

## **Surrey Satellite Technology Limited**

### **Report and Financial Statements**

31 December 2019



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**Directors**

Professor Sir M N Sweeting  
Mr L Wilson  
Mr A I Marrakchi  
Mr C Paynter (resigned 8<sup>th</sup> October 2020)  
Mr B Le Stradic (resigned 30<sup>th</sup> September 2019)  
Rt Hon D Willetts  
Mr L Gomes (resigned 22<sup>nd</sup> March 2019)  
Mr N Chamussy (resigned 31<sup>st</sup> August 2019)  
Mr P Pham (appointed 12<sup>th</sup> July 2019)  
Mrs S Parker (resigned 31<sup>st</sup> January 2020)  
Mr P Brownnett (appointed 31<sup>st</sup> January 2020)

**Secretary**

Mrs C Peace (resigned 4<sup>th</sup> April 2019)  
Ms V Carpenter (appointed 4<sup>th</sup> April 2019)

**Auditors**

Ernst & Young LLP  
Grosvenor House  
Grosvenor Square  
Southampton  
SO15 2BE

**Registered Office**

Tycho House  
20 Stephenson Road  
Surrey Research Park  
Guildford  
Surrey GU2 7YE

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# Strategic Report

## Review of the Company

The principal activities of the Company during the year continued to be the design and construction of satellite platforms and payloads, the provision of related services and the sale of satellite ground stations.

### Launch & In-Orbit Events

A number of successful launches hosting the Company's platforms took place throughout the year. On 25<sup>th</sup> June 2019, the FormoSAT-7 satellite constellation and Orbital Test Bed (OTB) technology demonstration satellites were launched from NASA's Kennedy Space Centre on a Space X Falcon Heavy launch vehicle. The FormoSAT-7 constellation is a joint US-Taiwan meteorological mission aiming to monitor global meteorology, climate & the ionosphere. The Company provided all six of the constellation platforms. The Company also provided the platform for the OTB mission which aims to experiment with five demonstration payloads including NASA's Deep Space Atomic Clock.

On 5<sup>th</sup> July 2019, the Company's DOT-1 technology demonstration satellite was launched via a Soyuz launch vehicle from Vostochny, Russia. The primary mission aim is to test the Company's new generation of avionics, the Core-DHS (Data Handling System), which aims to maintain prior generation performance with a significant reduction in mass and volume. With a mass of just 17.5kg, the satellite also hosted an experimental camera payload in collaboration with the Surrey Space Centre. All launched satellites remain in successful operation.

Other notable innovative technological events occurred in May 2019 and included the world's first 5G demonstration in Low Earth Orbit via the Company's built platform & payload for the TeleSat LEO mission and the successful experimental deployment of the de-orbit drag sail payload on the TechDemoSat-1 satellite, built by the Company with a hosted number of UK scientific payloads provided by various UK academic establishments.

### Project Delivery

The 1<sup>st</sup> Galileo batch 3 payload variant was successfully delivered to the customer at the start of June 2019 and payload deliveries continued with a total of 6 payload deliveries by 31<sup>st</sup> December 2019. The Company continues to support the post-delivery integration of a number of payload subsystems produced by various European suppliers.

The Company also hosted the arrival of customer Engineers for the Theos-2 programme, a customer training mission for GISTDA (Geo-Informatics and Space Technology Development Agency) in Thailand. In collaboration with Airbus, the Company is providing a know-how transfer programme to train & mentor a total of 48 customer Engineers over a 4 year period including the build & launch of a complementary 1 metre resolution Earth Observational imaging (still & video) satellite.

Commissioning of the Company's owned S1-4 and NovaSar satellites was completed and start of service was agreed with the majority of customers before the end of the year.

## Strategic Report (continued)

### Company Restructuring

In January 2019, the Company announced to all staff the requirement to restructure and reduce headcount via a mix of a voluntary and compulsory redundancy scheme. The scheme commenced in March 2019 and was generally completed by June 2019, including a reduction in management size and structure.

### Financial Summary

Key financial performance indicators during the year were as follows:-

	2019	2018	Change %
	£'000	£'000	
Turnover	75,170	78,890	(5%)
Gross Profit	1,782	2,806	(36%)
Operating Loss	(6,866)	(3,920)	75%
Total Order Backlog	161,458	214,395	(25%)
Total Equity	(617)	4,655	n/a
Current assets as % of current liabilities ("quick ratio")	37%	45%	(8%)

The Company secured further NovaSAR and S1 data share contracts throughout the year and also secured contracts to supply avionics equipment to General Atomics for the OTB-2/OTB-3 hosted payload missions.

Turnover was relatively stable year on year, with Galileo contributing a significant proportion of the overall volume.

Return on sales has reduced by 1% reflecting contract performance. Whilst Quantum losses have ceased following the completion of the Platform & Payload integration in May 2019, the Company was impacted by further Earthcare losses related to the Multi-Spectral Instrument and by the financial provision of significant ongoing project, product development & inventory risks. Combined with the cost of implementing the Company's restructuring programme, Operating Losses increased by 75% compared to 2018.

Following the loss incurred in the year, the Company's financial position showed a year-end Total Equity of -£0.6m which included £48.7m due to its ultimate parent (Airbus Group SE) and other group companies. This balance included £45.1m in relation to an Airbus Group cash pooling facility which is provided to the Company with an authorised limit of €45m. This limit was breached and subsequently waived at the year-end date and the facility has been increased to €55m in 2020.

### Principal risks and uncertainties

There is a process for identifying, evaluating and managing significant risks faced by the Company. A quarterly risk register report is presented to the board of directors. The aim is to manage and control identified risks - strategic, operational, commercial and financial - but risk cannot be eliminated completely. Risk is inherent in spacecraft projects and these risks are managed through the Company's risk management process. An initial risk register is identified during the bid phase and the associated contingency is included

## Strategic Report (continued)

within the cost estimate. Risks being managed by the project are monitored actively throughout the life of the project and risk mitigation plans are activated by the project team as necessary.

### *Financial risk management and liquidity*

The Company is financed by a combination of retained reserves, advance payments from customers, and access to additional funding through the parent company, Airbus Group, via a cash pooling facility. It is the Company's policy to monitor its cash forecast on a rolling twelve month basis and to take steps to ensure that sufficient funds are available for this period to meet its obligations. Given the size of the Company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. Policies set by the board of directors are implemented by the Company's finance department.

### *Foreign exchange risk*

The Company is exposed to foreign exchange risks mainly in Euros and US Dollars as a result of its operations. The Company's policy is to manage any exchange risk by entering into forward exchange contracts when a contractual risk arises. Where appropriate, the Company seeks to secure subcontracts in the same currency as that of its major contracts in order to mitigate any exchange rate exposure.

### *Credit risk*

The Company has implemented policies that require appropriate credit checks on potential customers before sales are made. Where there is a perceived credit risk this is managed through a combination of advance payments, letters of credit and insurance cover.

### *Covid-19*

Despite Covid-19, the Company expects to secure further orders as planned before the 31<sup>st</sup> December 2020 and has entered into final negotiations with a number of customers. Management are satisfied that the value of credible market opportunities expected to materialise over the next 12 months remains significant and that the Company can secure its required market share over that period.

In the event of further travel restrictions as a result of Covid-19, in particular impacting the Company's ability to deliver Galileo payloads, the Company would expect emergency financial project support from the European Space Agency (ESA) / European Commission (EC) in order to protect the Galileo supply chain. ESA implemented similar measures across its main Space Programmes during the initial phase of travel restrictions in 2020.

The extent of the international pandemic and government intervention only became apparent after the balance sheet date and represents a non-adjusting post balance sheet event.

Given the significance of the pandemic, management are closely monitoring project progress and the impact on key accounts. Covid-19 will only increase uncertainties in the global economy, but the long term impact is difficult to assess and will depend on future developments such as the duration and magnitude of the pandemic.

Following a review of the Company's profit and cash forecasts including potential impacts of Covid-19 in conjunction with the authorised Airbus Group cash pooling facility, management are satisfied that the Company remains a going concern.

## Section 172(1) of the Companies Act 2006 statement

## Strategic Report (continued)

The following statement reflects how the Company, and in particular, the board of directors, have engaged with key stakeholders and explains, with relevant examples, how the board has reached key decisions and how those decisions may have impacted the Company's stakeholders.

### *The Board of Directors consideration of the requirements of Section 172(1)*

The Company has held quarterly board meetings with the presence of three Executive board members (Chairman, Managing Director & Finance Director), three non-Executive Shareholder (Airbus) representative board members, one independent non-Executive board member and the Company Secretary. At the start of each Board meeting, the Chairman has reminded the Board members of the need to consider the matters contained within Section 172(1) and these matters are noted within the Board papers for regular reference.

The comprehensive board agenda contained updates relating to project delivery, workload, engineering / technology developments, employee statistics, corporate security, health & safety, IT, risk, compliance, business development & finance. The key stakeholder groups discussed and considered at board level were employees, customers, institutional bodies and the shareholder.

Matters relating to stakeholder engagement and decisions that may impact stakeholders were discussed & reviewed throughout the board meetings, with the Company Secretary noting the full discussion & final decision within the board minutes. There is currently no documented assessment of each and every decision against the six matters set out in section 172(1) in order to maintain the timing of the board agenda and the natural flow of the meeting. A review to incorporate this documented assessment in future board meetings is underway.

At the end of each board meeting, the Chairman requested all board members to reflect upon the discussion and decisions taken during the board meeting in specific reference to Section 172(1) and the matters contained therein. Each board member had the opportunity to confirm or disagree with the view that all discussions and decisions taken did consider the impact on the Company's various stakeholders and considered the long-term success of the Company. The Company Secretary noted this specific conclusion within the board minutes and any requirement to revisit a decision was noted accordingly.

### **Employees**

The non-Executive directors within the board of directors did not generally directly engage with the employees as this engagement is managed by the Executive directors and management team.

The board of directors reached the decision to restructure the Company in January 2019 as a result of a lack of new orders secured in 2018 and a resulting insufficient workload and unaffordable cost base. The board of directors reached the conclusion that the restructuring was the only viable option in order to ensure the long-term survivability of the Company and protection of the majority of the employees. The board of directors were aware of the consequences of those affected employees and therefore maximised the voluntary redundancy scheme which resulted in 2/3 of the affected circa 70 employees leaving the Company with an enhanced financial package. The board also agreed on the need to support those affected with application for open Airbus group recruitment positions.

The board of directors considered employees in the strategic update which took place during the 2<sup>nd</sup> half of the year and which helped shape the product & customer base by which the Company strives to acquire new orders. This strategic decision making helps provide the employees with not only adequate workload but with a nature of work that is interesting & engaging. An example is the board of director's decision to pursue the Lunar Pathfinder mission with European Space Agency as not only will the mission provide the employees with substantial workload, it will also provide the employees with a very technically challenging objective of deploying a data relay communications satellite in orbit around the moon. If the mission is successful, it shall be very rewarding and motivating for all of the employees within the Company and promote a sense of purpose and achievement.

## Strategic Report (continued)

### Customers

The board of directors engaged with customers in various forums. The Chairman & Managing Director both regularly engaged with key customers directly in relation to specific sales campaigns and often the Managing Director engaged with customers to discuss existing project topics such as a face to face meeting held with the customer OHB regarding the Galileo programme. Certain non-executive members of the board interacted with customers on behalf of the Company in order to strengthen the position of the Company's key sales campaigns. Such engagements were made at industry events and customer meetings.

The board of directors made the key decision to approve the pursuit of the UK Ministry of Defence (MoD) Artemis programme enabling the Company to sign a Memorandum of Understanding in July 2019 to aim to provide the customer with a rapid, low cost, small satellite constellation for UK military use. The board of directors also approved the aforementioned Company restructuring to enable the Company to continue as a going concern, meeting both existing customer contractual obligations and new customer price expectations.

Ongoing project statuses were discussed during each board meeting and in those cases requiring board support or intervention, the board of directors agreed on actions to be taken by one or more board members. The Alsat-1B project close out was proving to be difficult for the customer and therefore the board of directors agreed in July 2019 that the Chairman would be required to directly visit the customer in Algeria in September 2019 in order to better understand the needs of the customer.

### Shareholder

The Executive Directors engaged with the shareholder throughout the year via the quarterly board meeting whereby the shareholder's appointed non-Executive Directors attended and represented Airbus Group. The Executive Directors also engaged with various shareholder representatives throughout the year in areas such as finance, compliance, legal and commercial. Airbus group has enforced policies, processes & controls which require mandatory implementation within all controlled subsidiaries. Therefore, the Company is engaging on a very regular basis with the shareholder within many departments of the Company. Local Company and Airbus group level approval are now required in many Company processes.

The financial results of the Company are reviewed at each board meeting and it is generally such key information which contributes to driving the board to make the strategic decisions of the Company. The financial stability of the Company and the financial return to the shareholder have been pertinent topics of consideration throughout the year. One key decision reached by the board was that, following the Company restructure, the Executive Management team were tasked to review the strategy of the Company and report back to the board in September 2019 with proposed amendments which would complement Airbus Defence & Space in related markets and would also work towards the Company securing financial stability – both being key requirements of the shareholder. Since this date the Executive Management Team have been implementing the new strategy to pursue low cost innovative technology demonstration missions to develop first to market positioning in order to deliver value to the Airbus Group by enabling long term business opportunities.

### *The Executive Management's consideration of the requirements of Section 172(1)*

At a Company operational level, a quarterly Environmental Quality Management System (EQMS) review was held with the presence of the executive management team. The performance of the Company against targeted key performance indicators across a wide area of subjects was assessed in both a financial & non-financial manner. The Company held monthly project reviews and weekly executive team meetings whereby key Company operational decisions were made and noted. Throughout these various operational level reviews, the key stakeholders discussed and considered were employees, customers, suppliers, institutional bodies / external parties, the local community and the shareholder.

## Strategic Report (continued)

### Employees

The executive management team engaged with the employees in a number of different ways including the business connection forum which was a regular meeting held between employee representatives and management to address employee topics and concerns. The executive management team also engaged via quarterly staff updates, bi-weekly face to face staff meetings and regular email or intranet communication updates. The employees were also requested to take part in a Company survey with the aim of understanding their satisfaction levels across a number of factors within the Company. The results have been communicated and actions are being taken to address areas of employee concern.

### Customers

The Company engaged with existing customers at project level and each project had an appointed project manager who interacted with each customer project manager throughout the year. The customer's progress, schedule and overall satisfaction were closely monitored with resolution actions determined during monthly project reviews. The executive management team attended the monthly project reviews and endorsed the agreed actions in order to satisfy customers' needs during the period. Resources were prioritised or reallocated as determined during the project review.

### Suppliers

Project teams within the Company maintained a very close relationship with key subcontractors and with regards to the Galileo project, the Company had dedicated subcontract managers who acted as the focal point for any supplier related issues. Progress meetings were held regularly between the subcontractor and project team and support was given to subcontractors when any issues arose.

One of the key suppliers of the Galileo payload subsystems encountered technical issues throughout the year during their development phase and the Company has supported the subcontractor by putting in place a post-delivery integration (retro-fit) process to protect the customer schedule and to help protect the subcontractor from further costs and liquidated damages.

### Local Community

The Company regularly supported the local community and engaged with various charities throughout the year. Various charitable events were organised and hosted by the Company's Charity Committee in aid of the Shooting Star Chase Children's Hospice Charity and Macmillan Cancer Support. In October 2019, the Company organised an Earth Observation open day, open to family & friends with the aim of inspiring the next generation of small satellite engineers.

The Company appreciates the value it can offer to the local community with the niche activities it undertakes and therefore has decided to maintain an everlasting commitment to continue to host events and support the local community of Guildford.

By order of the Board



Mr L Wilson

Director

Date: 2<sup>nd</sup> December 2020

## Directors' Report

### Directors of the Company

The directors who held office during the year and subsequent to the year-end were as follows:

Professor Sir M N Sweeting  
Mr L Wilson  
Mr A I Marrakchi  
Mr C Paynter (resigned 8<sup>th</sup> October 2020)  
Mr B Le Stradic (resigned 30<sup>th</sup> September 2019)  
Rt Hon D Willetts  
Mr L Gomes (resigned 22<sup>nd</sup> March 2019)  
Mr N Chamussy (resigned 31<sup>st</sup> August 2019)  
Mr P Pham (appointed 12<sup>th</sup> July 2019)  
Mrs S Parker (resigned 31<sup>st</sup> January 2020)  
Mr P Brownnett (appointed 31<sup>st</sup> January 2020)

### Directors' liabilities

The Company has indemnified the directors of the Company against liabilities in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity provision was in force throughout the year and remains in force at the date of approving the directors' report.

### Dividend

The directors do not propose a dividend (2018:£nil).

### Research and development

The Company has committed itself to research and development in the area of satellite technology. Internally funded expenditure in the year to 31 December 2019 totalled £2,591k (2018: £3,584k).

### Employment of disabled people and employee involvement

The Company's policy and practice is committed to support the employment of disabled people and gives full consideration for particular aptitudes and abilities. Appropriate training, career development and promotion opportunities are provided to all disabled employees and to those who become disabled.

The Company actively seeks employee involvement via a wide range of mediums including a staff consultation forum which allows employees to communicate and consult with senior managers at regular intervals throughout the year. Employees are also invited to quarterly meetings which provide updates on the Company including the financial status and employees are encouraged to ask questions and express views.

### Stakeholder engagement – s172

Refer to the strategic report for information relating to how directors have had regard to the need to foster the Company's business relationships with suppliers, customers and others and the effect of that regard including on principal decisions taken by the Company.

## Directors' Report (continued)

### Financial instruments

The Company finances its activities with a parent company cash pooling facility. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the Company's operating activities.

The Company also enters into forward currency contracts to manage currency risks arising from the Company's operations. The Company uses forward currency contracts to reduce exposure to the variability of the foreign exchange rates by fixing the rate of any material payments in a foreign currency.

### Impact of the Company on the Environment

The Company recognises that it has an impact on the environment through its activities and that all areas of its business have a responsibility to ensure that any negative impact of its activities on the environment is minimised wherever possible. To this end, the Company is committed to the implementation and maintenance of a programme of continual environmental improvement and complies with all the relevant environmental legislation and regulations in addition to meeting any contractual arrangements. In addition, consideration is given to the environmental impact of all new products throughout their lifecycle, from design initiation to end-of-life disposal.

### Subsequent Events

#### *Covid-19*

Since the balance sheet date, the COVID-19 global pandemic has had a significant impact on the economy of many countries including the United Kingdom. Following the United Kingdom (UK) government's imposed stay at home order in March 2020, the Company was confirmed by the UK government to be critical to UK infrastructure and therefore has managed to continue the majority of the ongoing project operations with minimal schedule & financial effects. An exception to this continued project progress has been the approx. 4 month impact to the final deliveries of the Galileo payloads due to the travel restrictions imposed by both the UK & German governments, preventing project staff from travelling to undertake milestone completion activities. Galileo payload deliveries resumed in July 2020 following a relaxation in travel restrictions in Europe. Refer to Note 20 for further information

#### *Brexit*

The UK has ceased to become a member of the European Union (EU) as at 31<sup>st</sup> January 2020 following UK parliaments' ratification of the withdrawal agreement. The UK is now operating within a transition period that is currently set to end on 31<sup>st</sup> December 2020 and during this time it is expected that the UK and EU negotiate a future relationship, including the economically important trade terms.

As a result of Brexit and the related political fallout, the Company is not currently permitted to continue its involvement in the European Commission Galileo programme as the prime provider of navigation payloads beyond its existing contract, which is due to complete in 2022. With the Company's expertise in the area of navigation payloads and its successful Galileo heritage, the Company is well positioned to bid for any UK related Global Navigation Satellite System opportunities that arise as a result of the UK government expressing a desire to create a sovereign capability. In July 2020, the UK government acquired a joint share of the US/UK based company Oneweb and have expressed a wish to use Oneweb as a space based navigation system in the future. Refer to Note 20 for further information

### Going concern

The Company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management and liquidity objectives and its exposure to foreign exchange and credit risk are described in the Strategic Report on pages 1-6.

## Directors' Report (continued)

The Company is currently in a net current liability position due to significant contract liabilities. The largest is related to the NovaSar spacecraft as the cash for the build has been received in advance of commencing revenue recognition. Revenue recognition (start of service) was achieved in October 2019. This balance will reduce over the next seven years of the satellite's life. The net current liability position includes the Airbus Group pooling facility.

Ongoing funding to the Company is provided by access to the Airbus Group cash pooling facility and in November 2020, Airbus SE provided the Company with an updated liquidity confirmation letter which validates committed access to the facility of €55m until at least the end of 2021. The Directors have made enquiries with the Airbus Group and have received assurances that the Company will be supported for the foreseeable future and that Airbus Group has sufficient resources to provide this support.

An assessment of the Company's expected cash flows until 31<sup>st</sup> December 2021 has been performed in September 2020. A 'reverse stress test' was performed to determine the break point of the going concern of the Company to identify those factors that could cause the Company to fail and to assist in the evaluation of those factors and determine if this is reasonably possible. The assessment included a number of downside scenarios such as no further order intake, key project milestones not being achieved and an increase in forecast costs to complete on contracts. This scenario was considered to be remote based on past history of order intake and past history of cost increases. Full Company running costs and their related cash out have been included in the assessment. The assessment demonstrated liquidity within the cash pooling facility until the end of 2021.

Despite Covid-19, the Company expects to secure further orders as planned before the 31<sup>st</sup> December 2020 and has entered final negotiations with a number of customers. The Company is satisfied that the value of credible market opportunities expected to materialise over the next 12 months remains significant and that the Company can secure its required market share over that period.

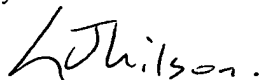
In the event of further travel restrictions as a result of Covid-19, in particular impacting the Company's ability to deliver Galileo payloads, the Company would expect emergency financial project support from the European Space Agency (ESA) / European Commission (EC) in order to protect the Galileo supply chain. ESA implemented similar measures across its main Space Programmes during the initial phase of travel restrictions in 2020.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to operate the going concern basis in preparing the annual report and financial statements.

### Disclosure of information to auditors

So far as each person who was a director at the date of approving this report is aware there is no relevant audit information, being information needed by the auditors in connection with preparing their report, of which the auditors are unaware. Having made enquiries of the Company's auditors, the directors have taken all the steps that they are obliged to take as directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

By order of the Board



Mr L Wilson  
Director

Date: 2<sup>nd</sup> December 2020

## Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, Directors report and the financial statements in accordance with applicable UK law and regulations.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements; 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 keeping 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. They 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.

# **Independent auditor's report to the members of Surrey Satellite Technology Limited**

## **Opinion**

We have audited the financial statements of Surrey Satellite Technology Ltd for the year ended 31 December 2019 which comprise of the Income Statement and Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position and the related notes 1 to 21 including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework".

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Emphasis of matter – Effects of COVID-19**

We draw attention to Note 1 and Note 20 of the financial statements, which describe the economic and social disruption the Company is facing as a result of the COVID-19 pandemic, which is impacting the wider UK and global economies, as well as the Company's ability to operate normally. Our opinion is not modified in respect of this matter.

## **Conclusions relating to going concern**

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

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

# **Independent auditor's report to the members of Surrey Satellite Technology Limited (continued)**

## **Other information**

The other information comprises the information included in the annual report set out on pages 1 to 9, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

## **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

## **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

## **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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

# **Independent auditor's report to the members of Surrey Satellite Technology Limited (continued)**

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.

## **Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

## **Use of our report**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Ernst & Young LLP

Ryan Squires (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor

Southampton

Date: 3<sup>rd</sup> December 2020

## Income Statement and Statement of Comprehensive Income

for the year ended 31 December 2019

### Income Statement

		2019	2018
	Notes	£'000	£'000
<b>Turnover</b>	2	75,170	78,890
Cost of sales		(73,388)	(76,084)
<b>Gross profit/loss</b>		<u>1,782</u>	<u>2,806</u>
Administration expenses		(8,648)	(6,726)
<b>Operating loss</b>	3	<u>(6,866)</u>	<u>(3,920)</u>
Interest payable and similar charges	7	(696)	(276)
Dividend income from 100% owned subsidiary		900	-
<b>Loss on ordinary activities before taxation</b>		<u>(6,662)</u>	<u>(4,196)</u>
Tax on loss on ordinary activities	8	308	(314)
<b>Loss for the financial year</b>		<u><u>(6,354)</u></u>	<u><u>(4,510)</u></u>

### Statement of Comprehensive Income

		2019	2018
	Notes	£'000	£'000
<b>Other Comprehensive Income:</b>			
Items that can be reclassified to profit and loss:			
Cash flow hedges gains/(losses) arising during the year		1,341	(119)
Tax on items relating to components of other comprehensive income	8	(259)	18
Other comprehensive (loss)/income for the year net of tax		<u>1,082</u>	<u>(101)</u>
Loss for the financial year		(6,354)	(4,510)
<b>Total comprehensive loss for the year</b>		<u><u>(5,272)</u></u>	<u><u>(4,611)</u></u>

## Statement of Changes in Equity

for the year ended 31 December 2019

	Share Capital Account £'000	Share Premium Account £'000	Capital Redemption Reserve £'000	Cash Flow Hedge Reserve £'000	Profit and Loss Account £'000	Total Equity £'000
At 1 January 2018	-	2,574	1,000	854	(25,162)	(20,734)
Share issues	-	30,000	-	-	-	30,000
Loss for the year	-	-	-	-	(4,510)	(4,510)
Other comprehensive income	-	-	-	(101)	-	(101)
Total comprehensive income/(loss) for the year	-	-	-	(101)	(4,510)	(4,611)
At 31 December 2018	-	32,574	1,000	753	(29,672)	4,655
At 1 January 2019	-	32,574	1,000	753	(29,672)	4,655
Loss for the year	-	-	-	-	(6,354)	(6,354)
Other comprehensive income	-	-	-	1,082	-	1,082
Total comprehensive (loss) for the year	-	-	-	1,082	(6,354)	(5,272)
At 31 December 2019	-	32,574	1,000	1,835	(36,026)	(617)

Share Premium Account represents the excess of the consideration received over the par value on shares issued less transaction costs arising on issue of shares

Capital Redemption Reserve represents the par value of shares previously redeemed.

Cash Flow Hedge Reserve represents the cumulative amount of gains and losses on cash flow hedging instruments.

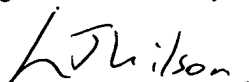
Profit and Loss account represents accumulated retained earnings.

# Statement of Financial Position

at 31 December 2019

	Notes	2019 £'000	2018 £'000
<b>Fixed assets</b>			
Tangible assets	9	79,409	81,487
Intangible assets	10	1,052	1,586
Investments	11	572	371
Right of use asset	12	10,099	-
		<u>91,132</u>	<u>83,444</u>
<b>Current assets</b>			
Stocks	13	10,756	8,807
Trade and other receivables	14	40,086	52,199
Cash at bank and in hand		1,184	871
		<u>52,026</u>	<u>61,877</u>
<b>Creditors: amounts falling due within one year</b>	15	(130,030)	(137,579)
Lease obligations	12	(10,187)	-
		<u>(88,191)</u>	<u>(75,702)</u>
<b>Net current liabilities</b>			
Provisions	16	(3,558)	(3,087)
		<u>(617)</u>	<u>4,655</u>
<b>Net assets/(liabilities)</b>			
<b>Capital and reserves</b>			
Called up share capital	17	-	-
Share premium account		32,574	32,574
Capital redemption reserve		1,000	1,000
Cash flow hedge reserve		1,835	753
Profit and loss account		(36,026)	(29,672)
		<u>(617)</u>	<u>4,655</u>
<b>Total equity</b>			
		<u>(617)</u>	<u>4,655</u>

These financial statements were approved by the board of directors on 2nd December 2020 and were signed on its behalf by:



Mr L Wilson  
Director

## Notes to the financial statements

at 31 December 2019

### 1. Accounting policies

#### 1.1 *Authorisation of financial statements and statement of compliance with FRS 101*

The financial statements for the year ended 31 December 2019 were authorised for issue by the board of directors on the date shown on the balance sheet and were signed on the board's behalf by Mr Lee Wilson. The Company is incorporated and domiciled in England and Wales. These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS101) and in accordance with applicable accounting standards. The Company's financial statements are presented in sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated. The Company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare group accounts as it is a wholly owned subsidiary of Airbus Group SE. Therefore, the financial statement reflect the results of the Company and not the group.

#### 1.2 *Going concern*

The Company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management and liquidity objectives and its exposure to foreign exchange and credit risk are described in the Strategic Report on pages 1-6.

The Company is currently in a net current liability position due to significant contract liabilities. The largest is related to the NovaSar spacecraft as the cash for the build has been received in advance of commencing revenue recognition. Revenue recognition (start of service) was achieved in October 2019. This balance will reduce over the next seven years of the satellite's life. The net current liability position includes the Airbus Group pooling facility.

Ongoing funding to the Company is provided by access to the Airbus Group cash pooling facility and in November 2020, Airbus SE provided the Company with an updated liquidity confirmation letter which validates committed access to the facility of €55m until at least the end of 2021. The Directors have made enquiries with the Airbus Group and have received assurances that the Company will be supported for the foreseeable future and that Airbus Group has sufficient resources to provide this support.

An assessment of the Company's expected cash flows until 31<sup>st</sup> December 2021 has been performed in September 2020. A 'reverse stress test' was performed to determine the break point of the going concern of the Company to identify those factors that could cause the Company to fail and assist in the evaluation of those factors and determine if this is reasonably possible. The assessment included a number of downside scenarios such as no further order intake, key project milestones not being achieved and an increase in forecast costs to complete on contracts. This scenario was considered to be remote based on past history of order intake and past history of cost increases. Full Company running costs and their related cash out have been included in the assessment. The assessment demonstrated liquidity within the cash pooling facility until the end of 2021.

Despite Covid-19, the Company expects to secure further orders as planned before the 31<sup>st</sup> December 2020 and has entered final negotiations with a number of customers. The Company is satisfied that the value of credible market opportunities expected to materialise over the next 12 months remains significant and that the Company can secure its required market share over that period.

In the event of further travel restrictions as a result of Covid-19, in particular impacting the Company's ability to deliver Galileo payloads, the Company would expect emergency financial project support from the European Space Agency (ESA) / European Commission (EC) in order to protect the Galileo supply chain. ESA implemented similar measures across its main Space Programmes during the initial phase of travel restrictions in 2020.

After making enquires, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to operate the going concern basis in preparing the annual report and financial statements.

## Notes to the financial statements

at 31 December 2019

### 1 Accounting policies (continued)

#### 1.3 Impact of COVID-19

In light of the COVID-19 pandemic the Company has considered whether any adjustments are required to reported amounts in the financial statements.

As at the 31 December 2019 balance sheet date, no global pandemic had been declared. The full ramifications of COVID-19, and the extent of Government interventions in response, were not apparent. Subsequent to the balance sheet date, the World Health Organisation declared a pandemic on 11 March 2020, the UK government implemented social distancing measures and 'stay at home' restrictions.

The Company has therefore concluded that since COVID-19 only became apparent after the balance sheet date and there is a non-adjusting post balance sheet event. Further disclosures are given in Note 20.

#### 1.4 New and Amended Accounting Policies Adopted

##### IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Company elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at 1 January 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The effect of adoption IFRS 16 as at 1 January 2019 (increase / (decrease)) is, as follows:

	<i>As originally stated</i>	<i>IFRS 16 adjustment</i>	<i>Total restated</i>
<i>Assets</i>		<i>£'000</i>	<i>£'000</i>
Right-of-use assets	-	11,777	11,777
<i>Liabilities</i>			
Lease obligations	-	(11,777)	(11,777)
Equity	4,655	-	4,655

## Notes to the financial statements

at 31 December 2019

### 1 Accounting policies (continued)

#### 1.4 New and Amended Accounting Policies Adopted (continued)

Below is the reconciliation from the IAS 17 lease disclosure to the opening IFRS 16 liability:

	£'000
<b>Operating lease commitment at 31 December 2018 as disclosed</b>	<b>13,886</b>
Short-term and low-value leases recognised on a straight-line basis as expenses	(24)
Discounted effect using the incremental borrowing rate at 1 January 2019	(2,085)
<b>Lease liabilities recognised at 1 January 2019</b>	<b>11,777</b>

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets.

#### Leases previously accounted for as operating leases

The Company recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

The Company did not previously recognise any leases as finance leases.

#### 1.5 Basis of preparation – other

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2019.

The Company has taken advantage of the following disclosure exemptions under FRS101

- (a) The requirements of paragraphs 45(b) and 46-52 of IFRS 2 *Share based Payment*, because:
  - (i) The share based payment arrangement concerns the instruments of another group entity;
- (b) The requirements of *IFRS 7 Financial Instruments: Disclosures*.
- (c) The requirements of paragraphs 91-99 of *IFRS 13 Fair Value Measurement*,

## Notes to the financial statements

at 31 December 2019

### 1 Accounting policies (continued)

#### 1.5 Basis of preparation – other (continued)

- (d) The requirement in paragraph 38 of IAS 1 '*Presentation of Financial Statements*' to present comparative information in respect of:
  - (i) paragraph 79(a)(iv) of IAS 1;
  - (ii) paragraph 73(e) of IAS 16 *Property Plant and Equipment*;
  - (iii) paragraph 118(e) of IAS 38 *Intangible Assets*;
- (e) The requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 *Presentation of the Financial Statements*;
- (f) The requirements of IAS 7 *Statement of Cash Flows*;
- (g) The requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;
- (h) The requirements of paragraph 17 of IAS 24 *Related Party Disclosures*;
- (i) The requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- (j) The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 *Impairment of Assets*

#### 1.6 Judgement and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means the actual outcomes could differ from those estimates.

The following judgments and estimates have had the most significant effect on amounts recognised in the financial statements:

##### **Revenue recognition**

The PoC method is used to recognise revenue on major contracts (as detailed below). This method places considerable importance on the accurate estimates of total revenues and costs at completion as well as on the extent of progress towards completion. For the determination of the progress of the construction contract significant estimates include remaining costs to completion, total contract revenues, contract risks and other judgements. Management continually review all estimates involved in such contract estimates.

##### **Provisions**

The determination of provisions is based on best available estimates. The major provision within the financial statement is the leased building dilapidation provision. This is based on engineer reports on the cost related to bring the building back to its conditions based on the current level of upkeep

##### **Useful lives**

Determination of the useful lives of asset classes involves taking into account historical trends and making assumptions related to future socio-economic and technological development and expected changes in market behaviour. These assumptions are prepared by management and subject to annual review.

##### **Revenue from contracts with customers**

Revenue is produced from the design and construction of satellites and subsystems, the provision of related services and the sale of satellite ground stations. When control of produced goods or rendered services is transferred over time to the customer, revenue is recognised over time, i.e. under the percentage of completion method ("PoC" method). For the application of the overtime method (PoC method), the

## Notes to the financial statements

at 31 December 2019

### 1 Accounting policies (continued)

#### 1.6 *Judgement and key sources of estimation uncertainty (continued)*

measurement of progress towards complete satisfaction of a performance obligation is based on inputs (i.e. cost incurred). Variable considerations are included in the transaction price when it is highly probable that there will be no significant reversal of the revenue in the future. The Company identifies the various performance obligations of the contract and allocates the transaction price to these performance obligations. Advances and pre-delivery payments (contract liabilities) are normal and not considered a significant financing component as they are intended to protect the Company from the customer failing to complete its obligations under the contract. Turnover is stated net of valued added tax.

#### **Government Grants**

The Company received a government grant to support both the build of a UK low cost SAR satellite and to receive 15% of the data from the satellite. The grant has been split into two elements to represent the split between a capital and revenue grant.

The revenue grant element is valued in relation to other arm's length sales made on the same satellite and is traded as revenue. The capital element is the balance of the grant and is used to reduce the cost of sales on the project.

#### **Barter Transactions**

In 2018 the Company agreed to exchange 40% of the NovaSar satellite data for a launch. This was valued by the launch agency in relation to other similar size satellites on an arm's length basis. This barter transaction was accounted for by trading this value as both revenue to represent the 40% share and cost of sales to represent the launch cost.

#### 1.7 *Significant Accounting Policies*

#### **Contract Assets**

A contract asset is the right to consideration in exchange for goods and services transferred to the customer. If the Company transfers goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration.

#### **Contract Liabilities**

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due. Contract liabilities are recognised as revenue when the Company performs the related contract obligation.

#### **Tangible Fixed Assets**

Tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes cost directly attributable to making the asset capable of operating as intended. Assets in the course of construction are not depreciated. Depreciation commences when the asset is brought into use. Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets over their estimated useful economic lives as follows:

## Notes to the financial statements

at 31 December 2019

### 1. Accounting policies (continued)

#### 1.7. Significant Accounting Policies (continued)

Tools, equipment	–	5 years (20% per annum)
Plant and machinery	–	7 years (14% per annum)
Satellites	–	1-7 years (100%-14% per annum)
Fixtures and fittings	–	10 years (10% per annum)
Leasehold improvements	–	Residual life of lease

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively. Tangible fixed assets are derecognised upon disposal or when no future economic benefits are expected to arise from continued use of the asset. Any gain or loss arising on the de-recognition of the asset is included in the income statement in the period of de-recognition.

For satellites where capacity is leased and not 100% is sold the associated depreciation will be split between cost of sales for the percentage sold with the balance to admin expenses.

#### **Right of use assets**

The Company recognises right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. Right-of-use assets are depreciated on a straight-line basis over the term of the lease.

#### **Intangible Assets**

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year end. Changes in the expected useful life or the expected consumption of future economic benefits is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised. Amortisation is provided to write off the cost over the estimated useful life as follows this is dependent on either the length of the licence or if not defined or indefinite our internal estimate based on previous experience.

#### **Research and development expenditure**

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during the development. The Company claims tax credits on eligible expenditure based on how innovative the work is deemed to be. Claims have previously been approved and repaid in a timely manner.

#### **Stocks**

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing the product to its present location and condition, as follows:

- Raw materials and components – purchase cost on a first in, first out basis.
- Work in progress and finished goods – cost of direct materials and labour plus attributable overheads based on a normal level of activity.

Net realisable value is the estimated proceeds from the sale of items of stock less all further costs to completion.

## Notes to the financial statements

at 31 December 2019

### 1. Accounting policies (continued)

#### 1.7. Significant Accounting Policies (continued)

##### **Foreign currency translation**

Financial statements are presented in sterling, which is also the functional currency. Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate at the date of the transaction. Monetary assets and liabilities in foreign currencies are retranslated at the rate of exchange at the balance sheet date. All differences are taken to the profit and loss.

##### **Investments**

Investments in subsidiaries and other investments are held at historical cost less any applicable provision for impairment.

##### **Provisions**

A provision is recognised when the Company has a legal or contractual obligation as a result of a past event; it is probable that an outflow of economic value will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

##### **Impairment of non-financial assets**

The Company assess at each reporting date whether there are any impairment indicators. If any such indicators exist an estimate of the assets new recoverable amount is made in order to determine the extent of any impairment loss. An asset's recoverable amount is the higher of an asset's fair value less cost to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

##### **Trade and other debtors**

Trade debtors are recognised and carried at the lower of their original invoiced value and the recoverable amount. Provision for impairment is made through the profit and loss where there is objective evidence that the debt is unlikely to be recovered in full. Balances are written off when the probability of recovering is assessed as remote. Standard terms are 30 days.

##### **Lease obligations**

At the commencement date the Company recognises the lease liability as the present value of future lease payments discounted at our incremental borrowing rate as the rate implicit in our leases is not readily determinable. After the commencement date, the liability is increased in line with the accretion of interest and reduced by the lease payments made.

##### **Derivative financial instruments and hedging**

Forward currency contracts are used to hedge risks associated with foreign currency fluctuations. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is formally designated and documented at its inception. Such hedges are expected at inception to be highly effective in offsetting changes in fair value or cash flows and are assessed on an on-going basis to determine that they are actually effective throughout the reporting period for which they were designated. For the purpose of hedge accounting, forward currency contracts are classified as cash flow hedges. Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting

## Notes to the financial statements

at 31 December 2019

### 1. Accounting policies (continued)

#### 1.7. Significant Accounting Policies (continued)

are taken to the income statement. The treatment of gain and losses arising from revaluing derivatives designated as cash flow hedging is as follows:

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income, while the ineffective portion is recognised in profit or loss. Amounts taken to other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when a forecast sale or purchase occurs. The Company currently uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments. See note 20 for further details.

#### **Taxation**

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax rates of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforcement right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Company to make a single net payment.

Income tax is charged or credited to other comprehensive income if it relates to items that are charges or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charges directly to equity. Otherwise income tax is recognised in the income statement.

#### **Government Grants**

Government grants of a revenue nature are recognised when there is reasonable assurance that the Company will comply with the conditions attaching to them and the grants will be received. Grants related to expenses incurred are treated as Revenue in the Profit and Loss account so as to match with the expenditure to which they relate.

Government grants in respect of capital expenditure are credited to a deferred income account or contract liability accrual and are released to profit over the expected useful lives of the relevant assets by equal annual instalments.

#### **Pensions**

Employees of the Company are members of a number of pension schemes run and administered by the wider Airbus Group that are principally defined benefit in nature, although they do have a defined contribution element to them. The sponsoring company for these plans are other group companies (mainly Airbus Defence and Space Limited) and full accounting for the pension schemes is carried out in the financial statement of these in accordance with IAS 19 "Employee Benefits". Therefore the pension costs

## Notes to the financial statements

at 31 December 2019

### 1. Accounting policies (continued)

#### 1.7. Significant Accounting Policies (continued)

charged in the financial statements of the Company represent the contributions payable by the Company during the year.

#### **Share based payments**

A small number of employees are participants in the long term incentive plans established by the Company's parent undertaking, Airbus Group SE. Further details of these plans are given in the financial statements of Airbus Group SE. As the related IFRS2 share based payment charges and transactions for these employees are not considered material to the Company's financial statements, no further adjustments or disclosures relating to them are made in the financial statements.

#### **Financial liabilities at amortised cost**

Loans and payables, held-to-maturity investments, and non-derivative financial liabilities are measured at amortised cost using the effective interest method. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the instrument to the net carrying amount of the financial liability. If expected life cannot be determined reliably, then the contractual life is used.

#### **Financial liabilities at fair value through the profit or loss**

Financial liabilities not measured at amortised cost are classified and measured at FVTPL. This classification includes derivative liabilities.

#### **Derecognition**

##### *a) Financial assets*

The Company derecognises a financial asset when;

- the contractual rights to the cash flows from the financial asset expire,
- it transfers the right to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred; or
- the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of the consideration received is recognised as a gain or loss in the profit or loss.

##### *b) Financial liabilities*

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

## Notes to the financial statements

at 31 December 2019

### 2. Turnover

Turnover, which is stated net of value added tax, represents the revenue recognised on contracts with customers. Turnover is attributable to one continuing activity, the design and construction of satellites and subsystems, the provision of related services and sale of satellite ground stations. An analysis of turnover by geographical market is given below:

	2019 £'000	2018 £'000
Europe - UK	14,078	11,106
Europe - other countries	58,239	60,011
Asia	4,760	3,081
Africa	393	207
Americas	(2,300)	4,485
	<u>75,170</u>	<u>78,890</u>

### 3. Operating loss

This is stated after charging/(crediting):

	2019 £'000	2018 £'000
Depreciation of owned fixed assets	6,264	5,199
Depreciation of right of use assets	1,678	-
Restructuring expenses	306	-
Amortisation of intangibles	675	765
Research and development expenditure		
– Internally funded	2,591	3,584
– Externally funded	1,368	1,096
Above the line R&D tax credit (income)	(977)	(3,192)
Foreign exchange gain	95	40
Cost of stocks recognised as an expense (included in cost of sales)	1,512	7,980
Including: -write- down of stocks to net realisable value	653	779
	<u></u>	<u></u>

### 4. Auditor's remuneration

The Company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided by the Company.

	2019 £'000	2018 £'000
Audit of the financial statements	83	80
	<u></u>	<u></u>

## Notes to the financial statements

at 31 December 2019

### 5. Directors' remuneration

	2019 £'000	2018 £'000
Aggregate remuneration in respect of qualifying services	486	562
Aggregate amounts receivable under long term incentive plans	-	-
Company contributions to pension schemes	87	97
	<u>No.</u>	<u>No.</u>
Retirement benefits are accruing to the following number of directors under:		
Defined contribution schemes	3	3
Defined benefit schemes	1	1

The remuneration of the highest paid director for the year was £163k (2018: £181k). In addition, Company pension contributions of £33k were made to a money purchase pension scheme on the director's behalf (2018: £33k). No share options were exercised by directors during this period.

### 6. Staff costs

The costs of staff (including directors) during the year amounted to:

	2019 £'000	2018 £'000
Wages and salaries	18,992	23,434
Social security costs	1,998	2,521
Other pension costs	2,934	3,460
	<u>23,924</u>	<u>29,415</u>

The average monthly number of staff employed during the year was as follows:

	2019 No.	2018 No.
Engineering	339	401
Administration	47	56
	<u>386</u>	<u>457</u>

### 7. Interest payable and similar charges

	2019 £'000	2018 £'000
Interest payable to group undertakings	510	276
Interest on lease liability	186	-
	<u>696</u>	<u>276</u>

## Notes to the financial statements

at 31 December 2019

### 8. Taxation

#### (a) Tax on Loss on ordinary activities

The tax charge is made up as follows:

	2019 £'000	2018 £'000
<i>Current tax:</i>		
UK corporation tax on the profits for the year	(583)	(450)
Tax (over)/under provided in previous years	(350)	(12)
Total current tax	<u>(933)</u>	<u>(462)</u>
<i>Deferred tax:</i>		
Origination and reversal of timing differences	531	964
Tax (over)/under provided in previous years	189	(23)
R&D tax set off	(95)	(165)
Total deferred tax	<u>625</u>	<u>776</u>
Total tax charge / (credit) for the year	<u><u>(308)</u></u>	<u><u>314</u></u>

#### (b) Reconciliation of the total tax charge / (credit)

	2019 £'000	2018 £'000
Loss on ordinary activities before tax	<u>(6,662)</u>	<u>(4,196)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018: 19%)	(1,266)	(797)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	200	61
Losses surrendered to the group	963	1,057
Tax under / (over)provided in previous years	(160)	(35)
Exempt amounts	221	193
Income not taxable	(171)	
Effect of change in tax rates	(95)	(165)
Total tax charge / (credit) for year	<u><u>(308)</u></u>	<u><u>314</u></u>

#### (c) Tax relating to items charged/(credited) to other comprehensive income

	2019 £'000	2018 £'000
<i>Deferred Tax</i>		
Cashflow hedging adjustment	<u>259</u>	<u>(18)</u>
Total tax charge/(credit) for the year	<u><u>259</u></u>	<u><u>(18)</u></u>

## Notes to the financial statements

at 31 December 2019

### 8. Taxation (continued)

(d) Deferred tax

The deferred taxation asset is as follows:

	2019 £'000	2018 £'000
Capital allowances in advance of depreciation	(2,097)	(1,246)
Other timing differences	(357)	(139)
R&D net set off	2,289	2,104
At 31 December 2019	(165)	719

From 1 April 2017, the main rate of corporation tax was reduced from 20% to 19%. Further reductions to 17% (effective 1 April 2020) were substantively enacted by the year end date. This will reduce the Company's future current tax charge accordingly. Deferred tax recognised at the year-end date has been calculated based on the above rates.

### 9. Tangible fixed assets

	Tool and equipment £'000	Satellites, Plant and machinery £'000	Fixtures and fittings £'000	Assets in the course of construction £'000	Land and Buildings £'000	Leasehold imp'ments £'000	Total £'000
Cost:							
At 1 January 2019	5,275	91,252	1,665	408	3,087	7,482	109,169
Additions	-	-	-	4,484	-	-	4,484
Disposals	-	-	-	(157)	-	-	(157)
Transfers	221	3,563	109	(4,034)	-	-	(141)
At 31 December 2019	5,496	94,815	1,774	701	3,087	7,482	113,355
Depreciation:							
At 1 January 2019	4,166	16,667	1,011	-	1,542	4,296	27,682
Charge for year	375	4,992	149	-	215	533	6,264
Disposals	-	-	-	-	-	-	-
At 31 December 2019	4,541	21,659	1,160	-	1,757	4,829	33,946
Net book value:							
At 31 December 2019	955	73,156	614	701	1,330	2,653	79,409
At 1 January 2019	1,109	74,585	654	408	1,545	3,186	81,487

All land and building are held on a leasehold basis.

## Notes to the financial statements

at 31 December 2019

### 10. Intangible assets

	<i>Software Costs £'000</i>	<i>Total £'000</i>
<i>Cost:</i>		
At 1 January 2019	5,317	5,317
Additions		
Transfers from tangible fixed assets	141	141
At 31 December 2019	5,458	5,458
<i>Depreciation</i>		
At 1 January 2019	3,731	3,731
Charge for year	675	675
At 31 December 2019	4,406	4,406
<i>Net book value:</i>		
At 31 December 2019	1,052	1,052
At 1 January 2019	1,586	1,586

### 11. Investments

	<i>Other £'000</i>	<i>Equity held in Subsidiary undertaking £'000</i>	<i>Total £'000</i>
<i>Cost:</i>			
At 31 December 2018	270	5,826	6,096
Additions	201	-	201
At 31 December 2019	471	5,826	6,297
<i>Provision:</i>			
At 31 December 2018	-	(5,725)	(5,725)
At 31 December 2019	-	(5,725)	(5,725)
<i>Net book value:</i>			
At 31 December 2019	471	101	572
At 1 January 2019	270	101	371

The Other investment includes an investment in a venture capital fund specialising in the Space industry.

## Notes to the financial statements

at 31 December 2019

### 11. Investments (cont.)

Details of the investments in which the Company holds 20% or more of the nominal value of any class of share capital are as follows:

<i>Name of company</i>	<i>Nature of Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Nature of business</i>
DMC International Imaging Ltd	Ordinary shares	100%	Supply of remote sensing data products

The registered office and trading address of the above subsidiary companies can be obtained from the Company's registered office at Tycho House, Surrey Research Park, Guildford, GU2 7YE.

### 12. Leases

<i>Right of Use Asset:</i>	<i>Land &amp; Buildings £'000</i>	<i>Total £'000</i>
At 31 December 2018 (restated)	11,777	11,777
Additions	-	-
Depreciation expense	(1,678)	(1,678)
At 31 December 2019	<u>10,099</u>	<u>10,099</u>
 <i>Lease Liability:</i>	 <i>Land &amp; Buildings £'000</i>	 <i>Total £'000</i>
At 31 December 2018 (restated)	11,777	11,777
Additions	-	-
Accretion of interest	185	185
Payment	(1,775)	(1,775)
At 31 December 2019	<u>10,187</u>	<u>10,187</u>
Current	8,651	8,651
Non-Current	1,536	1,536

## Notes to the financial statements

at 31 December 2019

### 13. Stocks

	2019	2018
	£'000	£'000
Raw materials and components	2,783	6,203
Work in progress	7,973	2,604
	<u>10,756</u>	<u>8,807</u>

### 14. Trade and other receivables

	2019	2018
	£'000	£'000
Trade debtors	9,820	21,447
Contract assets	13,455	16,790
Amount owed by group undertakings – parent and fellow subsidiaries	6,528	3,642
Amount owed by subsidiary undertakings (including group relief)	1,510	142
R&D tax receivable	3,378	4,914
Financial instruments – foreign currency contracts	2,239	898
Other debtors	1,281	2,348
Prepayments	1,875	1,299
Deferred tax asset	-	719
	<u>40,086</u>	<u>52,199</u>

Amounts falling due after more than one year included above are rental deposits of £1,088k (2018: £1,130k).

There has been no significant changes in contract assets as a result of cumulative catch up adjustments to revenue.

There has been no revenue recognised in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods.

### 15. Creditors: amounts falling due within one year

	2019	2018
	£'000	£'000
Contract liabilities	61,672	75,638
Trade creditors	7,247	15,160
Amounts owed to group undertakings – parent and fellow subsidiaries	48,719	35,370
Other creditors	3	597
Other taxation & social security	504	622
Accruals	11,885	10,192
	<u>130,030</u>	<u>137,579</u>

## Notes to the financial statements

at 31 December 2019

### 15. Creditors: amounts falling due within one year (continued)

Amounts owed to group undertakings above includes short term finance balances of £45,136k (2018: £30,614k) on which interest is charged at a rate linked to bank LIBOR and EURIBOR rates.

£16,110k of revenues recognised in the reporting period were included in the contract liability balance at 1 January 2019.

There has been no significant changes in contract liabilities as a result of any cumulative catch up adjustments to revenue.

There has been no revenue recognised in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods.

### 16. Provisions

	<i>Deferred Tax Provision £'000</i>	<i>Restructuring Provision £'000</i>	<i>Dilapidation Provision £'000</i>	<i>Total £'000</i>
At 1 January 2019	-	-	3,087	3,087
Additions in year	165	306	-	471
Utilised in year	-	-	-	-
At 31 December 2019	165	306	3,087	3,558
Current	-	306	125	431
Non-Current	165	-	2,962	3,127

The dilapidation provision is in relation to four buildings that have an obligation to return to their original condition at the end of the lease period. The provision comprises £2,857k for leases ending in 2026, £105k for leases ending in 2021 and £125k for leases ending in 2020.

The restructuring provision is for compensation for loss of office of a director.

### 17. Authorised, issued and called up share capital

	<i>2019 £</i>	<i>2018 £</i>
<i>Allotted, called up and fully paid</i>		
1,179 "A" Ordinary shares of £0.1p each	1	1
116,739 Ordinary shares of 0.1p each	117	117
	<u>118</u>	<u>118</u>

## Notes to the financial statements

at 31 December 2019

### 18. Pension schemes

The Company operates a defined contribution pension scheme for its directors and employees. The assets of the scheme are held separately from those of the Company in an independently administered fund. The unpaid contributions outstanding at the year end, included in 'Creditors: amounts falling due in one year' are £208k (2018: £nil).

The Company also makes contributions to the parent company's defined benefit pension scheme. The unpaid contributions outstanding at the year end, included in 'Creditors: amounts falling due within one year' are £nil (2018: £nil).

### 19. Derivatives

The Company purchases forward foreign currency contracts to hedge currency exposure on firm future commitments. The fair values of the derivatives are held at the balance sheet date in debtors or creditors and are determined by reference to their market values, as follows:

	2019	2018
	£'000	£'000
Foreign forward currency contracts	2,239	898

### 20. Subsequent events

#### **Covid-19**

Following the UK government's imposed stay at home order in March 2020, the Company was confirmed by the UK government to be critical to UK infrastructure and therefore has managed to continue the majority of the ongoing project operations with minimal schedule & financial effects. An exception to this continued project progress has been the approx. 4 month impact to the final deliveries of the Galileo payloads due to the travel restrictions imposed by both the UK & German governments, preventing project staff from travelling to undertake milestone completion activities. Galileo payload deliveries resumed in July 2020 following a relaxation in travel restrictions in Europe.

The Company has been impacted by the delay to expected new contract awards due to Covid-19, however, whilst some programmes have slipped, the majority of the opportunities being pursued are expected to proceed in 2021 as governments worldwide are consequently demanding more Earth Observational satellite data to monitor the effects of Covid-19. The Company expects its low cost product offerings to appeal to governments seeking value for money and rapid operational capability.

Despite Covid-19, the Company expects to secure further orders as planned before the 31<sup>st</sup> December 2020 and has entered into final negotiations with a number of customers. Management are satisfied that the value of credible market opportunities expected to materialise over the next 12 months remains significant and that the Company can secure its required market share over that period.

In the event of further travel restrictions as a result of Covid-19, in particular impacting the Company's ability to deliver Galileo payloads, the Company would expect emergency financial project support from the European Space Agency (ESA) / European Commission (EC) in order to protect the Galileo supply chain. ESA implemented similar measures across its main Space Programmes during the initial phase of travel restrictions in 2020.

The extent of the international pandemic and government intervention only became apparent after the balance sheet date and represents a non-adjusting post balance sheet event.

## Notes to the financial statements

at 31 December 2019

### 20. Subsequent events (continued)

Given the significance of the pandemic, management are closely monitoring project progress and the impact on key accounts. Covid-19 will only increase uncertainties in the global economy, but the long term impact is difficult to assess and will depend on future developments such as the duration and magnitude of the pandemic.

Following a review of the Company's profit and cash forecasts including potential impacts of Covid-19 and alongside the agreed Airbus cash pooling facility, management are satisfied that the Company remains a going concern.

#### **Brexit**

The United Kingdom (UK) has ceased to become a member of the European Union (EU) as at 31<sup>st</sup> January 2020 following UK parliaments' ratification of the withdrawal agreement. The UK is now operating within a transition period that is currently set to end on 31<sup>st</sup> December 2020 and during this time it is expected that the UK and EU negotiate a future relationship, including the economically important trade terms.

As a result of Brexit and the related political fallout, the Company is not currently permitted to continue its involvement in the European Commission Galileo programme as the Prime provider of Navigation Payloads beyond its existing contract, which is due to complete in 2021. With the Company's expertise in the area of Navigation Payloads and its successful Galileo heritage, the Company is well positioned to bid for any UK related Global Navigation Satellite System opportunities that arise as a result of the UK government expressing a desire to create a sovereign capability.

The UK government has set an ambition to grow its share of the global Space market from 6.5% to 10% by 2030. The Company views its 40 year heritage as a leading small satellite manufacturer as a key enabler to help position the Company to benefit from an expected surge in UK space activity.

The rise in the use of Space based assets for defence purposes is expected to continue and any ill-effects related to Brexit are expected to be compensated by such opportunities. The UK government's financial contribution to and UK industry involvement in ESA programmes are not affected by Brexit and shall continue at this time.

The Company does not currently envisage any significant adverse trading impacts as a result of Brexit in relation to changes in duties or customs imports / exports practices and expects UK and non-European Space markets to remain accessible in the event that the UK government does not reach a positive trade deal outcome with the European Union.

### 21. Ultimate parent undertaking and controlling party

The Company's ultimate parent company and controlling party is considered by the directors to be Airbus Group S.E. which is registered in The Netherlands. Airbus Group S.E. is the parent undertaking of the largest group of undertakings of which the Company is a subsidiary undertaking for which group financial statements are prepared. The parent undertaking of the smallest group of undertakings of which the Company is a subsidiary undertaking for which group financial statements are prepared is Airbus Defence and Space Ltd, a company registered in England. Copies of the financial statements of Airbus Group S.E. are available from The Secretary, Airbus DS Holdings B.V., Le Carre Building, Beechavenue 130-132, 1119 PR Schiphol-Rijk, The Netherlands. Copies of the financial statements of Airbus Defence and Space Ltd are available from Gunnels Wood Road, Stevenage, Hertfordshire, SG1 2AS.