Recent accounting developments

IFRS 16 Leases
The Company has changed its accounting policy for leases where the Company is the lessee. The new policy is included for the first time in this note and the impact of the change is presented in note 23.

IFRIC 23 Uncertainty over income tax treatments
The Company has changed its accounting policy for accounting policy for certain aspects of taxation. The new policy is included for the first time in this note and the impact of the change is presented in note 23.

1 Basis of preparation and accounting policies (continued)

Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognises revenue when it transfers control of a product or service to a customer. The Company's revenue contracts are accounted for under IFRS 15 'Revenue from Contracts with Customers' taking into account the existence of multiple performance obligations and accounts for these separately. The Company's methodology applies the revenue requirements on a contract-by-contract basis which includes considerations for contract modifications, variable consideration and the determination of distinct performance obligations.

Service contracts

Service contracts are transferred to the customer over a period of time as the Company fulfils its performance obligation. At contract inception the Company undertakes an assessment to determine how many distinct performance obligations exists within a contract. As part of the assessment the Company obtains an understanding of the overall deliverable to the customer through discussions with business units and project leads. Each individual deliverable in the contract is then assessed to determine if it is an input into the overall deliverable, and therefore part of a single performance obligation, or if it is a stand-alone separable deliverable with its own transaction price and therefore a distinct performance obligation in its own right. Each distinct performance obligation identified within a contract is accounted for separately.

The transaction price is allocated between each distinct performance obligation identified in a contract based on the stand-alone selling price of each performance obligation. Each performance obligation will be costed and the transaction price will be cost plus margin. This amount would be the stand-alone selling price of each performance obligation if contracted with a customer separately.

When the outcome of a distinct performance obligation in delivering services can be reliably estimated, revenue associated with the performance obligation is recognised over time using the input method. The input method recognises revenue over time on the basis of costs incurred to date to the satisfaction of a performance obligation relative to the total forecast costs to complete the performance obligation. The Company has determined the input method to be appropriate as it best depicts the Company's performance in transferring control of the service to the customer as it incurs costs on a particular contract.

Goods sold

The Company recognises revenue on the sale of products at a point in time once control has been transferred to the customer. Control is generally transferred to customers on delivery of products or when the customer has the significant risks and rewards of ownership of the product. Payment is typically due within 30 days of invoice and customers typically do not have a right of return or refund. The transaction price for sale of products is agreed at contract inception. When the Company develops a bespoke product for a customer with no alternative use to the Company, revenue is recognised over time using the input method.

Contract assets

Contract assets is a term used in adopting IFRS 15 (as applied under FRS 101) and effectively represents amounts recoverable under contracts as previously reported. Contract assets represent revenue recognised in excess of amounts invoiced.

Contract liabilities

Contract liabilities is a term used in adopting IFRS 15 (as applied under FRS 101) and effectively represents deferred income as previously reported. The Company, on occasion, bills customers in advance of performing certain types of work which results in the Company recognising contract liabilities. Once the work has been performed these amounts will be reduced and recognised as revenue. For sale of goods, revenue is recognised in the income statement when control of the goods has been transferred to the customer; being at the point when the goods are delivered. Any transaction price received by the Company prior to that point is recognised as a contract liability.

1 Basis of preparation and accounting policies (continued)

Taxation

The taxation charge is based on the taxable profit for the period and takes into account taxation deferred because of temporary differences between the treatment of certain items for taxation and accounting purposes. Current tax and deferred tax are charged or credited to the income statement, except where they relate to items charged or credited to equity, in which case the relevant tax is charged or credited to equity. Deferred taxation is the tax attributable to the temporary differences that appear when taxation authorities recognise and measure assets and liabilities with rules that differ from those of the consolidated financial statements. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using rates enacted or substantively enacted at the balance sheet date.

Any changes in the tax rates are recognised in the income statement unless related to items directly recognised in equity. Deferred tax liabilities are recognised on all taxable temporary differences excluding non-deductible goodwill. Deferred tax assets are recognised on all deductible temporary differences provided that it is probable that future taxable income will be available against which the asset can be utilised. Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset and there is an intention to settle balances on a net basis.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at period-end rates. Any resulting exchange differences are taken to the Income statement. Gains and losses on designated forward foreign exchange hedging contracts are matched against the foreign exchange movements on the underlying transaction.

Leases

In the prior year financial statements leases in which a significant portion of the risks and rewards of ownership were not transferred to the Company as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight line basis over the period of the lease. The new accounting policy adopted for leases in the 2020 financial statements is set out on the following pages. Prior year financial statements have been restated. See note 23 for details of the restatement.

Leases - as a lessee

The Company leases a property. Rental contracts are typically made for fixed periods of 10 years, but may have extension options described below.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the lease assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

From 1 April 2019, leases are recognised as a right-of-use asset and corresponding liability at the date at which the lease asset is available for use by the Company. The 2019 data has been restated to be on the same basis, see note 23.

1 Basis of preparation and accounting policies (continued)

Leases (continued)

Assets and liabilites arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Company under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments to be made under reasonably certain options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If the rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Company, which does not have recent third party financing; and
- makes adjustments specific to the leases, example, term, country, currency and security.

The Company is not exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of ineterst on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. The Company does not revalue its land and buildings that are presented within property, plant and equipment and has chosen to do the same for right-of-use buildings by the Company.

Payments associated with short-term leases of offices, equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise lease assets under £5,000.

1 Basis of preparation and accounting policies (continued)

Lease termination options
Termination option is not ncluded in the property leases within the Company.

Judgements in determining the lease term
In determining the lease term, management considers all facts and circumstances that create an economic incentive to not exercise a termination option. Periods after termination options are only included in the lease term if the lease is reasonably certain to not be terminated.

For leases of offices and equipment, the following factors are normally the most relevant;

- if there are significant penalties to terminate, the Company is typically reasonably certain to not to terminate;
- if any leasehold improvements are expected to have a significant remaining value, the Company is typically reasonably certain to not terminate; and
- Otherwise, the Company considers other factors including historical lease durations and the costs and business disruptions required to replace the leased asset.

As at 31 March 2020, no (undiscounted) potential future cash outflows have been included in the lease liability for termination.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event of significant change in circumstance occurs, which affects the assessment, and that is within the control of the lessee. During the current financial year, the Company did not exercise any termination options.

Intangible assets
Research and development expenditure is expensed as incurred, with the exception of development expenditure on projects that are undertaken where the related expenditure is separately identifiable and management are satisfied as to the ultimate commercial viability of the project based on all relevant available information. In such cases, the expenditure is capitalised as development costs within intangible fixed assets and written off over the periods expected to benefit commencing with the launch of the project.

Intangible assets are amortised over their respective useful lives on a straight line basis as follows:

Development costs	1 - 4 years
Software	3 years

Property, plant and equipment
Property, plant and equipment are stated at cost less depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. There have been no impairments to date.

Property, plant and equipment are depreciated on a straight-line basis over their useful economic lives to their estimated residual value as follows:

Plant and equipment	2 - 10 years
Motor vehicles	3 - 5 years
Leasehold property	Shorter of useful economic life and the period of the lease
Right of use assets - buildings	Useful economic life

The useful lives, depreciation methods and residual values applied to property, plant and equipment are reviewed annually and, if appropriate, adjusted accordingly.

1 Basis of preparation and accounting policies (continued)

Impairment of fixed assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the Income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) prior years. A reversal of an impairment loss is recognised immediately in the Income statement.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost represents materials, direct labour and production overheads. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate.

Work in progress is valued on the basis of direct costs plus attributable overheads based on normal level of activity. Provision is made for any foreseeable losses where appropriate. No element of profit is included in the valuation of work in progress.

Trade and other receivables

Trade and other receivables are stated net of provisions for doubtful debts. Contract assets are included in trade and other receivables and represent revenue recognised in excess of amounts invoiced.

Provisions

A provision is made for product warranty claims when the Company has a present legal or constructive obligation as a result of a past event which can be reliably estimated, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The Company is required to restore the leased premises to their original condition at the end of the respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements.

1 Basis of preparation and accounting policies (continued)

Post-retirement benefits
For defined contributions plan, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Share based payments
The Company operates share-based payment arrangements with employees. The fair value of equity-settled awards for share-based payments is determined on grant and expensed straight line over the period from grant to the date of earliest unconditional exercise. The charges for equity settled share-based payments are updated annually for non-market-based vesting conditions.

Financial instruments
Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. The de-recognition of a financial instrument takes place when the Company no longer controls the contractual rights that comprise the financial instrument, when the instrument expires, or when the instrument is sold, terminated or exercised.

Financial assets
Financial assets are classified on the Company's balance sheet as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through income statement. This classification is made on the basis of both the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Impairment of financial assets
The Company assesses, at the end of each reporting period, whether there is objective evidence that a financial asset or group of financial assets are impaired. The Company applies IFRS 9 to measure expected credit losses.

Financial liabilities
Financial liabilities are classified on the Company's balance sheet as subsequently measured at amortised cost except for financial liabilities at fair value through income statement. The Company may at initial recognition irrevocably designate a financial liability as measured at fair value through income statement if a contract contains one or more embedded derivatives and the host is not an asset within the scope of IFRS 9, or when doing so results in more relevant information.

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and short-term deposits that are readily convertible into cash. Bank overdrafts are shown within borrowings in current liabilities.

2 Critical accounting judgements and key sources of estimation uncertainty

The following commentary is intended to highlight those policies that are critical to the business based on the level of management judgement required in their application, their complexity and their potential impact on the results and financial position reported for the Company. The level of management judgement required includes assumptions and estimates about future events that are uncertain and the actual outcome of which may result in a materially different outcome from that anticipated.

Inventory provisioning

The Company is a manufacturer of target drones and associated training systems. As a result, it is necessary to consider the recoverability of the cost of inventory and the associated provisioning required. When calculating the inventory provision, management considers the nature and condition of the inventory as well as applying assumptions around associated saleability of finished goods and future usage of raw materials. Details on the net carrying amount of the inventory and associated provision are shown on note 10.

3 Revenue

The revenue and profit before taxation are attributable to the one principal activity of the Company.

An analysis of the Company's revenue by customer geographic location is as follows:

	UK £ 000	Rest of Europe £ 000	North America £ 000	Rest of World £ 000	Total £ 000
2020					
Revenue	1,670	5,280	3,366	19,978	30,294

	UK £ 000	Rest of Europe £ 000	North America £ 000	Rest of World £ 000	Total £ 000
2019					
Revenue	2,132	7,766	1,438	18,434	29,770

4 Operating profit

Arrived at after charging/(crediting):

	2020 £ 000	2019 restated* £ 000
Research and development costs	1,633	2,012
Fees payable to the Company's auditors for the audit of the Company's financial statements	40	30
Depreciation of property, plant and equipment - Owned (note 9)	560	351
Depreciation of property, plant and equipment - Leased (note 9)	241	241
Amortisation of intangible assets (note 8)	10	23
Loss/(profit) on disposal of fixed assets	18	(4)
Raw materials and consumables used	10,891	8,340
Staff costs (note 6)	6,936	6,485

*Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 23 for details.

The amount paid to the Company's auditors for non-audit fees during the year was £nil (2019: £nil).

5 Finance income and expense

	2020 £ 000	2019 restated* £ 000
Interest receivable	(1)	-
Lease interest	81	90
Finance expense - net	(80)	(90)

*Prior year comparatives have been restated due to a change in accounting policy in repect of leases. See note 23 for details.

6 Particulars of employees

The average monthly number of employees (excluding directors) during the year, were:

	2020 No.	2019 No.
Selling and distribution	12	11
Administration	8	8
Production	122	109
	142	128

The aggregate payroll costs of these persons were as follows:

	2020 £ 000	2019 £ 000
Wages and salaries	5,737	5,349
Social security costs	537	513
Other pension costs	640	612
Share-based payments costs	22	11
Total employee costs	6,936	6,485

Directors' remuneration

	2020 £ 000	2019 £ 000
Emoluments	151	244
Pension costs	5	5
Total employee costs	156	249

The above Directors' remuneration represents the emoluments for the highest paid and only director remunerated by QinetiQ Target Systems Limited. The Directors' fees or emoluments for the remaining directors (2019: During the year, one director (2019: two directors) were paid by QinetiQ Limited and the amount attributable to the qualifying services by the Directors to the Company are incidental to their wider role in the Group and cannot be reliably estimated.

7 Tax on profit

(a) Analysis of tax charge in the period/year

	2020 £ 000	2019 restated* £ 000
Current tax		
Current tax UK tax expense	610	896
Current UK tax in respect of prior years	74	44
Foreign tax	98	51
Total current tax	782	991
Deferred tax		
Deferred tax expense	450	293
Deferred tax in respect of prior years	1	7
Total deferred tax	451	300
Total tax charge for the year	1,233	1,291

(b) Tax charge reconciliation

	2020 £ 000	2019 restated* £ 000
Profit before tax	6,803	7,273
Tax calculated at UK standard rate of corporation tax of 19% (2019: 19%)	1,293	1,382
Effects of:		
Expenses not deductible for tax purposes and other non-taxable items	35	41
Research and development expenditure credits/relief	(134)	(190)
Tax underprovided in previous years	75	51
Effect of adoption of IFRS 16	(7)	7
Other timing differences	(29)	-
Total tax charge for the year	1,233	1,291

*Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 23 for details.

The effective tax rate continues to be below the UK statutory rate of 19% (2019: 19%) primarily as a result of the benefit of research and development expenditure credits.

(c) Factors affecting future tax charges

A change to the main UK corporation tax rate, announced in the Budget on 11 March 2020, was substantively enacted for IFRS and UK GAAP purposes on 17 March 2020. The rate applicable from 1 April 2020 now remains at 19 percent, rather than the previously enacted reduction to 17 percent.

8 Intangible assets

	Software £ 000	Development costs £ 000	Total £ 000
Cost			
At 1 April 2019	118	1,962	2,080
Additions	-	1,648	1,648
At 31 March 2020	118	3,610	3,728
Accumulated amortisation			
At 1 April 2019	107	430	537
Amortisation charge for year	10	-	10
At 31 March 2020	117	430	547
Net book value			
At 31 March 2020	1	3,180	3,181
At 31 March 2019	11	1,532	1,543

9 Property, plant and equipment

	Plant, equipment and vehicles £ 000	Leasehold property £ 000	Right of use assets - Buildings £ 000	Total £ 000
Cost				
At 1 April 2019 restated*	3,381	2,246	2,437	8,064
Additions	1,576	174	-	1,750
Disposals	(21)	-	-	(21)
At 31 March 2020	4,936	2,420	2,437	9,793
Accumulated depreciation				
At 1 April 2019 restated*	2,770	1,790	481	5,041
Charge for the year	396	164	241	801
Disposals	(3)	-	-	(3)
At 31 March 2020	3,163	1,954	722	5,839
Net book value				
At 31 March 2020	1,773	466	1,715	3,954
At 31 March 2019 restated*	611	456	1,956	3,023

*Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 23 for details.

10 Inventories

	2020 £ 000	2019 £ 000
Raw materials	4,460	3,931
Work in progress	1,790	2,252
Finished goods	6,303	4,697
	12,553	10,880

Inventories are stated after provisions for impairment of £3.5m (2019: £3.2m).

11 Trade and other receivables

	2020 £ 000	2019 £ 000
Trade receivables	7,398	5,806
Amounts owed by fellow subsidiary undertakings	397	218
Other receivables	364	694
Prepayments and contract assets	279	234
	8,438	6,952

12 Deferred tax

Deferred tax asset	Fixed assets £ 000	Total £ 000
At 1 April 2019	121	121
Charged to the Income statement	(138)	(138)
Transferred to deferred tax liability	17	17
Deferred tax asset at 31 March 2020	-	-

	Fixed assets £ 000	Total £ 000
At 1 April 2018	130	130
Charged to the Income statement	(9)	(9)
Deferred tax asset at 31 March 2019	121	121

Deferred tax liability

	Short term timing differences £ 000	Fixed assets £ 000	Total £ 000
At 1 April 2019	291	-	291
Charged to the Income statement	313	-	313
Transfer from deferred tax asset	-	17	17
Deferred tax liabilities at 31 March 2020	604	17	621

12 Deferred tax (continued)

Deferred tax liability

	Short term timing differences £ 000	Total £ 000
At 1 April 2018	-	-
Charged to the Income statement	291	291
Deferred tax liabilities at 31 March 2019	291	291

13 Creditors: amounts falling due within one year

	2020 £ 000	2019 restated* £ 000
Trade creditors	2,987	2,312
Amounts owed to fellow subsidiary undertakings	528	28
Bank overdraft	2,428	-
Accruals and contract liabilities	893	3,822
Other taxes and social security	284	972
Other creditors	41	7
Lease liabilities	235	225
	7,396	7,366

*Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 23 for details.

Amounts owed to fellow subsidiary undertakings are unsecured, interest free and repayable on demand.

14 Creditors: amounts falling due after more than one year

	2020 £ 000	2019 restated* £ 000
Lease liabilities	1,743	1,902

*Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 23 for details.

15 Provisions for liabilities

	2020 £ 000
At 1 April 2019	320
Created in the period	24
Utilised in the period	(37)
At 31 March 2020	307

15 Provisions for liabilities (continued)

	2019 £ 000
At 1 April 2018	216
Created in the period	199
Utilised in the period	(95)
At 31 March 2019	320

	2020 £ 000	2019 £ 000
Current liabilities	138	175
Non current liabilities	169	145
	307	320

The provisions relate to warranty (2020: £138,000, 2019: £175,000) and dilapidations (2020: £169,000, 2019: £145,000), the timing of which are determined by a variety of factors.

16 Called up share capital

Allotted, called up and fully paid shares

	No.	2020 £ 000	No.	2019 £ 000
Ordinary shares of £1 each	5,000	5	5,000	5

17 Related party transactions

During the year, the company sold £0.4m (2019: £nil) of services to Houbara Defence & Security L.L.C. Houbara Defence & Security L.L.C is a 49% owned Joint Venture of QinetiQ Overseas Holdings Ltd, a fellow subsidiary undertaking in the Group. At the year-end, £0.3m (2019: £nil) was outstanding and included within Trade receivables. The receivable is unsecured and no guarantees have been received.

During the year, the company purchased £1.7m (2019: £nil) of services from Houbara Defence & Security L.L.C. At the year-end, £0.9m (2019: £nil) was outstanding and included within Creditors: amounts falling due within one year (note 13).

18 Retirement benefit schemes

For defined contributions plan, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis, which amounted to £640,000 for the year (2019: £612,000). The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

19 Leases

Company as a lessee

Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

19 Leases (continued)

	2020 £ 000	2019 restated* £ 000
Right of use assets (included within Property, Plant & Equipment - see note 9)		
Right of use assets - Buildings	1,715	1,956

*Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 23 for details.

	2020 £ 000	2019 restated* £ 000
Lease liabilities (included within Creditors - see note 13 and 14)		
Current	235	225
Non-current	1,743	1,902
	1,978	2,127

*Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 23 for details.

Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	2020 £ 000	2019 restated* £ 000
Total depreciation charge on right of use asset - buildings	241	241
Lease expense (included in finance expense - see note 5)	81	90
Total expense charged to profit before tax	**322**	**331**

*Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 23 for details.

Minimum lease payment commitments

The Company has the following total future minimum lease payment commitments:

	2020 £ 000	2019 restated* £ 000
Within one year	306	306
Between two to five years	1,224	1,224
Greater than five years	650	956
	2,180	2,486

*Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 23 for details.

20 Contingent liabilities

The Company is a participant in a group banking arrangement under which all surplus cash balances are held as collateral for bank facilities advanced to group members. In addition, the Company has issued a cross guarantee to support these group facilities. The bank facilities are structured in such a way that gross aggregate borrowing is limited to £30,000,000, which effectively caps the liability under the guarantee to that amount.

The Company has provided bank guarantees issued in the course of ordinary trade to the value of £nil (2019: £nil).

21 Share-based payments

The Company operates a number of share-based payment plans for employees. The total share-based payments expense in the year was £22,000 (2019: £11,000), of which £22,000 (2019: £11,000) related to equity-settled schemes and nil related to cash-settled schemes (2019: £nil) The expense for share-settled schemes was charged to the Company by the ultimate parent company QinetiQ Group plc, in respect of share options over its shares. Set out below are details of the share-based payments arranagement that was utilised during the year. In all cases they relate to the shares of QinetiQ Group plc, the ultimate parent company.

Early in the financial year QinetiQ's top 200 leaders are provisionally awarded contingent shares in the ultimate parent company, QinetiQ Group Plc. The number of awards is dependent on the Group's performance during the year (specifically with respect to the level of non-UK revenue growth). This is provisionally quantified at year end based on Group performance and also the number of eligible employees as at 31 March. Actual awards are made in the following June and the final number awarded will be slightly different to the number provisionally calculated. Awards are then subject to a three-year vesting period and a further two-year holding period. Vesting of the awards is contingent upon Group operating profit in the year prior to vesting being maintained at the level reported during the year prior to award.

At 31 March 2020 the awards had an average remaining life of 1.7 years (2019: nil). There is no exercise price for these awards. No DSP's were awarded for the year ended 31 March 2020. The fair value of the DSP's awarded during the year (in respect of prior year performance) was £2.79 being the Group's closing share price at the date of award (1 June 2019). Of the awards outstanding at the end of the year nil were exercisable.

22 Parent undertaking and control

The ultimate parent undertaking and controlling party is QinetiQ Group plc, a company registered in England and Wales. The immediate parent undertaking is QinetiQ Holdings Limited, a company registered in England and Wales. QinetiQ Group plc and QinetiQ Holdings Limited have financial year ends of 31 March. QinetiQ Group plc is the parent undertaking of the smallest and largest group of undertakings to consolidate the Company's results at 31 March 2020. QinetiQ Group plc is the only company in the group which prepares consolidated financial statements. Copies of the consolidated financial statements of QinetiQ Group plc are available from the company Secretary, QinetiQ Group plc, Cody Technology Park, Ively Road, Farnborough, Hampshire, GU14 0LX.

23 Changes in accounting policies

The note explains the impact of the adoption of two new accounting policies that were effective for the first time in the Company's financial statements for the year ended 31 March 2020.

- IFRS 16 'Leases'
- IFRIC 23 'Uncertainty over income tax treatments'

IFRS 16 'Leases'
The Company has adopted IFRS 16 'Leases' using the fully retrospective method for 2020 and has restated comparatives for the 2019 reporting period, as permitted under the specific provisions in the standard. The reclassifications and the adjustments arising from the new rules is exempted from recognition in the opening balance on 1 April 2019 under FRS 101. The new accounting policies are disclosed in note 1.

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under principles of IAS 17 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 31 March 2019.

23 Changes in accounting policies (continued)

Practical expedients applied
In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard.

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing impairment review - there were no onerous contracts as at 31 March 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 31 March 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and;
- using hindsight in determining the lease term where the contract options to extend or terminate the lease.

The Company has elected not to assess whether a contract is, or contains a lease at the date of initial application, instead, for contracts entered before the transition date the Company relied on its assessment made applying IAS 17 and Interpretation 4 'Determining whether an Arrangement contains a Lease'.

Measurement of right-of-use assets
The associated right-of-use asset for the lease was measured on a fully retrospective basis as if the new rules had always been applied.

Adjustments recognised in the balance sheet on 31 March 2019
The change in accounting policy affected the following items in the balance sheet on 31 March 2019.

- property, plant and equipment - increase by £1,956,000.
- lease liabilities - increase by £2,127,000

The net impact on retained earnings on 31 March 2019 was a decrease of £171,000.

The Company has applied IFRS 16 fully retrospectively without the simplified transition approach permitted under IFRS 16. The following tables show the adjusted recognised for each individual line item as at 31 March 2020 and 31 March 2019.

23 Changes in accounting policies (continued)

Balance sheet (extract)

	If applying IAS 17 £ 000	Applying IFRS 16 £ 000	As presented £ 000
2020			
Assets			
Property, plant and equipment	2,239	1,715	3,954
Other assets	24,172	-	24,172
	26,411	**1,715**	**28,126**
Liabilities			
Creditors	(7,161)	(1,978)	(9,139)
Provisions	(307)	-	(307)
Deferred tax liabilities	(621)	-	(621)
	(8,089)	**(1,978)**	**(10,067)**
Net Assets	**18,322**	**(263)**	**18,059**
Capital and reserves			
Share capital and other reserves	5	-	5
Retained earnings	18,317	(263)	18,054
Total shareholders' funds	**18,322**	**(263)**	**18,059**

QinetiQ Target Systems Limited
Notes to the financial statements (continued)

23 Changes in accounting policies (continued)

	As originally presented £ 000	Applying IFRS 16 £ 000	Restated £ 000
2019			
Assets			
Property, plant and equipment	1,067	1,956	3,023
Other assets	26,623	-	26,623
	27,690	**1,956**	**29,646**
Liabilities			
Creditors	(7,141)	(2,127)	(9,268)
Provisions	(320)	-	(320)
Deferred tax liabilities	(291)	-	(291)
	(7,752)	**(2,127)**	**(9,879)**
Net Assets	**19,938**	**(171)**	**19,767**
Capital and reserves			
Share capital and other reserves	5	-	5
Retained earnings	19,933	(171)	19,762
Total shareholders' funds	**19,938**	**(171)**	**19,767**

Statement of profit or loss (extract)

	If applying IAS 17 £ 000	Applying IFRS 16 £ 000	As presented £ 000
2020			
Revenue	30,294	-	30,294
Operating cost	(23,465)	54	(23,411)
Operating profit	**6,829**	**54**	**6,883**
Finance expenses - net	1	(81)	(80)
Profit before taxation	**6,830**	**(27)**	**6,803**
Tax on profit	(1,233)	-	(1,233)
Profit for the year	**5,597**	**(27)**	**5,570**

23 Changes in accounting policies (continued)

	As originally presented £ 000	Applying IFRS 16 £ 000	Restated £ 000
2019			
Revenue	29,770	-	29,770
Operating cost	(22,461)	54	(22,407)
Operating profit	**7,309**	**54**	**7,363**
Finance expenses	-	(90)	(90)
Profit before taxation	**7,309**	**(36)**	**7,273**
Tax on profit	(1,291)	-	(1,291)
Profit for the year	**6,018**	**(36)**	**5,982**

IFRIC 23 'Uncertainty over income tax treatments'

This interpretation was published in June 2017 and is required to be applied in the determination of taxable profits/losses and tax attributes, when there is uncertainty over their treatment under IAS 12. The company has considered the interpretation and there is no impact on the tax provision for the current or prior years.