

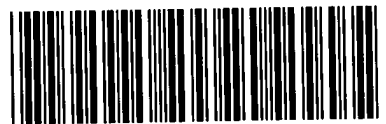
Registration number: 3513912

cueSim Limited

Annual report and financial statements

for the year ended 31 March 2020

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cueSim Limited

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Year references (2020, 2019) refer to the Company's financial year ended 31 March

cueSim Limited

Strategic report for the year ended 31 March 2020

The Directors present their Strategic Report for cueSim Limited ('the Company') for the year ended 31 March 2020.

Principal activities

The principal activity of the Company is the provision of simulation products and services.

Business review

The profit before taxation was £454,000 (2019 restated: £328,000) and net assets of £784,000 (2019 restated: net assets of £1,335,000).

	Unit	2020	2019 restated*
Revenue growth	%	52	(6)
Profit before tax	£'000	454	328
Profit after tax	£'000	454	324

*Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 17 for details.

Revenue had a year on year increase of 52% due to increase in support contracts won. Profit before tax had an increase of £126,000 (2019: £25,000 decrease) due to a provision release of £97,000 in FY20.

Principal risks and uncertainties

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

- The Company has two key customer contracts and to manage this risk the trends of aircraft use in the marketplace are monitored as well as monitoring the hours of annual training that each of the simulators is utilised, to form reasonable estimates as to the ongoing requirement for the device itself and the likely related support services. The Company seek to place long term contracts of mutual benefit with customers to gain business continuity, stability and long term visibility of those core contracts.
- Losing key capability and competencies through failure to recruit and retain employees. It has been identified where it would be beneficial to train new employees to mitigate this risk. Resource is also available within the parent company if required, and which can be called upon to assist in either peak workload conditions or loss of direct employee skills within cueSim. In addition, cueSim has put in place a contractor on a zero hours arrangement who can also be called upon to assist with a broad range of key technical skills.

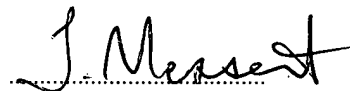
cueSim Limited

Strategic report for the year ended 31 March 2020 (continued)

Principal risks and uncertainties (continued)

- The COVID-19 pandemic has caused some disruption to the Company's operations. The ultimate parent company, QinetiQ Group plc's crisis management process is well embedded, flexible and exercised. It operates at strategic, tactical and operational levels across the Group following 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 customers, suppliers and employees as the pandemic has progressed. Ways of working have been adopted to facilitate remote working from home where possible and to meet public health requirements where not.

Approved by the Board on 16 September 2020 and signed on its behalf by:



Jon Messent
Company Secretary and Director
Cody Technology Park
Ively Road
Farnborough
Hampshire
GU14 0LX

cueSim 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.

The Company is a private company limited by shares and is incorporated, registered and domiciled in United Kingdom, registered number 03513912. The address of the registered office is Cody Technology Park, Ively Road, Farnborough, Hampshire, GU14 0LX.

Directors of the company

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

Christopher Walker

Michael Garrod (resigned 9 August 2019)

Jon Messent - Company Secretary and Director

Sandra Tizzard (appointed 15 October 2019)

Future developments

The Company expects to continue operating with its principal activity as outlined in the Strategic Report for the foreseeable future. The two key customer contracts are currently in the process of being renewed for an extended period.

Dividends

The Company paid interim dividends of £1.0m (2019: £nil) to its parent undertaking, QinetiQ Holdings Limited.

The Directors have not recommended payment of a final dividend for the year ended 31 March 2020 (2019: nil).

Research and development

The Company has no research and development activity in the year (2019: £nil).

Political and charitable contributions

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

Environment

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

cueSim Limited

Directors' report for the year ended 31 March 2020 (continued)

Financial risk management

The Company is exposed to a variety of financial risks as a result of its operations that include effects of changes in credit risk and liquidity risk. Treasury and risk management policies, which are set by the Group's Board, specify guidelines on financial risks and the use of financial instruments to manage risk. The instruments and techniques used to manage exposures include foreign currency derivatives. Group Treasury monitors financial risk and compliance with risk management policies during the year. There have been no changes in any risk management policies during the year or since the year end.

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 retains sufficient cash 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.

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.

cueSim Limited

Directors' report for the year ended 31 March 2020 (continued)

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law 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 these financial statements, the Directors are required to:

- select suitable accounting policies and 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.

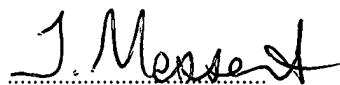
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies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

Directors' confirmations

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

- so far as the Directors are 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 16 September 2020 and signed on its behalf by:



Jon Messent
Company Secretary and Director
Cody Technology Park
Ively Road
Farnborough
Hampshire
GU14 0LX

Independent auditors' report to the members of cueSim Limited

Report on the audit of the financial statements

Opinion

In our opinion, cueSim 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 and 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.

Independent auditors' report to the members of cueSim Limited (continued)

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.

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 for the year ended 31 March 2020, 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 for the year ended 31 March 2020

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.

Independent auditors' report to the members of cueSim Limited (continued)

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.

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.

Independent auditors' report to the members of cueSim Limited (continued)

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

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

Date: 16 September 2020

cueSim Limited**Statement of comprehensive income for the year ended 31 March**

	Note	2020 £ 000	2019 restated* £ 000
Revenue	2	915	602
Operating expenses		<u>(459)</u>	<u>(272)</u>
Operating profit	3	456	330
Finance income	4	4	6
Finance expense	4	<u>(6)</u>	<u>(8)</u>
Profit before taxation		454	328
Taxation on profit	6	<u>-</u>	<u>(4)</u>
Profit for the financial year and total comprehensive income		<u>454</u>	<u>324</u>

*Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 17 for details.

All amounts derive from continuing operations.

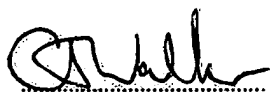
cueSim Limited

Balance sheet as at 31 March

	Note	2020 £ 000	2019 restated* £ 000
Fixed assets			
Net investment in leases	17	43	66
Property, plant and equipment	7	<u>9</u>	<u>13</u>
		<u>52</u>	<u>79</u>
Current assets			
Trade and other receivables	8	95	17
Cash at bank and in hand		<u>1,534</u>	<u>1,658</u>
		<u>1,629</u>	<u>1,675</u>
Current liabilities			
Creditors: amounts falling due within one year	9	<u>(790)</u>	<u>(183)</u>
Net current assets		<u>839</u>	<u>1,492</u>
Total assets less current liabilities		891	1,571
Creditors: amounts falling due after more than one year	10	(25)	(58)
Provisions	11	<u>(77)</u>	<u>(178)</u>
Net assets		<u>789</u>	<u>1,335</u>
Capital and reserves			
Called up share capital	13	50	50
Retained earnings		<u>739</u>	<u>1,285</u>
Total shareholders' funds		<u>789</u>	<u>1,335</u>

*Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 17 for details.

The financial statements of cueSim Limited (company number 3513912) on pages 10 to 28 were approved by the Board on 16 September 2020 and signed on its behalf by:



Christopher Walker
Director

The notes on pages 13 to 28 form an integral part of these financial statements.

cueSim Limited

Statement of changes in equity for the year ended 31 March

	Called up share capital £ 000	Retained earnings £ 000	Total shareholders' funds £ 000
At 1 April 2019 - previously reported	50	1,294	1,344
Restatement in respect of IFRS 16	-	(9)	(9)
At 1 April 2019 restated*	50	1,285	1,335
Profit for the financial year and total comprehensive income	-	454	454
Dividends	-	(1,000)	(1,000)
At 31 March 2020	50	739	789

	Called up share capital £ 000	Retained earnings £ 000	Total shareholders' funds £ 000
At 1 April 2018 - previously reported	50	972	1,022
Restatement in respect of IFRS 16	-	(11)	(11)
At 1 April 2018 restated*	50	961	1,011
Profit for the financial year and total comprehensive income restated*	-	324	324
At 31 March 2019 restated*	50	1,285	1,335

*Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 17 for details.

cueSim 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 in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'). The financial statements have been prepared on the historical cost basis and in accordance with the Companies Act 2006 as applicable to companies using FRS 101.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a cash flow statement and related notes;
- disclosures in respect of capital management;
- 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;
- the effects of new but not yet effective IFRSs; and
- disclosures in respect of the compensation of key management personnel.

As the consolidated financial statements of QinetiQ Group plc include the equivalent disclosures, the Company has also taken the exemptions under FRS101 available in respect of the following:

- the disclosures required by IFRS 7 and IFRS 13 regarding financial instrument disclosures have not been provided apart from those which are relevant for the financial instruments which are held at fair value and are not either held as part of trading portfolio or derivatives.

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 in preparing the financial statements.

Recent accounting developments

IFRS 16 'Leases'

The Company has adopted IFRS 16 'Leases' using the retrospective method from 1 April 2018 which resulted in changes in accounting policies. This new policy is included for the first time in this note and the impact of the change is presented in note 17.

IFRIC 23 'Uncertainty over income tax treatments'

The Company has changed its accounting policy for certain aspects of taxation. The new policy is included for the first time in this note and the impact of change is presented in note 17.

cueSim Limited

Notes to the financial statements (continued)

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 assesses contracts for the existence of multiple performance obligations and accounts for these separately.

The Company's methodology applies the IFRS 15 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 exist 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 costs are incurred 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 (within the UK) and customers typically do not have a right of return or refund. The transaction price for sale of products is agreed at contract inception.

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 appointed 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 profit and loss account 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.

cueSim Limited

Notes to the financial statements (continued)

1 Basis of preparation and accounting policies (continued)

Taxation

The taxation charge is based on the taxable profit for the year 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 profit and loss account, 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 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 profit and loss account 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.

Post-retirement benefits

Contributions to defined contribution plans are charged to the Statement of comprehensive income as incurred.

Leases

In the prior year Annual report & financial statements leases of property, plant and equipment where the Company, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. 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 the Statement of comprehensive income on a straight line basis over the period of the lease. The new accounting policy adopted for leases is set out on the following pages. Prior year comparatives have been restated. See note 17 for details of the restatement.

Leases - as a lessee

The Company leases offices. Rental contracts are typically made for fixed periods of 6 months to 10 years, but may have extension options as described below.

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone process.

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 leased 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 prior year comparatives have been restated to be on the same basis; see note 17.

Assets and liabilities 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;

cueSim Limited

Notes to the financial statements (continued)

1 Basis of preparation and accounting policies (continued)

Leases - as a lessee (continued)

- 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 lease, 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 interest 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 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.

cueSim Limited

Notes to the financial statements (continued)

1 Basis of preparation and accounting policies (continued)

Lease extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Company. These are used to maximise operational flexibility in terms of managing the assets used in the Company's operations. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor.

Judgements in determining the lease term

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

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

- if there are significant penalties to terminate (or extend), the Company is typically reasonably certain to end (or not to terminate);
- if any leasehold improvements are expected to have a significant remaining value, the Company is typically reasonably certain to extend (or 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.

Most extension options in office and vehicles leases have not been included in the lease liability, because the Company could replace the assets without significant cost or business disruption,

As at 31 March 2020 no undiscounted potential future cash outflows have been included in the lease liability for extension or 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 this assessment, and that is within the control of the lessee. During the current financial year, the Company did not exercise any extension or termination options.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation. 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 machinery	3-10 years
Leasehold land and building	Shorter of useful economic life and the period of the lease

Impairment of fixed assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If the carrying amount exceeds the recoverable amount, the respective asset is written down to its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. The value in use is the present value of the future cash flows expected to be derived from an asset calculated using an appropriate pre-tax discount rate. Impairment losses are expensed to the profit and loss account.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and short-term deposits that are readily convertible into cash.

cueSim Limited

Notes to the financial statements (continued)

1 Basis of preparation and accounting policies (continued)

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 right 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 profit or loss. 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 profit and loss. The Company may at initial recognition irrevocably designate a financial liability as measured at fair value through profit or loss 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.

Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Directors and are shown as a movement in reserves.

Critical accounting estimates and judgements in applying accounting policies

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.

Provisions

Provisions represent estimates of the amounts payable to settle contract loss obligations which are uncertain in terms of both timing and amount. The costs that are ultimately incurred may differ from those provided in the financial statements at the year end.

cueSim Limited

Notes to the financial statements (continued)

2 Revenue

	UK £ 000	Europe £ 000	Rest of World £ 000	Total £ 000
2020				
Revenue	<u>178</u>	<u>498</u>	<u>239</u>	<u>915</u>
	UK £ 000	Europe £ 000	Rest of World £ 000	Total £ 000
2019 restated*				
Revenue	<u>107</u>	<u>268</u>	<u>227</u>	<u>602</u>

*Prior year comparatives have been restated due to a reassessment of revenue by destination from Rest of World (£51,000) to UK (£49,000) and Europe (£2,000).

The revenue is attributable to the one principal activity of the Company.

3 Operating profit

Arrived at after charging/(crediting):

	2020 £ 000	2019 restated* £ 000
Depreciation of property, plant and equipment - Leased (Note 7)	4	4
Bad debt provision	34	-
Provision release	<u>(97)</u>	<u>-</u>

*Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 17 for details.

The auditors' remuneration is borne by another Group Company, QinetiQ Limited, and recharged to the Company as part of a management fee. The amount included in the management fee for audit fees amounted to £6,000 (2019: £5,000). The amount paid to the Company's auditors for non-audit fees during the year was £nil (2019: £nil).

4 Finance income and expense

	2020 £ 000	2019 restated* £ 000
Lease income	4	6
Lease expense	<u>(6)</u>	<u>(8)</u>
	<u>(2)</u>	<u>(2)</u>

*Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 17 for details.

cueSim Limited**Notes to the financial statements (continued)****5 Directors and employees**

The average number of persons employed by the Company (excluding directors) during the year, was as follows:

	2020	2019
	No.	No.
Total employees	<u>3</u>	<u>3</u>

The aggregate payroll costs were as follows:

	2020	2019
	£ 000	£ 000
Wages and salaries	200	182
Social security costs	24	24
Other pension costs	<u>33</u>	<u>32</u>
	<u>257</u>	<u>238</u>

The Directors did not receive any fees or emoluments from the Company during year (2019: £nil) directly attributable to their position within the Company. All Directors' fees or emoluments were paid by another Group company, 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.

6 Taxation on profit**(a) Analysis of tax charge in the year**

	2020	2019
	£ 000	£ 000
Current tax		
UK corporation tax	<u>-</u>	<u>-</u>
Total current tax	<u>-</u>	<u>-</u>
Deferred tax		
Deferred tax expense	<u>-</u>	<u>4</u>
Total deferred tax	<u>-</u>	<u>4</u>
Total tax expense for the year	<u>-</u>	<u>4</u>

cueSim Limited

Notes to the financial statements (continued)

6 Taxation on profit (continued)

(b) Tax charge reconciliation

	2020 £ 000	2019 restated* £ 000
Profit before tax	454	328
Tax calculated at UK standard rate of corporation tax of 19% (2019: 19%)	86	62
Other timing differences	(3)	-
Group relief received for nil consideration	(83)	(58)
Total tax charge for the year	-	4

The effective tax rate continues to be below the UK statutory rate of 19% (2019: 19%) primarily as a result of the benefit of surrender of losses from other group companies for nil consideration.

(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.

7 Property, plant and equipment

	Right of use asset - Buildings £ 000	Plant and machinery £ 000	Total £ 000
Cost			
At 1 April 2019 restated*	87	46	133
At 31 March 2020	87	46	133
Accumulated depreciation			
At 1 April 2019 restated*	74	46	120
Charge for the year	4	-	4
At 31 March 2020	78	46	124
Net book value			
At 31 March 2020	9	-	9
At 31 March 2019 restated*	13	-	13

*Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 17 for details.

cueSim Limited

Notes to the financial statements (continued)

8 Trade and other receivables

	2020 £ 000	2019 £ 000
Trade receivables	78	-
Deferred tax asset (note 12)	17	17
	<u>95</u>	<u>17</u>

Provisions for trade receivables impairment have been recognised at £34,000 (2019: £nil).

9 Creditors: amounts falling due within one year

	2020 £ 000	2019 restated* £ 000
Trade creditors	-	9
Accruals and contract liabilities	178	115
Amounts owed to fellow subsidiary undertakings	578	5
Other creditors	1	24
Lease liabilities	33	30
	<u>790</u>	<u>183</u>

*Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 17 for details.

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

10 Creditors: amounts falling due after more than one year

	2020 £ 000	2019 restated* £ 000
Lease liabilities	<u>25</u>	<u>58</u>

*Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 17 for details.

11 Provisions

	Other £ 000
At 1 April 2019	178
Utilised in year	(4)
Released in year	<u>(97)</u>
At 31 March 2020	<u>77</u>

The provision represents an estimate of losses on contracts yet to be completed.

cueSim Limited

Notes to the financial statements (continued)

12 Deferred tax asset

	Fixed assets £ 000	Short term timing differences £ 000	Total £ 000
At 1 April 2019	17	-	17
Charged to statement of comprehensive income	(3)	3	-
At 31 March 2020	14	3	17

	Fixed assets £ 000	Total £ 000
At April 2018	21	21
Charged to statement of comprehensive income	(4)	(4)
At 31 March 2019	17	17

13 Called up share capital

	2020 £ 000	2019 £ 000
50,000 ordinary shares of £1 each (2019: 50,000 ordinary shares of £1 each)	50	50

14 Leases

Company as a lessee

Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	2020 £ 000	2019 restated* £ 000
Right of use assets (included within Property, Plant & Equipment - see note 7)		
Right of use assets - Building	9	13
	2020 £ 000	2019 restated* £ 000
Net investment in leases	43	66
	2020 £ 000	2019 restated* £ 000
Lease liabilities (included within Creditors - see note 9 and 10)		
Current	33	30
Non-current	25	58
	58	88

*Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 17 for details.

cueSim Limited

Notes to the financial statements (continued)

14 Leases (continued)

Amounts recognised in the statement of comprehensive income

The statement of comprehensive income shows the following amounts relating to leases:

	2020 £ 000	2019 restated* £ 000
Land and buildings	4	4
Total depreciation charge	4	4
Lease income	(4)	(6)
Lease expense	6	8
Total expenses charged to profit before tax	6	6

*Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 17 for details

Minimum lease payment commitments

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

	2020 £ 000	2019 restated* £ 000
Within one year	9	9
In the second to fifth years inclusive	6	15
Greater than five years	-	-
	15	24

*Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 17 for details.

The cost of the lease is met by another group company on the Company's behalf and the Company is recharged for a proportion of the cost each year based on occupancy levels.

15 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 liability under the guarantee to that amount.

16 Parent undertaking and controlling party

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. The financial statements of cueSim Limited are consolidated in the financial statements of QinetiQ Group plc, 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.

cueSim Limited

Notes to the financial statements (continued)

17 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 FY19 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.

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.

- net investment - increase by £66,000.
- property, plant and equipment - increase by £13,000.
- lease liabilities - increase by £88,000

The net impact on retained earnings on 31 March 2019 was a decrease of £9,000.

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

cueSim Limited

Notes to the financial statements (continued)

17 Changes in accounting policies (continued)

	If applying IAS 17 £ 000	Applying IFRS 16 As presented £ 000 £ 000	
2020			
Assets			
Net investment in leases	-	43	43
Property, plant and equipment	-	9	9
Other assets	1,634	-	1,634
	<u>1,634</u>	<u>52</u>	<u>1,686</u>
Liabilities			
Creditors	(762)	(58)	(820)
Provisions	(77)	-	(77)
	<u>(839)</u>	<u>(58)</u>	<u>(897)</u>
Net Assets	<u>795</u>	<u>(6)</u>	<u>789</u>
Capital and reserves			
Share capital	50	-	50
Retained earnings	745	(6)	739
Total shareholders' funds	<u>795</u>	<u>(6)</u>	<u>789</u>

cueSim Limited

Notes to the financial statements (continued)

17 Changes in accounting policies (continued)

	As originally presented £ 000	Applying IFRS 16 £ 000	Restated £ 000
2019			
Assets			
Net investment in leases	-	66	66
Property, plant and equipment	-	13	13
Other assets	1,675	-	1,675
	<u>1,675</u>	<u>79</u>	<u>1,754</u>
Liabilities			
Creditors	(153)	(88)	(241)
Provisions	(178)	-	(178)
	<u>(331)</u>	<u>(88)</u>	<u>(419)</u>
Net Assets	<u>1,344</u>	<u>(9)</u>	<u>1,335</u>
Capital and reserves			
Share capital	50	-	50
Retained earnings	1,294	(9)	1,285
Total shareholders' funds	<u>1,344</u>	<u>(9)</u>	<u>1,335</u>

Statement of profit or loss (extract)

	If applying IAS 17 £ 000	Applying IFRS 16 As presented £ 000	£ 000
2020			
Revenue	915	-	915
Operating expenses	(463)	2	(461)
Profit before tax	<u>452</u>	<u>2</u>	<u>454</u>
Profit for the year	<u>452</u>	<u>2</u>	<u>454</u>

	As originally presented £ 000	Applying IFRS 16 £ 000	Restated £ 000
2019			
Revenue	602	-	602
Operating expenses	(276)	2	(274)
Profit before tax	<u>326</u>	<u>2</u>	<u>328</u>
Tax on profit	(4)	-	(4)
Profit for the year	<u>322</u>	<u>2</u>	<u>324</u>

cueSim Limited**Notes to the financial statements (continued)****17 Changes in accounting policies (continued)****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.