

Registration number: 01877695

QinetiQ Target Systems Limited

Annual report and financial statements

for the year ended 31 March 2024

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QinetiQ Target Systems Limited
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QinetiQ Target Systems Limited
Company information

Directors John Clark
Gary Stewart
Mark Sydenham
Michael Andrae

Company secretary James Field

Registered office Cody Technology Park
Ively Road
Farnborough
Hampshire
GU14 0LX

Independent auditors PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Savannah House
3 Ocean Way
Southampton
SO14 3TJ

QinetiQ Target Systems Limited

Strategic report for the year ended 31 March 2024

The Directors present their Strategic report for the year ended 31 March 2024.

Principal activities

The principal activities of the Company during the year were the manufacturing of target drones for the armed forces and the performance of related services.

Business review

The profit before taxation was £11.5m for the year ended 31 March 2024 (2023: £11.9m) and the Company has net assets of £43.1m as at 31 March 2024 (2023: £34.5m).

The Company's key performance indicators during the year were as follows:

	Unit	2024	2023
Orders	£ m	44.6	43.3
Revenue	£ m	48.0	40.3
Revenue growth	%	19.1	27.9
Profit before taxation	£ m	11.5	11.9
Profit for the financial year	£ m	8.7	9.4

The revenue increase of 19.1% on last year is driven by an increase in Jet 80, Jet 40 and boat target sales from an increase in orders received from the UK, Egypt and Canada. Increased security costs and the mix of business and an increase in the cost of sale resulted in similar profits to FY23. The Directors were pleased with the performance against these KPIs in the year.

Principal risks and uncertainties

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

UK Strategy

Risk

UK Government budget constraints lead to reduced spending in core markets in which we operate. This and the ever increasing pace required to introduce new technology to respond to emerging threats results in a risk that our approaches/offerings for evaluating capability may not remain relevant.

Mitigation

Our strategy includes ongoing proactive engagement with our major customers to enable us to support their objectives through mission-led innovation. Our focused investment into contracts enhances our offerings that support our customers with their efficiency challenges as well as ensuring that we provide the right services as the threat environment continues to evolve.

QinetiQ Target Systems Limited

Strategic report for the year ended 31 March 2024 (continued)

Principal risks and uncertainties (continued)

Cyber

Risk

There is a greater than normal risk of cyber-attack due to QinetiQ's relative priority as a target for state offensive cyber actors and ongoing global geopolitical issues. An attack could impact QinetiQ, our customers and/or our suppliers globally, regardless of the immediate or intended location of the target.

Mitigation

We must ensure that the organisation's security meets governments' and other relevant requirements worldwide.

- The implementation a Group Cyber Security Standard which was Company led
- Targeted cyber security training for key IT staff, and mandatory awareness training for all staff and contractors
- Deployment and continual upgrade of cyber security detection and protective technologies

This activity is supported by a wider digital investment programme implementing a mixture of culture and technological improvements across the Company. This activity will provide more consistency across the Company globally, along with a modern enterprise architecture.

Significant breach of relevant laws and regulations

Risk

We operate in highly regulated environments across many jurisdictions, at a time when there is a rising regulatory landscape for businesses to comply with. Non-compliance presents a risk to people, property and the environment, as well as having the potential to compromise our ability to conduct business.

Mitigation

QinetiQ has a mature enterprise risk management programme, with a focus on maintaining and strengthening safety and regulatory compliance across the Company.

The QinetiQ Operating Model defines responsibility through the organisation, and there is a cultural programme led by the QinetiQ Code of Conduct that helps drive attitudes and behaviours. In addition, there are policies and procedures, and a mandatory training programme applicable to all employees.

QinetiQ Target Systems Limited
Strategic report for the year ended 31 March 2024 (continued)

Principal risks and uncertainties (continued)

Significant breach of relevant laws and regulations (continued)

Mitigation (continued)

QinetiQ has adopted the Three Lines Model, structuring a compliance and assurance framework that enables a risk-focused approach to compliance, alongside an assurance programme that includes reporting regularly to the Board and internal senior management.

Continuous improvement is driven using a range of approaches such as audit and evaluation, focused training, strategic improvement programmes, and business objectives. The effectiveness of our internal control environment continues to be assessed at Company level, helping identify any potential gaps in assurance over key risks.

Security

Risk

A breach of physical, personnel or information security could lead to the loss of information or harm for our employees, customers and broader stakeholders.

Mitigation

The Company employ a holistic security threat approach through four interlocking pillars: Physical, Information, Cyber and Personnel Security. Our changing and increasingly sophisticated threat environment is continuously reviewed, using appropriate tools and techniques, as part of our over-arching Security Strategy such that new and emerging threats are removed or mitigated, ensuring our strategy appropriately balances the security, cost and flexibility required for any given solution.

Our programme of continuous security improvement is underpinned by annual strategic security reviews and aligned to key work streams for Transformation, Culture Development, Global Information Interoperability and then Digital Programme.

Section 172 (1) statement

The Directors welcome their responsibilities to promote the success of the Company in accordance with section 172 (1) of the 2006 Companies Act. The Company is a trading company which is part of QinetiQ Group plc, and stakeholder management for the Group and its subsidiaries is managed at that level. More information can be found in the Annual Report and Accounts of QinetiQ Group plc for the year ended 31 March 2024.

Approved by the Board on 13 December 2024 and signed on behalf of the Board by:



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John Clark
Director
Cody Technology Park
Ively Road
Farnborough
Hampshire
GU14 0LX

QinetiQ Target Systems Limited

Directors' report for the year ended 31 March 2024

The Directors present their report and the audited financial statements for the year ended 31 March 2024.

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:

John Clark

Andy Thorp (resigned 28 April 2023)

Richard Ackerman (resigned 30 September 2023)

Heather Cashin (appointed 22 August 2023 and resigned 12 February 2024)

Gary Stewart (appointed 22 August 2023)

Antonio Sagnelli (appointed 9 February 2024 and resigned 4 October 2024)

Graham Ollis (appointed 9 February 2024 and resigned 1 November 2024)

Mark Sydenham (appointed 9 February 2024)

Michael Andrae (appointed 1 November 2024)

Research and development

The Company incurred £3.9m (2023: £4.4m) research and development costs in the year. The Company capitalised some of these research and development costs as set out in Notes 5 & 9 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 no interim dividends during the year (2023: £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 2024 (2023: £nil).

QinetiQ Target Systems Limited

Directors' report for the year ended 31 March 2024 (continued)

Donations

The Company made no political contributions or charitable donations during the year (2023: £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.

Fostering relationships with partners, suppliers, customers and others

Customers are at the heart of everything that the Company does. During the year, the Directors closely monitored how the Company worked with its customers and how it addressed key customer issues. Every QinetiQ customer has a delivery team continually engaging with it and adapting its approach to the customer, ensuring, that the customer's objectives are achieved.

The Directors take a keen interest in ensuring a collaborative environment where all partners and suppliers can contribute and add value and be treated fairly, regardless of their respective size. In addition to the day to day engagement through normal business activity, the Directors actively engage with key partners through a series of meetings between our executive team and their counterparts at key industry partners.

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.

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 regulation.

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, 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.

QinetiQ Target Systems Limited
Directors' report for the year ended 31 March 2024 (continued)

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.

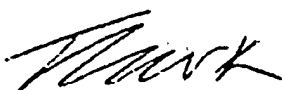
The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the 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 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 13 December 2024 and signed on behalf by:



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John Clark
Director
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 2024 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, including 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, which comprise: the Balance sheet as at 31 March 2024; the Statement of comprehensive income and the Statement of changes in equity for the year then ended; and the notes to the financial statements, comprising material accounting policy information and other explanatory information.

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2024 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 in respect of the financial statements, 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.

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

Responsibilities for the financial statements and the audit (continued)

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Health and Safety Executive and anti-bribery and corruption legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and relevant tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate journal entries to increase revenue or profit. Audit procedures performed by the engagement team included:

- Discussions with management at multiple levels across the company and wider group, including the Group's Internal Audit function and legal counsel throughout the year, as well as at year end. These discussions have consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Assessment of matters reported on the company's whistleblowing hotline and the results of managements investigation of such matters;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations; and
- Incorporating elements of unpredictability into the audit procedures performed.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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 QinetiQ Target Systems 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 obtained 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.



.....
John Ellis (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP,
Chartered Accountants and Statutory Auditors
Southampton

13 December 2024

QinetiQ Target Systems Limited**Statement of comprehensive income for the year ended 31 March 2024**

	Note	2024 £ 000	2023 £ 000
Revenue	3	47,967	40,274
Cost of sales		<u>(28,501)</u>	<u>(20,715)</u>
Gross profit		19,466	19,559
Distribution costs		(2,215)	(2,173)
Administrative expenses		(5,923)	(5,836)
Other operating income	4	<u>301</u>	<u>363</u>
Operating profit	5	11,629	11,913
Finance expenses	6	<u>(87)</u>	<u>(51)</u>
Profit before taxation		11,542	11,862
Tax on profit	8	<u>(2,847)</u>	<u>(2,491)</u>
Profit and total comprehensive income for the year		<u><u>8,695</u></u>	<u><u>9,371</u></u>

There is no other comprehensive income for the year (2023 £nil).

All amounts derive from continuing operations.

QinetiQ Target Systems Limited
Balance sheet as at 31 March 2024

	Note	2024 £ 000	2023 £ 000
Fixed assets			
Intangible assets	9	9,560	8,222
Property, plant and equipment	10	<u>3,027</u>	<u>3,381</u>
		<u>12,587</u>	<u>11,603</u>
Current assets			
Inventories	11	19,005	16,777
Trade and other receivables (due within one year)	12	24,246	12,944
Deferred tax assets	13	28	18
Cash and cash equivalents		<u>2,296</u>	<u>5,749</u>
		<u>45,575</u>	<u>35,488</u>
Current liabilities			
Creditors: amounts falling due within one year	14	(11,031)	(8,691)
Provisions	16	(88)	(142)
Deferred tax liabilities	13	<u>(2,719)</u>	<u>(2,381)</u>
		<u>(13,838)</u>	<u>(11,214)</u>
Net current assets		<u>31,737</u>	<u>24,274</u>
Total assets less current liabilities		44,324	35,877
Non-current liabilities			
Creditors: amounts falling due after more than one year	15	(728)	(902)
Provisions	16	<u>(508)</u>	<u>(437)</u>
Net assets		<u>43,088</u>	<u>34,538</u>
Capital and reserves			
Called up share capital	17	5	5
Retained earnings		<u>43,083</u>	<u>34,533</u>
Total shareholders' funds		<u>43,088</u>	<u>34,538</u>

The financial statements of QinetiQ Target Systems Limited (company number 01877695) on pages 12 to 32 were approved by the Board on 13 December 2024 and signed on its behalf by:

M D Sydenham

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Mark Sydenham
Director

QinetiQ Target Systems Limited
Statement of changes in equity for the year ended 31 March 2024

	Share capital	Retained	Total
	£ 000	earnings	shareholders'
		£ 000	funds
			£ 000
At 1 April 2022	5	24,946	24,951
Profit and total comprehensive income for the year	-	9,371	9,371
Share based payments - capital contribution	-	216	216
At 31 March 2023	5	34,533	34,538

	Share capital	Retained	Total
	£ 000	earnings	shareholders'
		£ 000	funds
			£ 000
At 1 April 2023	5	34,533	34,538
Profit and total comprehensive income for the year	-	8,695	8,695
Share settled liabilities	-	(194)	(194)
Share based payments - capital contribution	-	49	49
At 31 March 2024	5	43,083	43,088

QinetiQ Target Systems Limited

Notes to the financial statements

1 Basis of preparation and material 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 convention, and 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;
- certain disclosures in respect of share based payments;
- disclosures in respect of the compensation of key management personnel;
- disclosures in respect of providing an explanation of the significant changes in the contract asset and the contract liability balances;
- 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;
- IAS 24 in respect of related party transactions entered into between two or more members of a group;
- the disclosure requirements of IAS 12 paragraphs 88C and 88D in relation to the Company's estimated exposure to Pillar Two income taxes; and

As the consolidated financial statements of QinetiQ Group plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 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 market conditions in which the Company operates are expected to be challenging as spending from the key customers comes under pressure. After making enquiries, the Directors believe that the Company is well-positioned to manage its overall business risks successfully and have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going-concern basis in preparing its financial statements.

QinetiQ Target Systems Limited

Notes to the financial statements (continued)

1 Basis of preparation and material 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 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 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.

The Company's obligation to repair or replace faulty products under the standard warranty terms is recognised as a provision, see Note 16 Provisions.

Contract assets

Contract assets represent revenue recognised in excess of amounts invoiced.

Contract liabilities

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 Statement of comprehensive income 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.

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

1 Basis of preparation and material accounting policies (continued)

Taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future. Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Research and Development Expenditure Credits (RDEC) are now recognised within other operating income following a change in accounting policy.

The Company has applied the temporary exemption issued by the International Accounting Standards Board from the accounting for deferred taxes under IAS 12 neither recognises nor discloses information about deferred taxes related to Pillar Two income taxes.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

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 Statement of comprehensive income. Gains and losses on designated forward foreign exchange hedging contracts are matched against the foreign exchange movements on the underlying transaction.

Dividends

Dividends 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.

QinetiQ Target Systems Limited

Notes to the financial statements (continued)

1 Basis of preparation and material accounting policies (continued)

Leases

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.

Leases are recognised as a right-of-use asset and corresponding liability at the date which the leases asset is available for use by the Company.

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;
- 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, for example to the 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.

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

1 Basis of preparation and material accounting policies (continued)

Leases (continued)

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.

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.

Lease termination options

Termination options are not included 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 2024, 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.

QinetiQ Target Systems Limited

Notes to the financial statements (continued)

1 Basis of preparation and material accounting policies (continued)

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, once the asset is brought into use, amortised 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 and depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives.

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

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

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 Statement of comprehensive income.

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) in prior years. A reversal of an impairment loss is recognised immediately in the Statement of comprehensive income.

QinetiQ Target Systems Limited

Notes to the financial statements (continued)

1 Basis of preparation and material accounting policies (continued)

Inventories

Inventories are valued at the lower of cost and net realisable value using the FIFO cost method. 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.

Post-retirement benefits

For the 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 profit and 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.

QinetiQ Target Systems Limited

Notes to the financial statements (continued)

1 Basis of preparation and material accounting policies (continued)

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 and 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.

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 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 11.

Intangible asset recognition and recoverability

A judgement is made on the development costs of programmes to capitalise where the criteria of IAS 38 (Intangible Assets) are met. Capitalised costs are then amortised over the expected useful life of the asset, commencing from the point the underlying project is completed and ready to be delivered to the customer.

Management regularly review the expected discounted cashflows from any development and ensure that this exceeds the associated costs capitalised as an intangible, impairing the asset where there is insufficient certainty as to the ultimate commercial viability of the project. There is estimation uncertainty in relation to the anticipated future cashflows.

Details of the net carrying amount of intangible assets and any associated impairment provisions are shown in Note 9.

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

3 Revenue

The revenue and profit before taxation are attributable to the principal activities 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
2024					
Revenue	<u>13,071</u>	<u>7,039</u>	<u>9,940</u>	<u>17,917</u>	<u>47,967</u>
	£ 000	£ 000	£ 000	£ 000	£ 000
2023					
Revenue	<u>8,372</u>	<u>9,121</u>	<u>5,092</u>	<u>17,689</u>	<u>40,274</u>

4 Other operating income

	2024 £ 000	2023 £ 000
RDEC income	<u>301</u>	<u>244</u>

5 Operating profit

Arrived at after charging/(crediting):

	2024 £ 000	2023 £ 000
Research and development costs	2,545	3,710
Fees payable to the Company's auditors for the audit of the Company's financial statements	66	41
Depreciation of property, plant and equipment - Owned (note 10)	770	724
Depreciation of property, plant and equipment - Leased (note 10)	342	241
Amortisation of intangible assets (note 9)	-	4
Profit on disposal of fixed assets	-	(81)
Raw materials and consumables used	17,203	16,777
Staff costs (note 7)	9,305	8,273
Exchange differences	<u>(14)</u>	<u>27</u>

The amount paid to the Company's auditors for non-audit fees during the year was £nil (2023: £nil).

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

6 Finance expenses

	2024	2023
	£ 000	£ 000
Lease interest payable	<u>87</u>	<u>51</u>
Finance expense	<u><u>87</u></u>	<u><u>51</u></u>

7 Particulars of employees

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

	2024	2023
	No.	No.
Selling and distribution	16	13
Administration	8	9
Production	<u>154</u>	<u>131</u>
	<u><u>178</u></u>	<u><u>153</u></u>

The aggregate payroll costs of these persons were as follows:

	2024	2023
	£ 000	£ 000
Wages and salaries	7,316	6,638
Social security costs	827	704
Other pension costs	1,113	910
Share-based payments costs	<u>49</u>	<u>21</u>
Total employee costs	<u><u>9,305</u></u>	<u><u>8,273</u></u>

One Director received emoluments from the Company for their services during the year and were paid by QTS Ltd. The amount attributable to qualifying services by the other Directors to the Company are incidental to their wider role in the Group and cannot be reliably estimated.

Directors' remuneration

The Directors' remuneration for the year was as follows:

	2024	2023
	£ 000	£ 000
Emoluments	147	-
Pension costs	<u>18</u>	<u>-</u>
	<u><u>165</u></u>	<u><u>-</u></u>

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

8 Tax on profit

(a) Analysis of tax charge in the year

	2024	2023
	£ 000	£ 000
Current tax		
Current UK tax charge	2,376	1,650
Current UK tax in respect of prior years	(35)	65
Foreign tax	178	119
Total current tax	<u>2,519</u>	<u>1,834</u>
Deferred tax		
Deferred tax expense/(income)	328	422
Impact of change in tax laws and rates	-	127
Deferred tax in respect of prior years	-	108
Total deferred tax	<u>328</u>	<u>657</u>
Total tax charge for the year	<u>2,847</u>	<u>2,491</u>

(b) Tax charge reconciliation

	2024	2023
	£ 000	£ 000
Profit before tax	<u>11,542</u>	<u>11,862</u>
Tax calculated at UK standard rate of corporation tax of 25% (2023: 19%)	2,885	2,254
Effects of:		
Expenses net deductible for tax purposes and other non-taxable items	1	2
Adjustment in respect of prior periods	(35)	173
Change in tax laws and rate	-	127
Share based payments first time recognition	(9)	(4)
Plant and machinery super-deduction	-	(65)
Other timing differences	5	4
Total tax charge for the year	<u>2,847</u>	<u>2,491</u>

The effective tax rate is below the UK statutory rate of 25% (2023: 19%), primarily as result of the prior year adjustments. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

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

8 Tax on profit (continued)

(c) Factors affecting future tax charges

The effective tax rate is expected to be in line with the UK statutory rate, subject to the impact of any tax legislation changes. Future recognition of deferred tax assets will also affect future tax charges.

In the Spring Budget 2021 the Government announced that from 1 April 2023 the corporation tax rate will increase from 19% to 25%. The 25% rate has been substantively enacted at the balance sheet date, and its effects have been included in these financial statements.

9 Intangible assets

	Software	Development costs Banshee	
	£ 000	NG	Total
		£ 000	£ 000
Cost			
At 1 April 2023	105	8,652	8,757
Additions	-	1,338	1,338
At 31 March 2024	<u>105</u>	<u>9,990</u>	<u>10,095</u>
Accumulated amortisation			
At 1 April 2023	105	430	535
At 31 March 2024	<u>105</u>	<u>430</u>	<u>535</u>
Net book value			
At 31 March 2024	<u>-</u>	<u>9,560</u>	<u>9,560</u>
At 31 March 2023	<u>-</u>	<u>8,222</u>	<u>8,222</u>

Banshee NG (Next Generation) target is a higher performance specification target.

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

10 Property, plant and equipment

	Plant, equipment and vehicles £ 000	Leasehold property £ 000	Right of use assets - Buildings £ 000	Total £ 000
Cost				
At 1 April 2023	5,955	2,635	2,437	11,027
Additions	595	16	147	758
Disposals	(17)	-	-	(17)
At 31 March 2024	<u>6,533</u>	<u>2,651</u>	<u>2,584</u>	<u>11,768</u>
Accumulated depreciation				
At 1 April 2023	3,671	2,530	1,445	7,646
Charge for the year	700	70	342	1,112
Disposals	(17)	-	-	(17)
At 31 March 2024	<u>4,354</u>	<u>2,600</u>	<u>1,787</u>	<u>8,741</u>
Net book value				
At 31 March 2024	<u>2,179</u>	<u>51</u>	<u>797</u>	<u>3,027</u>
At 31 March 2023	<u>2,284</u>	<u>105</u>	<u>992</u>	<u>3,381</u>

11 Inventories

	2024 £ 000	2023 £ 000
Raw materials	8,973	7,460
Work in progress	943	1,024
Finished goods	9,089	8,293
	<u>19,005</u>	<u>16,777</u>

Inventories are stated after provisions for impairment of £6,480k (2023: £5,979k).

12 Trade and other receivables (due within one year)

	2024 £ 000	2023 £ 000
Trade receivables	10,462	8,814
Amounts owed by fellow subsidiary undertakings	12,012	2,901
Other receivables	1,185	808
Prepayments and contract assets	587	421
	<u>24,246</u>	<u>12,944</u>

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

13 Deferred tax

	Share based payment £ 000	Total £ 000
Deferred tax asset		
At 1 April 2023	18	18
Credited to the Statement of comprehensive income	10	10
Deferred tax asset at 31 March 2024	<u>28</u>	<u>28</u>

	Share based payment £ 000	Total £ 000
At 1 April 2022	17	17
Credited to the Statement of comprehensive income	1	1
Deferred tax asset at 31 March 2023	<u>18</u>	<u>18</u>

Deferred tax liability

	Short term timing differences £ 000	Fixed assets £ 000	Total £ 000
At 1 April 2023	2,055	326	2,381
Charged to the Statement of comprehensive income	335	3	338
Deferred tax liabilities at 31 March 2024	<u>2,390</u>	<u>329</u>	<u>2,719</u>

	Short term timing differences £ 000	Fixed assets £ 000	Total £ 000
At 1 April 2022	1,683	40	1,723
Charged to the Statement of comprehensive income	372	286	658
Deferred tax liabilities at 31 March 2023	<u>2,055</u>	<u>326</u>	<u>2,381</u>

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

14 Creditors: amounts falling due within one year

	2024	2023
	£ 000	£ 000
Trade creditors	4,348	4,107
Amounts owed to fellow subsidiary undertakings	2,398	711
Accruals and contract liabilities	1,659	1,974
Other taxes and social security	2,264	1,634
Other creditors	69	-
Lease liabilities	293	265
	<u>11,031</u>	<u>8,691</u>

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

15 Creditors: amounts falling due after more than one year

	2024	2023
	£ 000	£ 000
Lease liabilities	<u>728</u>	<u>902</u>

16 Provisions

	2024
	£ 000
At 1 April 2023	579
Utilised in the year	(54)
Created in the year	71
At 31 March 2024	<u>596</u>
	2023
	£ 000
At 1 April 2022	703
Utilised in the year	(111)
Released in the year	(155)
Created in the year	142
At 31 March 2023	<u>579</u>

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

16 Provisions (continued)

	2024	2023
	£ 000	£ 000
Current liabilities	88	142
Non current liabilities	508	437
	<u>596</u>	<u>579</u>

The provisions relate to warranty (2024: £88,000, 2023: £142,000) and dilapidations (2024: £508,000, 2023: £437,000), the timing of which are determined by a variety of factors.

17 Called up share capital

Allotted, called up and fully paid shares

	No.	2024	No.	2023
		£ 000		£ 000
Ordinary shares of £1 each	5,000	5	5,000	5

18 Related party transactions

During the year, the Company sold £2.3m (2023: £1.8m) 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, £2.0m (2023: £0.6m) was outstanding and included within trade receivables. The receivable is unsecured and no guarantees have been received.

During the year, the Company purchased £0.1m (2023: £0.3m) of services from Houbara Defence & Security L.L.C. At the year-end, £nil (2023: £0.1m) was outstanding and included within Creditors: amounts falling due within one year (note 14).

19 Retirement benefit schemes

For the 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 £1,113,000 for the year (2023: £910,000). 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.

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

20 Leases

Company as a lessee

Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	2024	2023
	£ 000	£ 000
Right of use assets (included within Property, Plant & Equipment - see note 10)		
Right of use assets - Buildings	<u>797</u>	<u>992</u>
	2024	2023
	£ 000	£ 000
Lease liabilities (included within Creditors - see note 14 and 15)		
Current	293	265
Non-current	<u>728</u>	<u>902</u>
	<u>1,021</u>	<u>1,167</u>

The total cash outflow for leases in 2024 was £381,000 (2023: £306,000)

Amounts recognised in the Statement of comprehensive income

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

	2024	2023
	£ 000	£ 000
Total depreciation charge on right of use asset - buildings (see note 10)	342	241
Lease interest payable (included in finance expense - see note 6)	<u>87</u>	<u>51</u>
Total expense charged to profit before taxation	<u>429</u>	<u>292</u>

Minimum lease payment commitments

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

	2024	2023
	£ 000	£ 000
Within one year	346	306
Between two to five years	<u>736</u>	<u>956</u>
	<u>1,082</u>	<u>1,262</u>

QinetiQ Target Systems Limited

Notes to the financial statements (continued)

21 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.

22 Share-based payments

The Company operates a number of share-based payment plans for employees. The total share-based payments expense in the year, which was entirely related to equity-settled schemes, was £49,000 (2023: £21,000). 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 arrangement that was utilised during the year. In all cases they relate to the shares of QinetiQ Group plc, the ultimate parent company.

The number of awards is dependent on the Group's performance during the year (specifically with respect to the Group revenue growth). This is provisionally quantified at year end based on Group performance and also the number of eligible employees in employment 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 2024 the awards had an average remaining life of 1.3 years (2023: 2.4 years). There is no exercise price for these awards. The weighted average share price at date of exercise was £nil (2023: £3.64). Of the awards outstanding at the end of the year nil were exercisable.

During the year the Group granted Long Term Incentive Plan (LTIP) awards to replace the DSP awards. At 31 March 2024 the awards had an average remaining life of 2.5 years. There is no exercise price for these awards. The average fair value of grants made during the year was £3.22. The weighted average share price at date of exercise was £nil. Of the options outstanding at the end of the year £nil were exercisable.

23 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 2024. 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.