

Annual Report and Financial Statements

For the year ended 2 January 2022

Qioptiq Limited

Registered number: 00876004

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Qioptiq Limited

Contents

	Page(s)
Strategic report for the year ended 2 January 2022	1-5
Directors' report for the year ended 2 January 2022	6-12
Independent auditors' report to the members of Qioptiq Limited	13-15
Statement of comprehensive income for the year ended 2 January 2022	16
Balance sheet as at 2 January 2022	17
Statement of changes in equity for the year ended 2 January 2022	18
Notes to the financial statements	19-40

Qioptiq Limited

Strategic report for the year ended 2 January 2022

The directors present their Strategic report on the Company for the year ended 2 January 2022.

Principal activities

The principal activities of the Company were the design, development, repair, manufacture and assembly of specialised optical modules, sub-assemblies and components for use in military and commercial markets.

Business review

Turnover declined in 2021 by 12% to £97.1 million from £110.1 million in 2020.

The decline in revenue in 2021 was the consequence of several external factors – the completion of a large contract (in 2020) for a missile program in Turkey; a temporary reduction in demand for a US Helmet Mounted Display program, a reduction in demand for Head up Displays optics for the Civil market as a consequence of COVID and also a reduction in deliveries for weapon sights to the UK MoD.

Order intake in 2021 was marginally lower than in 2020, with both years having a Book to Bill (B2B) ratio of less than 1.0. Whilst a B2B ratio of less than 1.0 is not ideal, it is acceptable in the short term since the Company has several long term programs where order intake is received in one year with revenue spread across several years. As an example of long term contracts, in January 2022, the company received an extension of 5 years to the multi-year equipment support contract for the United Kingdom (“UK”) Ministry of Defence worth £78.8 million – this will result in a B2B ratio of > 1.0 in 2022. The Company also operates in a market where order intake is not linear. Finally, the order intake in the year was significantly impacted by the COVID pandemic which caused a delay in the procurement cycle since customers and end users had a reduced focus on generating new requirements.

The Company experience continued challenges in 2021 as a consequence of COVID-19, the challenges relating to workforce availability, supply chain and customer contact; the impact reduced significantly towards the end of the year. Expectations for 2022 are for this adverse impact to reduce further with more normal levels of travel, customer contact & trade shows.

The Supply Chain continued to be a challenge throughout 2021 with continued disruption and delays in material supplies. The cause for the supply chain challenge migrated from COVID-19 at the outset of 2021 to the global materials shortage in the latter stages of 2021. The problems were especially challenging for electronic components needed to enable PCB supply for some of the Company products. The Company used the networks and leverage capability of the wider Excelitas corporation to overcome the supply chain challenges and ensure minimal impact to Customer deliveries.

In 2021, the Company adopted a flexible approach to working practices with a hybrid office and home working pattern for those employees that can effectively work from home.

The net assets of the Company as at 2 January 2022 were £47.6m (2020: £32.7m).

Key performance indicators (“KPIs”)

Excelitas (the ultimate parent) monitors performance of its subsidiaries at local and divisional levels. KPIs material to understanding these financial statements are below.

	2021 £'m	2020 £'m
Order Intake	62.3	63.1
Turnover	97.1	110.1
EBITDA	20.9	26.0

Order Intake representing the sales value of orders received from customers, is both an absolute measure of performance and indication of future turnover.

Qioptiq Limited

Strategic report for the year ended 2 January 2022 (continued)

Key performance indicators (“KPIs”) (continued)

Turnover is the value recognised for finished goods shipped and services provided and is indicative of short-term cash inflow.

Excelitas measures **EBITDA (before exceptional item)**, (operating profit before interest, tax, depreciation, amortisation and exceptional item), as a comparable long-term indicator of performance. This is calculated as operating profit before exceptional item plus amortisation and depreciation.

	£'k
Operating Profit/(loss)	18,317
Amortisation of intangible assets	0
Disposals	0
Depreciation of tangible assets	2,665

Future developments & business strategy

Despite the COVID 19 pandemic, the demand for global defence applications remains strong, and the Company continues to bid for programmes in Europe, US, the Middle East and Australasia. The business strategy, reviewed annually with a rolling 5 year horizon remains constant – small changes being made to ensure it remains relevant and dynamic.

During 2021 there was continued focus on the development of new and enhanced products to meet the market demand. This applies equally across all three of the business segments, ie Avionics, Surveillance & Target Acquisition and Land to ensure that the Company continues to offer high performance solutions to all of its Customers.

The Company continues to benefit from prior year investment in its core “new product introduction” process which is reducing time to market for additions to the product range.

Investment continues in both capacity and capability of the Company production capabilities to support current and future products

The Company continues to invest in core technology that will provide the building blocks for future product differentiation.

Financial risk management and related policies

The Company's principal financial instruments comprise cash and cash equivalents. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the companies operating activities. The main purpose of these financial instruments is to provide finance for the companies on going activities. It is, and has been throughout the period of review, the Company's policy that no trading in financial instruments should be undertaken.

The main risks arising from the Company's financial instruments are credit risk, foreign currency risk, liquidity risks and interest rate risk.

Credit risk: The Company's principal financial assets are trade receivables. The Company monitors customers' credit worthiness and payment performance. Sources of credit information to ensure receivables are reasonably collectable include credit ratings as reported by Dun and Bradstreet and customer financial statements.

Qioptiq Limited

Strategic report for the year ended 2 January 2022 (continued)

Financial risk management and related policies (continued)

Foreign currency risk: Through its sales and purchase transactions, the Company is exposed to fluctuations in exchange rates of currencies against Sterling, the functional currency. To mitigate this the Company has the option to renegotiate the sales price in contracts if foreign exchange rates fluctuate at a greater rate than the percentage stated in the contract.

Cash flow and liquidity risk: As part of group treasury processes, the Company monitors its short-term liquidity by means of regular cash forecasts, to enable it to meet financial liabilities as they fall due.

Interest rate risk: The Company has floating rate debt with group undertakings, but the directors consider the risks do not require mitigation.

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks and uncertainties.

- With its focus on the market for defence applications, the company depends on government policy, budgetary pressures and how governments, particularly in UK and US, address global uncertainty. Contract awards are subject to uncertainty, evolving requirements, delay or cancellation.
- In an environment of global competition for government spending, the company needs to continue to demonstrate technical advantages and value for money in order to be successful.
- To sustain its presence in the defence market, the company must comply with laws and regulations and has embedded systems to manage compliance.
- The timing of turnover, earnings and cash generation depends on converting bids to orders and on structuring agreements to optimise cash requirement over the life of the contract. The company invests resource into technical, regulatory and commercial feasibility of its contracts.
- The Company has a diversified product portfolio which enables it to be resilient during periods of market segment uncertainty. This has enabled the Company to continue to perform despite the downturn in the civil aviation market, a market which is sensitive to global economic shocks.
- The timing of demand for our satellite is linked to satellite launch activity; by virtue of its diversified product portfolio, the Company can manage the peaks and troughs of market demand by flexing the allocation of its workforce.

The global supply chain in 2021/22 has seen challenges not experienced for at least a generation. Covid-19 consequences still remain in many countries, the war in Ukraine has had implications for key materials originating in both Ukraine and Russia, and energy supplies are being disrupted by both geopolitical aspects and climate change.

The above circumstances have had and continue to have implications for Qioptiq. Lead-times for key commodities have elongated significantly, with some materials being extremely difficult to source. Quote validity has shortened and pricing has increased across all commodities, especially for materials requiring high energy usage in manufacture. It is anticipated this will worsen in the coming months with a genuine additional risk of business failure. All these aspects of change and risk of change are being closely monitored for business impact, and actions planned or taken to protect supply, revenue, margin and customer expectations.

Qioptiq Limited

Strategic report for the year ended 2 January 2022 (continued)

Environment statement

The Company is a professional and environmentally conscious organisation which acknowledges the impact that our operations may potentially have on the environment. The clear objectives for the Company are to demonstrate ongoing environmental improvements and reduce any environmental impacts we may have as a result of our operations.

- Fully satisfy the requirements of the International Standard ISO14001:2015 to which we subscribe.
- Meet, and where appropriate, exceed the requirements of all applicable legislation.
- Liaise closely with all regulators in order to provide confidence to all parties in our commitment and ability to comply with legislation and regulation.
- Actively promote recycling, waste minimisation and energy usage reduction by evaluating operations and ensuring they are as efficient as possible where practicable.
- Engage in continual improvement programme that sets and monitors the achievement of measurable environmental objectives and targets.

Consider environmental issues in the design and development of our products and their associated business processes.

- Monitor and, wherever practicable, minimise air emissions.
- Ensure that all management, employees and contractors are appropriately trained to fully carry out their environmental responsibilities.
- Ensure the availability of resources, both human and material, in order to effectively manage our environmental impacts and uphold our environmental responsibilities.

The Company has the following environmental targets to be completed by the end of 2022:

- Reduce electricity baseload by 20% by installing energy efficient LED lighting, occupancy detection and programme of awareness to turn off unused equipment.
- Reduce the cost of generating compressed air by engaging specialist contractor to carry out leak survey site wide and complete remedial works.
- Purchase electricity from a REGO certified energy supplier to ensure 100% renewable source.
- Install EV charge points and move Company vehicles over to EV where appropriate.

Directors duties

The Directors of the Company must act in accordance with a set of general duties. These duties are detailed in section 172 of the UK Companies Act 2006 which is summarised as follows:

“A director of a Company must act in the way he considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- the likely consequences of any decision in the long term,
- the interests of the Company's employees,
- the need to foster the Company's business relationships with suppliers, customers and others,
- the impact of the Company's operations on the community and the environment,
- the desirability of the Company maintaining a reputation for high standards of business conduct, and

Qioptiq Limited

Strategic report for the year ended 2 January 2022 (continued)

Directors duties (continued)

- the need to act fairly as between members of the Company."

The following paragraphs detail how the directors fulfil their duties:

Risk management

As we grow as a Company our business and risk environment also becomes more complex. It is therefore vital that we effectively identify, evaluate, manage and mitigate the risks that we face, and that we continue to evolve our approach to risk management. For details of our principal risks and uncertainties please see page 3 of the strategic report.

Employees

The Company is committed to being a responsible employer. For our business to succeed we need to manage our people's performance and develop and bring through talent whilst ensuring we operate as effectively as possible

We must also ensure our Company goals are visible and communicated to our employees to ensure alignment. For details of our employees please see page 8 and 9 of the directors' report.

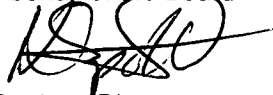
Business relationships

In order to grow our business we need to develop strong customer and supplier relationships. Details of this can be found on page 9 and 10 of the directors' report.

Community & environment

As a large employee in our region we have several initiatives that ensure we give back to our local community. These include monetary donations as well as donations of supplies and Company staff time. As a manufacturing Company we comply with all legal requirements to ensure the local environment is protected. Due to COVID-19 restrictions no volunteering days were able to be undertaken during the year to 2nd January 2022.

On behalf of the Board



K Spolton Director

28 September 2022

Qioptiq Limited

Directors report for the year ended 2 January 2022

The directors present their report and the audited financial statements of the Company (registered number 00876004) for the year ended 2 January 2022.

The Company's parent undertaking prepares financial statements to the Sunday falling closest to the end of the calendar year. As the year end date may vary in any year between 28 December and 3 January, the Company has aligned its reporting year to that of its parent undertaking but has not changed its accounting reference date. The current financial year is a 52-week period.

Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements were as follows:

D Nislick
J Rao
P White
K Spolton

No qualifying third party indemnity provision and/or qualifying pension scheme indemnity provision (whether made by the Company or otherwise) is in place for the benefit of one or more of the directors or one or more directors of an associated Company; or, at any time during the year was any such provision in force for the benefit of any persons who were then directors or directors of an associated Company.

Future developments

The future developments of the Company are outlined in the strategic report on page 2 of the financial statements.

Financial risk management and related policies

Financial risk management policies and related policies have been disclosed within the Strategic Report on page 2.

Going concern

The Company meets its day-to-day working capital requirements through adequate profits and cash generation in addition to available bank facilities. In order to manage these requirements, the Company's forecasts and projections are updated regularly to reflect changes in trading performance. The current economic conditions, due to the COVID-19 pandemic and global inflation, continue to create uncertainty over the level of potential future demand for the company's products but also satisfying demand supply challenges. The impact of these conditions has been built into the forecasts and projections of the company and these show that profits and cash generation are more than sufficient to enable the Company to operate within the level of its working capital requirements and available current facilities. In addition, a letter of support has been provided by EXC Holdings I Corp (the parent company) who have confirmed they will continue to support the Company and provide intercompany financing, if required, for a period of 12 months from the date of approval of the financial statements.

Qioptiq Limited

Directors' report for the year ended 2 January 2022 (continued)

Going concern (continued)

On the basis of their assessment of the Company's financial position the Company's directors have a reasonable expectation that the Company will be able to continue in operational existence for at least 12 months from the date of approval of these financial statements. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

The forecasts and projections show that profits and cash generation are more than sufficient to enable the Company to operate within the level of its working capital requirements and available current facilities.

The total order book value at the end of Sept was £211.1m (including deferred revenue). At the end of August 2022 YTD revenue plus order book for 2022 is £95.1m and represents 88% coverage vs 2022 Annual Operating Plan (AOP).

£80.2m of the order book is deliverable in 2023 and this represents 74% order coverage based on 2023 provisional AOP. Strong coverage for both Land and Space business customers.

2022 forecast shows gross margin at a 3.9% gap vs AOP due to lower output and utilisation in the first half of 2022 driven by supply chain delays on key components particularly impacting the Land equipment product line. Alongside this we have seen inflationary pressures put pressure on material purchase prices and energy prices. Targets are set in USD at a fixed exchange rate and EBITDA is down by 4.8% vs AOP predominately due to output shortfall from supply challenges, fx impact vs AOP rate, and input cost increases on material and energy.

The 2022 EBITDA forecast includes the following expectations:

- Growth in revenue for the Avionics business after a softening in demand for aerospace in 2021
- Reduced revenue for Land and STA business due to supply chain delays and slower order intake respectively.
- Reduction in R&D expenditure due to one off significant project in 2021 not repeated in 2022.
- Travel, exhibitions to recommence to more typical pre COVID-19 higher levels.

Dividends

The directors do not recommend a payment of a final dividend for the year (2020: £nil).

Political donation

The Company made no political donations during the year (2020: £nil)

Research and development

Total expenditure on research and development during the year was £14.1m (2020: £13.5m).

Qioptiq Limited

Directors' report for the year ended 2 January 2022 (continued)

Employees

The Company believes that a regular flow of information between management and staff enhances its effectiveness and productivity. This flow is achieved by:

- Quarterly Company briefings, so that all employees are advised of the commercial progress of the Company, conditions in its key markets and plans for the future;
- Consulting with employees and trade union representatives on key decisions and matters of concern to them;
- Regular meetings between small groups of employees and senior leaders in order to receive feedback, pass on information, and gauge engagement levels;
- Encouraging all employees, whether individually, by survey or focus groups, to communicate ideas and suggestions for improving efficiency or eliminating day-to-day problems; and
- Disseminating important information, such as statutory notices, operating procedures, staff policies and agreements, electronically, via notice boards, 4 Winds TV screens or in quarterly newsletters.

The Company operates several reward schemes, which enable employees to share in the over-achievement of financial objectives, nominate colleagues for discretionary performance through the corporate R3 recognition program and delivers high street savings through the Exclusive employee rewards program.

The Company has a generous range of benefits, and competitive terms and conditions. These provisions served the Company and its employees well during the recent COVID-19 pandemic.

Promoting an environment free from discrimination, harassment and victimisation is a key policy of the Company. The Company recruits solely based on competency and merit and to ensure no applicant is disadvantaged through disability. The Company may make reasonable adjustments to its recruitment processes and has recently secured Disability Confident status.

All employees have equal access to training, opportunities for promotion and career development. In order to make them accessible to disabled employees, the Company may adjust its promotion and training procedures.

Engage Learning

The Engage Learning & Development platform continues to support learning and development by providing a huge variety of functional and behavioural learning content in a variety of formats ranging from on-line learning events, live training management, certification and learning history reports.

Apprenticeships

The Company places a high significance on its apprenticeship programs to ensure continuity of technical skills and succession and development in all areas. The Company currently has 8 apprentices.

Qioptiq Limited

Directors' report for the year ended 2 January 2022 (continued)

Employees (continued)

Wherever practical, the Company takes measures to retain disabled employees or employees who become disabled whilst in employment. It achieves this, where appropriate, by making any necessary reasonable adjustments such as providing specialist equipment, additional training, job redesign, flexible hours, remote working, or redeployment.

More broadly the Company is committed to global diversity and inclusion initiatives with specific emphasis on gender. To that end there are a number of embedded gender positive initiatives active in the Company, such as the "UK Professional Women's Network Employee Resource Group", where high potential female employees across all skill pools are mentored by senior female leaders to provide sponsorship and support.

In order to ensure employees have a common awareness of financial and economic factors affecting the Company there are regular electronic newsletters, site staff briefings and Excelitas Global Town Hall meetings.

Statement of engagement with suppliers, customers and others in a business relationship with the Company

Customers

We have a strong customer focussed culture throughout the Company with all employees taking great pride in the capability and service that we provide to our customers and the end users. We have a long-standing relationship with many of our customers and indeed have worked with a number of global customers for the entire 50 + years of the Company existence. These long-standing relationships are based on the capability and integrity that we have demonstrated to our key customers over a period of years – the business world in which we operate is relatively specialised with low turnover of personnel and therefore the values that we demonstrate are both long lasting and recognised as being more than just words.

Optical engineering is in our DNA (a quote from a senior, key customer) and when blended with the passion and drive for which we are justifiably recognised, provides a strong basis for the growth of the business. We believe we provide our customers with a strong technical capability that allows us to solve the difficult optical challenges that our customers present to us in the quest for better, lighter and cheaper products. The optical solutions we provide are a well-balanced compromise between technical performance, cost and reliability – all of which essential for the environments in which our products need to operate.

Whilst we have dedicated Key Account Managers and Sales Managers that are the focal point for our customer contact, some of the best interactions are between the customer and our design or production engineers, especially during facility tours when customers visit the site. The passion for supporting the customer is evident in all of the technical and support functions within the Company and at all levels within the Company.

Qioptiq Limited

Directors' report for the year ended 2 January 2022 (continued)

Suppliers

Our supply chain is of key strategic importance, the capability of our suppliers is a source of competitive advantage, and therefore fundamental to our overall business success.

We have a global network of suppliers. Many of our supply chain relations are collaborative in nature and include some of the World's largest defence companies and technology market leaders.

We pride ourselves on supplying market leading, innovate, technical solutions to our customers, and our key suppliers play a key role in this.

In recognition of the important role our supply chain has on our overall business success, we have a robust, auditable procurement process, which can be broken down into several key areas, which include Supplier Sourcing - Supplier Identification and Selection, Contract Management, Supplier Performance Management, Regulatory Compliance, Risk Management and Export Control.

Regarding our supply chain relationships, these are categorised based on the type of purchase, these include; Non-Critical, Critical and Key Strategic. The focus of evaluation differs based on the type of Purchase, i.e.

Non-Critical: Product performance & product risk is the main focus of evaluation, relationships for these types of purchase are typically transactional in nature.

Critical: For critical purchases, the focus of evaluation would be on required capabilities, processes and compatibility – Company risk, and specific capabilities around manufacturing, investment and R&D capabilities.

Key Strategic: For Key Strategic purchases, these relationships are typically collaborative with the focus of evaluation on the level of commitment, dependence and overall strategic fit / risk – short and long-term. It is important that for these suppliers, we have strategic alignment, the relationship is transparent, and we have visibility of the supplier's product / technology roadmap to support our product development.

For all purchases and suppliers, we evaluate product / service Cost Quality Delivery (CQD), to ensure third party accreditation exists where applicable, obsolescence management, counterfeit parts prevention, financial health and regulatory compliance.

Independent auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution proposing their reappointment will be submitted at the Annual General Meeting.

Qioptiq Limited

Directors' report for the year ended 2 January 2022 (continued)

SECR Disclosures

SECR Disclosure 2021		
SECR	2021	2020
Total Scope 1 emissions (tCO ₂ e)	808	608
Of which Emissions from combustion of natural gas (tCO ₂ e)	591	603
Of which Fugitive Emissions (tCO ₂ e)	207	20
Of which Emissions from company owned vehicles (tCO ₂ e)	9.8	5
Total Scope 2 emissions (grid supplied electricity) (tCO ₂ e) a	0	3597
Total Scope 3 emissions (tCO ₂ e)	not quantified	not quantified
Total number of shipments	12238	12933
Carbon intensity ratio (tCO ₂ e/Shipment) b	0.06	0.32
Energy consumption used to calculate scope emissions (kWh)	17777409	17527511
Energy Saving Initiatives in 2021		
<p>The organisation identified initiatives to improve its performance against energy targets by engaging with an energy supplier that provides certification under REGO and allowing the organisation to report electricity consumption (scope 2) as zero carbon under GHG for the whole reporting period.</p> <p>Electricity sub meters have been installed across the site to assist with energy reduction initiatives, this will provide benchmark data to identify energy reduction opportunities.</p> <p>All legacy refrigeration systems containing R22 gas have been degassed and removed from site.</p> <p>Under the organisations ISO14001 accreditation, electricity and gas usage are classified as significant aspects and continually develop organisational environmental objectives and targets to ensure continual activities against opportunities to reduce usage.</p> <p>Programme of retrofitting fluorescent lighting with LED fittings commenced in Operational areas - where possible occupancy detection is also installed.</p>		
Methodology for Reporting Period January 2021 - December 2021		
Reporting methods	The operational control method has been used for the purposes of preparing the SECR disclosure (half hourly meter data, meter readings and invoicing)	
Emissions factor source	<u>DEFRA - Government conversion factors for company reporting of greenhouse gas emissions - GOV.UK (www.gov.uk)</u>	
Emissions Calculations	<u>SECR.uk - advice & tools to reduce carbon & comply with SECR</u>	
Scope 1 Emissions	Fugitive emissions derived from FGAS sheets supplied by refrigeration contractors and includes gas used to recharge & commission systems.	
a Scope 2 Emissions	100% of the organisations electricity supply is now derived from renewable energy sources	
b Carbon Intensity ratio	<p>tCO₂e per Total output in shipments – total shipments used for outputs in place of total units shipped as the product mix can vary greatly (volumes per shipment), total shipments had been identified with less variation of the last 4 years.</p> <p>Carbon Intensity Ratio = Total Emissions / Total Shipments</p> <p>For the purposes of this calculation, Scope 2 emissions are 0 due to 100% renewable electricity supply.</p>	

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 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', 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 102 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 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.

By order of the board

Alexa Chapman

A Chapman
Secretary

28 September 2022

Qioptiq Limited

Independent auditors' report to the members of Qioptiq Limited

Independent auditors' report to the members of Qioptiq Limited

Report on the audit of the financial statements

Opinion

In our opinion, Qioptiq Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 2 January 2022 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 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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: Balance sheet as at 2 January 2022; Statement of comprehensive income and 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

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.

Qioptiq Limited

Independent auditors' report to the members of Qioptiq Limited

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, 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 2 January 2022 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.

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 Companies

Qioptiq Limited

Independent auditors' report to the members of Qioptiq Limited

Act 2006 and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. 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 manipulation of the financial statements through fictitious journal postings, management bias within judgements and accounting estimates and significant one-off or unusual transactions. Audit procedures performed by the engagement team included:

- Obtained an understanding of the legal and regulatory framework applicable to the Company and how the Company is complying with that framework;
- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations; and
- Challenging assumptions and judgements made by management in their significant accounting estimates.
- Unpredictable procedures, whereby the engagement team reviewed journal postings for unusual users and unusual words.

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.

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.



Clare Hyner (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
28 September 2022

Qioptiq Limited
Statement of comprehensive income
For the year ended 2 January 2022

(All amounts are in £ thousands unless otherwise stated)

	Note	Year ended	
		2 January 2022	3 January 2021
Turnover	5	97,059	110,086
Cost of sales		(76,905)	(84,392)
Gross profit		20,154	25,694
Distribution costs		(309)	(311)
Administrative expenses		(1,595)	(1,926)
Other operating income/ (expense)		67	(314)
Operating profit	6	18,317	23,143
Interest payable and similar expenses	8	(61)	(192)
Profit before taxation		18,256	22,951
Tax on profit	9	(3,334)	(3,736)
Profit for the financial year		14,922	19,215
Other comprehensive income		-	-
Total comprehensive income		14,922	19,215

The above results were all derived from continuing operations.

The notes on pages 19 to 40 are an integral part of these financial statements.

Qioptiq Limited

Balance sheet


As at 2 January 2022

(All amounts are in £ thousands unless otherwise stated)

	Note	As at 2 January 2022	As at 3 January 2021
Fixed assets			
Intangible assets	10	-	-
Tangible assets	11	13,430	14,444
		13,430	14,444
Current assets			
Inventories	12	14,753	17,382
Debtors	13	30,000	17,255
Cash at bank and in hand		5,231	4,813
		49,984	39,450
Creditors: amounts falling due within one year	14	(15,529)	(20,857)
Net current assets		34,455	18,593
Total assets less current liabilities		47,885	33,037
Creditors: amounts falling due after more than one year	15	(94)	(81)
Provisions for liabilities	17	(150)	(237)
Net assets		47,641	32,719
Capital and reserves			
Called up share capital	19	3,821	3,821
Retained earnings		43,820	28,898
Total equity		47,641	32,719

The notes on pages 19 to 40 are an integral part of these financial statements.

The financial statements on pages 16 to 40 were authorised for issue by the board of directors on 28 September 2022 and were signed on its behalf.



K Spolton
Director

Qioptiq Limited: Registered number 00876004

Qioptiq Limited

Statement of changes in equity

For the year ended 2 January 2022

(All amounts are in £ thousands unless otherwise stated)

	Note	Called up share capital	Retained earnings	Total equity
Balance at 30 December 2019		3,821	9,683	13,504
Profit for the financial year		-	19,215	19,215
Other comprehensive income for the financial year		-	-	-
Total comprehensive income for the year		-	19,215	19,215
Balance at 3 January 2021		3,821	28,898	32,719
Profit for the financial year		-	14,922	14,922
Other comprehensive income for the financial year		-	-	-
Total comprehensive income for the year		-	14,922	14,922
Balance at 2 January 2022		3,821	43,820	47,641

The notes on pages 19 to 40 are an integral part of these financial statements.

Qioptiq Limited

Notes to the financial statements

For the year ended 2 January 2022

1 General information

Qioptiq Limited designs, develops, manufactures and assembles specialised optical modules, sub-assemblies and components for use in military and commercial markets. It has manufacturing plants in the UK and primarily sells to customers in UK, USA and the European Union.

The Company is a private Company limited by shares and is incorporated, registered and also domiciled in Wales in the United Kingdom. The address of the registered office is Glascoed Road, St Asaph, Denbighshire, LL17 0LL.

2 Statement of compliance

The individual financial statements of Qioptiq Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The Company has adopted FRS 102 in these financial statements.

a) Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention. Preparing financial statements to conform to FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4 below.

b) Going concern

The Company meets its day-to-day working capital requirements through adequate profits and cash generation in addition to available bank facilities. In order to manage these requirements, the Company's forecasts and projections are updated regularly to reflect changes in trading performance. The current economic conditions, due to the COVID-19 pandemic, continue to create uncertainty over the level of potential future demand for the company's products but also satisfying demand due to the ongoing travel restrictions. The impact of these conditions has been built into the forecasts and projections of the company and these show that profits and cash generation are more than sufficient to enable the Company to operate within the level of its working capital requirements and available current facilities. In addition, a letter of support has been obtained from EXC Holdings I Corp (the parent company) who have confirmed they will continue to support the company and provide intercompany financing, if required, for a period of 12 months from the date of approval of the financial statements.

On the basis of their assessment of the Company's financial position the Company's directors have a reasonable expectation that the Company will be able to continue in operational existence for at least 12 months from the date of approval of these financial statements. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Qioptiq Limited

Notes to the financial statements

For the year ended 2 January 2022

3 Summary of significant accounting policies (continued)

c) Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions. The Company has taken advantage of exemptions for qualifying entities from the requirement to disclose key management personnel compensation in total (FRS 102 para 33.7).

The company has also taken advantage of the exemption for qualifying entities from the requirement to prepare a statement of cash flows as required by paragraph 3.17(d) of FRS 102.

d) Foreign currency

(i) *Functional and presentation currency*

The Company's functional and presentation currency is the pound sterling.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses are presented in the Statement of comprehensive income.

e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied or services rendered, net of returns, discounts and rebates allowed by the Company and value added taxes.

The Company bases its estimate of returns on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Where the consideration receivable in cash or cash equivalents is deferred, and the arrangement constitutes a financing transaction, the fair value of the consideration is measured as the present value of all future receipts using the imputed rate of interest.

The Company recognises revenue when (a) the significant risks and rewards of ownership have been transferred to the buyer; (b) the Company retains no continuing involvement or control over the goods; (c) the amount of revenue can be measured reliably; (d) it is probable that future economic benefits will flow to the entity; and (e) when the specific criteria relating to each of the Company's principal sales methods have been met, as described below:

Qioptiq Limited

Notes to the financial statements

For the year ended 2 January 2022

3 Summary of significant accounting policies (continued)

(i) *Sale of goods*

The Company manufactures and assembles specialised optical modules, sub-assemblies and components. Sales of good are recognised on delivery to the customer.

Sales are normally made with credit terms of 30 days net. Some sale contracts may extend credit terms up to 90 days. The element of financing is deemed immaterial and is disregarded in the measurement of revenue.

(ii) *Customer funded research and development and non-recurring engineering ("NRE")*

Sales on long term NRE contracts represents the estimated contract revenues based on work performed during the period. Contract revenues and profits are calculated on the percentage of completion method; and profits are determined after making reserves for all anticipated costs including possible warranty claims.

Sales and profits on short term NRE contracts are recognised on completion of the contract.

Where NRE contracts include the financing of test or manufacturing equipment manufactured by the Company, and where the Company retains the significant risks and rewards of ownership, revenue is recognised over the estimated manufacturing contract period of each asset.

(iii) *Sale of services*

The Company sells support and upgrade services to maximise the economic value of its products to its customers. Revenue is recognised in the accounting periods in which the services are rendered.

f) Employee benefits

The Company provides a range of benefits to employees, including annual bonus arrangements, paid holiday and defined contribution pension plans.

(i) *Short-term benefits*

Short-term benefits, including holiday pay and other similar non-monetary benefits are recognised as an expense in the period in which the service is received.

(ii) *Defined contribution pension plans*

The Company operates defined contribution pension plans for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid, the Company has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the plans are held separately from the Company in independently administered funds.

Qioptiq Limited

Notes to the financial statements

For the year ended 2 January 2022

3 Summary of significant accounting policies (continued)

(iii) Annual bonus plans

The Company operates annual bonus plans for its employees in line with the schemes Excelitas operates globally. An expense is recognised in the Statement of comprehensive income when the Company has a legal or constructive obligation to make payments under the plan as a result of past events and when it can estimate the obligation reliably.

g) Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the Statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In these cases, tax is also recognised respectively in other comprehensive income or directly in equity.

Current or deferred taxation asset and liabilities are not discounted.

(i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

Qioptiq Limited

Notes to the financial statements

For the year ended 2 January 2022

3 Summary of significant accounting policies (continued)

h) Intangible assets

Computer software is stated at cost less accumulated amortisation and accumulated impairment losses. Software is amortised on a straight line basis over its estimated useful life of between three and five years.

Where factors, such as technological advances or changes in marked price, indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances.

The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

i) Tangible assets

Tangible assets are stated at cost (or deemed cost) less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration and borrowing costs capitalised.

(i) Land and buildings

Land and buildings include freehold and short leasehold factories and offices. Land and buildings are stated at cost less accumulated depreciation and accumulated impairment losses.

(ii) Plant and machinery

Plant and machinery, which includes fixtures, fittings, tools and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

(iii) Depreciation and residual values

Land is not depreciated. Depreciation on other assets is calculated, using the straight-line method, to allocate the cost to their residual values of each asset over their estimated useful lives, as follows:

- Freehold buildings over periods up to 50 years
- Leasehold machinery over the period of the lease
- Plant and machinery 3-20 years

At the end of each reporting period, the Company reviews and adjusts the assets' residual values and useful lives, if appropriate. The effect of any change is accounted for prospectively. Leased machinery is included within the plant and machinery classification.

(iv) Subsequent additions and major components

Subsequent costs, including major inspections refurbishments or extensions, are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

Qioptiq Limited

Notes to the financial statements

For the year ended 2 January 2022

3 Summary of significant accounting policies (continued)

The carrying amount of any replaced component is derecognised. Major components are treated as separate assets where they have significantly different patterns of consumption of economic benefits and are depreciated separately over their useful lives.

Repairs, maintenance and minor inspection costs are expensed as incurred.

(v) Assets in the course of construction

Assets in the course of construction are stated at cost. These assets are not depreciated until they are available for use.

(vi) Derecognition

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in Statement of comprehensive income and included in "other operating income/ (expense)".

j) Leased assets

At inception the Company assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, in substance a lease.

(i) Finance leased assets

Leases of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases.

Finance leases are capitalised at commencement of the lease as assets at the fair value of the leased asset or, if lower, the present value of the minimum lease payments calculated using the interest rate implicit in the lease. Where the implicit rate cannot be determined, the Company's incremental borrowing rate is used. Incremental direct costs, incurred in negotiating and arranging the lease are included in the cost of the asset.

Assets are depreciated over the shorter of the lease term and the estimated useful life of the asset. Assets are assessed for impairment on each reporting date.

The capital element of lease obligations is recorded as a liability on inception of the arrangement. Lease payments are apportioned between capital repayment and finance charge, using the effective interest rate method, to provide a constant rate of charge on the balance of the capital repayments outstanding.

(ii) Operating leased assets

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the Statement of comprehensive income on a straight-line basis over the period of the lease.

Qioptiq Limited

Notes to the financial statements

For the year ended 2 January 2022

3 Summary of significant accounting policies (continued)

(iii) Lease incentives

Incentives received to enter into a finance lease reduce the fair value of the assets and are included in the calculation of present value of minimum lease payments.

Incentives received to enter into an operating lease are credited to the Statement of comprehensive income, to reduce the lease expense on a straight-line basis over the period of the lease.

k) Impairment of non-financial assets

At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication, the recoverable amount of the asset is compared to the carrying amount of the asset.

The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the Statement of comprehensive income.

If an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the Statement of comprehensive income.

l) Inventories

Inventories are stated at the lower of cost and estimated selling price less costs to complete and sell. Inventories are recognised as an expense in the period in which the related revenue is recognised.

Cost is determined on the standard cost method. Cost includes the purchase price, including taxes and duties, and transport and handling, directly attributable to bringing the inventory to its present location and condition. The cost of manufactured finished goods and work in progress includes raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity).

Qioptiq Limited

Notes to the financial statements

For the year ended 2 January 2022

3 Summary of significant accounting policies (continued)

At the end of each reporting period inventories are assessed for impairment. If an item of inventory is impaired, the identified inventory is reduced to its selling price less costs to complete and sell and an impairment charge is recognised in the Statement of comprehensive income. Where a reversal of the impairment is recognised the impairment charge is reversed, up to the original impairment loss, and is recognised as a credit in the Statement of comprehensive income.

m) Cash and cash equivalents

"Cash and cash equivalents" includes cash in hand and deposits held at call with banks. Bank overdrafts are shown within borrowings in current liabilities.

o) Provisions and contingencies

(i) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be recognised reliably.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with the respect of any one item include in the same class of obligations may be small.

In particular:

- Restructuring provisions are recognised when the Company has a detailed, formal plan for the restructuring and has raised a valid expectation in those affected by either by starting to implement the plan or announcing its main features to those affected and therefore has a legal or constructive obligation to carry out the restructuring; and
- No provision is made for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.

(ii) Contingencies

Contingent liabilities are not recognised. Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date, or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

Qioptiq Limited

Notes to the financial statements

For the year ended 2 January 2022

3 Summary of significant accounting policies (continued)

n) Financial instruments

The Company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

(i) *Financial assets*

Basic financial assets, including trade and other receivables, cash and bank balances are initially recognised at transaction price and subsequently carried at amortised cost using the effective interest method.

At the end of end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in Statement of comprehensive income.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in Statement of comprehensive income.

Other financial assets are initially measured at fair value, which is normally the transaction price. Subsequently changes to the fair value of these assets are recognised in Statement of comprehensive income.

Financial assets are de-recognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party, or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

(ii) *Financial liabilities*

Basic financial liabilities, including trade and other payables, bank loans, loans from fellow group companies are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at the market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest rate method.

Qioptiq Limited

Notes to the financial statements

For the year ended 2 January 2022

3 Summary of significant accounting policies (continued)

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

(iii) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

o) Share capital

Ordinary shares are classified as equity.

p) Distributions to equity holders

Dividends and other distributions to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the Company's shareholders. These amounts are recognised in the statement of changes in equity.

q) Related party transactions

The Company discloses transactions with related parties which are not wholly owned by Excelitas. It does not disclose transactions with members of Excelitas.

Qioptiq Limited

Notes to the financial statements

For the year ended 2 January 2022

4 Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) Useful economic lives of tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually and amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. Estimates of the useful economic lives of each class of asset are disclosed in note 3j and carrying value of plant and machinery in note 11.

(ii) Inventory provisioning

The Company's manufacturing processes are subject to regulation by its customers and the governments of its major markets. These inventories may not be transferrable between contracts. When calculating the inventory provision, management considers the future usage of raw materials that are not required to fulfil customer contracts. The net carrying amount of inventory and associated provisions are shown in note 12.

(iii) Impairment of debtors

The Company assesses the recoverable value of trade and other debtors. When assessing impairment of debtors, management considers factors, including the current credit rating of the debtor, the ageing profile of the debt and payment performance of the debtor. Note 13 discloses the net carrying amount of the debtors and associated impairment provision.

There were no critical accounting judgements during the year.

Qioptiq Limited

Notes to the financial statements

For the year ended 2 January 2022

5 Turnover

	Year ended 2 January 2022	Year ended 3 January 2021
Analysis of turnover by geography:		
United Kingdom	43,492	49,391
Americas	29,088	33,201
Europe	19,528	19,165
APAC (Asia-Pacific)	4,629	3,246
Rest of world	322	5,083
	97,059	110,086
Analysis of turnover by category:		
Sales of goods	73,647	86,657
Services	18,055	18,400
Funded research and development	5,357	5,029
	97,059	110,086

6 Operating profit

	Year ended 2 January 2022	Year ended 3 January 2021
	Notes	
Operating profit is stated after charging/ (crediting):		
Wages and Salaries	25,641	26,043
Social security costs	2,707	2,721
Other pension costs	2,230	2,258
Staff costs (see Note 7 for further information)	30,578	31,022
Impairment of inventory (included in cost of sales)	73	(151)
Impairment of trade debtors (included in distribution costs)	(20)	5
Inventory recognised as an expense	58,450	67,684
Research and development	14,103	13,462
Operating lease charges	685	681
Foreign exchange (gains)/ losses	(67)	314
Fees payable to the Company's auditors for audit services	100	97
Fees payable to the Company's auditors – non audit services	48	20
Fees payable to the Company's auditors	148	117

Qioptiq Limited

Notes to the financial statements

For the year ended 2 January 2022

7 Employees and directors

	Year ended 2 January 2022	Year ended 3 January 2021
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Employees

The average monthly number of persons (including executive directors) employed by the Company during the year was:

	No.	No.
Production, selling and distribution	603	600
Administration	33	36
	636	636

Directors

The directors' emoluments were as follows:

Aggregate emoluments	492	464
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Two (2020: two) directors were members of defined contribution pension schemes. Aggregate emoluments above include pension contributions of £31,000 (2020: £29,000). Two directors are accruing benefits under long term incentive schemes.

Highest paid director

The highest paid director's emoluments were as follows:

Total emoluments	239	229
Pension contributions	9	9
	248	238

Post-employment benefits

The Company provides a number of defined contribution schemes for its employees.

Current year contributions	2,230	2,258
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There were no unpaid contributions at the balance sheet date (2020: £nil).

Qioptiq Limited

Notes to the financial statements

For the year ended 2 January 2022

8 Interest payable and similar expenses

	Year ended 2 January 2022	Year ended 3 January 2021
Interest payable and similar expenses		
Interest payable on bank guarantees	(61)	(85)
Interest payable on loans to group undertakings	-	(107)
Total interest payable and similar expenses	(61)	(192)

Qioptiq Limited

Notes to the financial statements

For the year ended 2 January 2022

9 Tax on profit

	Year ended 2 January 2022	Year ended 3 January 2021
a) Tax charge included in the profit or loss		
Current tax:		
UK Corporation tax on profit for the year	3,335	4,193
Adjustment in respect of prior periods	52	(609)
Total current tax	3,387	3,584
Deferred tax:		
Origination and reversal of timing differences	(2)	90
Adjustment in respect of prior periods	(28)	(1)
Impact of change in tax rate	(23)	63
Total deferred tax	(53)	152
Tax on profit/ (loss)	3,334	3,736

No tax was included in other comprehensive income in both years.

b) Reconciliation of tax charge

Tax assessed for the year is lower (2020: lower) than the standard rate of Corporation tax in the UK for the year ended 2 January 2022 of 19.0% (2020: 19.0%). The differences are explained below.

Profit before taxation	18,256	22,951
Profit / (loss) before taxation multiplied by the standard rate of tax in the UK of 19.0% (2020: 19.0%)		
	3,469	4,362
Effects of:		
Expenses not deductible for tax purposes	(136)	(79)
Adjustments to tax charge in respect of prior years	24	(610)
Re-measurement of deferred tax –change in tax rate	(23)	63
Tax charge for the year	3,334	3,736

c) Tax rate changes

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. This was substantively enacted on 24 May 2021 as part of Finance Bill 2021.

Deferred taxes at the balance sheet date are measured using the enacted tax rate. It is unlikely that the overall effect of the change to 25%, had it been substantively enacted by the balance sheet date, would be material to these financial statements.

Qioptiq Limited

Notes to the financial statements

For the year ended 2 January 2022

10 Intangible assets

Computer
Software

Cost

At 4 January 2021	3,238
Additions	-
At 2 January 2022	3,238

Accumulated amortisation

At 4 January 2021	(3,238)
Charge for the year	-
At 2 January 2022	(3,238)

Net book amount at 2 January 2022 -

Net book amount at 4 January 2021 -

11 Tangible assets

	Freehold Land and buildings	Plant and machinery	Leased machinery	Tangible assets: total
Cost				
At 4 January 2021	5,484	73,681	143	79,308
Additions	-	1,623	-	1,623
Disposals	-	(423)	-	(423)
Reclassifications	29	-	-	29
At 2 January 2022	5,513	74,881	143	80,537
Accumulated depreciation				
At 4 January 2021	(3,623)	(61,098)	(143)	(64,864)
Disposals	-	422	-	422
Depreciation	(291)	(2,374)	-	(2,665)
At 2 January 2022	(3,914)	(63,050)	(143)	(67,107)
Net book amount at 2 January 2022	1,599	11,831	-	13,430
Net book account at 3 January 2021	1,861	12,583	-	14,444

Qioptiq Limited

Notes to the financial statements

For the year ended 2 January 2022

12 Inventories

	As at 2 January 2022	As at 3 January 2021
Raw materials and consumables	6,003	6,219
Work in progress	6,811	9,338
Finished goods	1,939	1,825
	14,753	17,382

There is no material difference between the balance sheet value of stocks and their replacement cost. Inventories are stated after provisions for impairment of £4,975,000 (2020 £4,902,000).

13 Debtors

	As at 2 January 2022	As at 3 January 2021
Trade debtors	13,845	14,262
Amounts recoverable on contracts	272	503
Amounts owed by group undertakings	14,479	1,239
Corporation Taxation	168	-
Deferred taxation (note 17)	237	184
Other debtors	-	15
Prepayments and accrued income	999	1,052
	30,000	17,255

At 2 January 2022, amounts owed by group undertakings of £14,479,000 (2020 £1,239,000) do not bear interest and are repayable on demand. Amounts due from group undertakings are unsecured.

Qioptiq Limited

Notes to the financial statements

For the year ended 2 January 2022

14 Creditors: amounts falling due within one year

	As at 2 January 2022	As at 3 January 2021
Finance leases	-	31
Payments received on account	2,198	2,673
Trade creditors	4,605	5,541
Amounts owed to group undertakings	2,022	1,895
Corporation tax	-	1,162
Other taxation and social security	1,437	2,500
Accruals and deferred income	5,267	7,055
	<hr/> 15,529	<hr/> 20,857

At 2 January 2022, amounts owed to group undertakings for a loan at the end of 2021 have now been repaid (2020: £993,000).

Other amounts owed to group undertakings of £2,022,000 (2020: £902,000) do not bear interest, are repayable on demand and are not secured.

15 Creditors: amounts falling due after more than one year

	As at 2 January 2022	As at 3 January 2021
Deferred rent	94	81

Qioptiq Limited

Notes to the financial statements

For the year ended 2 January 2022

16 Loans and other borrowings

	As at 2 January 2022	As at 3 January 2021
Amounts owed to group undertakings (Included in creditors: amounts falling due within one year)	-	993
<u>Finance leases</u>	-	31
	-	1,024

Finance leases

The future minimum finance lease payments are as follows:

	As at 2 January 2022	As at 3 January 2021
Not later than one year	-	31
<u>Later than one year and not later than five years</u>	-	-
<u>Total gross payments</u>	-	31
<u>Carrying amount of liability</u>	-	31

17 Provisions for liabilities

The Company had the following provisions during the year:

a) Post-sale rectification and support costs

At 4 January 2021	237
Release dealt with in profit or loss	83
<u>Amounts utilised</u>	(170)
<u>At 2 January 2022</u>	<u>150</u>

The provision for post-sale rectification and support costs relates to anticipated costs of rectifying products already delivered to customers.

Qioptiq Limited

Notes to the financial statements

For the year ended 2 January 2022

17 Provisions for liabilities (continued)

b) Deferred taxation

The deferred tax asset consists of the following components:

	As at 2 January 2022	As at 3 January 2021
Depreciation in advance of capital allowances	187	76
Other timing differences	50	108
	<hr/> 237	<hr/> 184

There are no unused tax losses, unused tax credits or unrecognised deferred tax assets. The net deferred tax asset is not expected to change significantly in the next year.

18 Financial instruments

	Note	As at 2 January 2022	As at 3 January 2021
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The Company has the following financial instruments:

Financial assets that are measured at amortised cost:

Cash and cash equivalents		5,231	4,813
Trade debtors	13	13,845	14,262
Amounts owed by group undertakings	13	14,479	1,239
Other debtors	13	-	15
		<hr/> 33,555	<hr/> 20,329

Financial liabilities that are measured at amortised cost:

Trade creditors	14	4,605	5,541
Amounts owed to group undertakings	14	2,022	1,895
Accruals	14	2,888	3,060
Finance leases	14, 16	-	31
		<hr/> 9,515	<hr/> 10,527

The Company has no equity instruments to be measured at cost less impairment (2020: none).

Qioptiq Limited

Notes to the financial statements

For the year ended 2 January 2022

19 Called up share capital

Notes	No of shares	£	No of shares	£
Ordinary shares of £1 each issued and fully paid:				
At 4 January 2021 and 2 January 2022	3,821,277	3,821,277	3,821,277	3,821,277

There is a single class of ordinary shares, and there are no restrictions on the distribution of dividends and the repayment of capital.

	£
Profit and loss reserve	
At 3 January 2021	28,898
Profit for the financial year	14,922
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At 2 January 2022	43,820

20 Contingent liabilities

The Company has given guarantees totalling £163,664 (2020: £163,664) in respect of and advance payment guarantees.

Qioptiq Limited

Notes to the financial statements

For the year ended 2 January 2022

21 Capital and other commitments

	As at 2 January 2022	As at 3 January 2021
The Company had the following capital commitments:		
Contracts for future capital expenditure not provided for in the financial statements – Property, plant and equipment	120	32

The Company had the following future minimum lease commitments under non-cancellable operating leases for each of the following periods:

<u>Payments due</u>		
Not later than one year	575	595
Later than one year and not later than five years	1,359	1,538
<u>Later than five years</u>	<u>1,900</u>	<u>2,173</u>
	3,834	4,306

The Company had no other off-balance sheet arrangements as at 2 January 2022. (2020: Nil).

22 Related party transactions

The Company is exempt from disclosing related party transactions as they are all with other companies that are wholly owned within the Group.

23 Controlling parties

The immediate parent undertaking of the Company is Qioptiq UK Holdings Limited.

The smallest and largest group which includes the Company and for which consolidated financial statements are prepared is EXC Holdings I Corp. A copy of the consolidated financial statements of EXC Holdings I Corp. is available on request from its registered office at 1209 Orange Street, Wilmington, Delaware 19801, United States of America.

The ultimate parent and controlling party of the Group is EXC Holdings LP, a partnership incorporated in the State of Delaware, United States of America. The capital of EXC Holdings LP is beneficially owned by certain funds managed by AEA Investors LP and NB Excelitas LP.