Surrey Satellite Technology Limited

Report and Financial Statements

31 December 2018

Contents

Directors
Professor Sir M N Sweeting
Mr A I Marrakchi
Mrs S Parker
Mr C Paynter
Mr B Le Stradic
Rt Hon D Willetts
Mr L Gomes (resigned 22nd March 2019)
Mr N Chamussy (resigned 31st August 2019)
Mr L Wilson (appointed 1st March 2018)
Mr P Pham (appointed 12th July 2019)

Secretary
Mrs C Peace (resigned 4th April 2019)
Ms V Carpenter (appointed 4th April 2019)

Auditors
Ernst & Young LLP
19 Threefield Lane
Southampton
Hampshire SO14 3QB

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

Strategic Report

Review of the Business

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.

The results for the year are shown on page 8. The financial performance in 2018 shows an improvement in Company performance compared to 2017 due to significantly smaller losses on the Quantum programme (-£17.5m vs 2017). The final Quantum equipment deliveries were made in Q1 2019. Furthermore a decrease in administration expenses, mainly related to a reduction in group shareholder fees (-£3.3m vs 2017) has reduced the operating loss.

In May 2018, the Company's parent invested a further £30m of capital increasing the Total Equity by this amount and strengthening the overall financial position of the Company. Following the loss incurred in the year, the Company's financial position showed a year-end Total Equity of £5.1m which included £35.4m due to its parent (Airbus Group SE) and other group companies.

2018 was a very active year for the business with the record launch of 15 satellites and payloads including Carbonite-2, 4 Galileo payloads, RemoveDebris, LEO-1, S1-4 and NovaSar. Carbonite-2 is a SSTL owned technology demonstration mission that demonstrated low cost video from space using COTS technologies and delivering 1m GSD images and colour HD video with a swath width of 5km. Galileo is the global navigation satellite system that is being created by the European Union, for which SSTL is supplying the Navigation payload. Brexit mitigation actions have been taken to allow the Company to secure completion of the Batch 3 contract.

RemoveDebris is an active debris removal demonstration mission led by the University of Surrey. The platform was designed and manufactured by SSTL and has successfully demonstrated four space debris removal technologies and the capture of two target cubesats. LEO-1 is the Telesat Phase 1 satellite to test key performance parameters of its next generation global LEO constellation. In 2019 LEO-1 demonstrated the first ever 5G connectivity on a LEO spacecraft.

Commissioning of the SSTL owned S1-4 and NovaSar satellites are going well and start of service is expected in Q3 2019. NovaSAR is a low-cost small Synthetic Aperture Radar satellite and S1-4 is a sub 1m resolution Earth Observation satellite. Revenue for the data from both satellites has been secured and will start to be recorded once the satellites become operational.

The value of new orders secured during the year amounted to £70.7m and the order backlog at the end of the financial period was equivalent to just under 3 years turnover, based on 2018 activities. Key orders secured were Theos-2 and further NovaSar and S1-4 future data sales. Theos-2 is a 1m resolution Earth Observation still and video imaging system and the programme is focused on customer training to enable Thai engineers to design, manufacture, integrate, and test similar satellites in Thailand.

Due to the ramp down of activity on the Quantum project, in July 2018, the Board of Directors decided to implement a voluntary redundancy scheme in order to size the business for the expected level of future workload, with an expected headcount level of 450 staff. Furthermore, contracts signed in 2017 pending effectiveness did not materialise before the 31st December 2018 due to issues regarding customer financing and therefore in January 2019, staff were informed of the necessity to further reduce the headcount to around 375 staff via means of a compulsory redundancy scheme. The directors are confident that this level of headcount is aligned with anticipated future order intake. New orders to the value of £31m have been secured within the first 8 months of 2019 and the Secretary of State for Defence's announcement of the funding of the Artemis programme gives confidence that order intake will be further increased towards the end of 2019.

Turnover for the year was higher than that achieved in 2017 largely due to the commencement of deliveries on Galileo Batch 3. Gross profit for the year improved significantly compared to 2017 largely due to smaller losses on the Quantum programme (-£17.5m vs 2017). Tangible assets have increased by 121% due to the capitalisation of costs relating to SSTL owned satellites S1-4 and NovaSar.

Strategic Report (continued)

Review of the Business (continued)

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

	2018	2017	Change %
	£'000	£'000	
Turnover	78,890	56,072	41%
Gross Profit/(Loss)	2,806	(9,604)	n/a
Operating Loss	(3,920)	(21,243)	82%
Total Order Backlog	214,395	247,360	(13%)
Total Equity	4,655	(19,720)	n/a
Current assets as % of current liabilities ("quick ratio)	45%	49%	

Principal risks and uncertainties

There is a process for identifying, evaluating and managing significant risks faced by the business. A quarterly risk register report is presented to the Board. 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 included in 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 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.

By order of the Board

L J Wilson

Mr L Wilson

Director

Date: 3rd September 2019.

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 A I Marrakchi
Mr B Le Stradic
Mrs S Parker
Rt Hon D Willetts
Mr C Paynter
Mr L Gomes (resigned 22nd March 2019)
Mr N Chamussy (resigned 31st May 2019)
Mr L Wilson (appointed 1st March 2018)
Mr P Pham (appointed 12th July 2019)

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 (2017:£nil).

Future developments

The directors consider that during 2019 the overall satellite industry will remain challenging and expect significant changes in the market will occur as a result of Brexit. During 2019 the Company plans to increase its agility through the development of strategic partnerships with other entities. Further details of the business are set out in the Strategic Report, as permitted by S414c(11) of the Companies Act 2006.

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 2018 totalled £3,584k (2017: £1,358k).

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.

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.

Directors' Report

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 our business have a responsibility to ensure that any negative impact of our 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.

Going concern

Following the significant losses incurred in 2017, the financial position of the Company showed a net deficit in Total Equity of £(19.7)m, which included £31.8m due to its parent (Airbus Group SE) and other group companies. Ongoing funding to the Company is provided by access to the Airbus Group cash pooling facility. This ongoing financial support was further evidenced by the £30.0m recapitalisation of the company in May 2018, as detailed in Note 17. As a result of this recapitalisation and the trading activities in the year, the total equity of the company at 31 December 2018 amounted to £4.6m. The directors have received assurances that access to the Airbus group cash pooling facility will continue for the foreseeable future.

After making appropriate enquiries as to the state of current and future contracts, and the expected availability of business financing facilities, 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 adopt the going concern basis in preparing the 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

L J Wilson

Mr L Wilson
Director

Date: 3rd September 2019.

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 Technologies Limited (the Company) for the year ended 31 December 2018 which comprise the Income Statement, the 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" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2018 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.

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.

Other information

The other information comprises the information included in the Report and Financial Statements, 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.

Independent auditor's report

To the members of Surrey Satellite Technology Limited (continued)

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 5, 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 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

David Marshall (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Southampton

Date: 4/9/2019

Income Statement and Statement of Comprehensive Income

for the year ended 31 December 2018

Income Statement

	Notes	*2018* *£'000*	*2017* *£'000*
Turnover	2	78,890	56,072
Cost of sales		(76,084)	(65,676)
Gross profit/loss		2,806	(9,604)
Administration expenses		(6,726)	(11,639)
Operating loss	3	(3,920)	(21,243)
Interest payable and similar charges	7	(276)	(206)
Impairment of fixed asset investment	8	-	(3,885)
Loss on ordinary activities before taxation		(4,196)	(25,334)
Tax on loss on ordinary activities	9	(314)	678
Loss for the financial year		(4,510)	(24,656)

Statement of Comprehensive Income

	Notes	*2018* *£'000*	*2017* *£'000*
Other Comprehensive Income:			
Items that can be reclassified to profit and loss:			
Cash flow hedges (losses)/gains arising during the year		(119)	1,529
Tax on items relating to components of other comprehensive income	9	18	(260)
Other comprehensive (loss)/income for the year net of tax		(101)	1,269
Loss for the financial year		(4,510)	(24,656)
Total comprehensive loss for the year		**(4,611)**	**(23,387)**

Statement of Changes in Equity

for the year ended 31 December 2018

	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 2017	-	2,574	1,000	(415)	508	3.667
Loss for the year	-	-	-	-	(24,656)	(24,656)
Other comprehensive income	-	-	-	1,269	-	1,269
Total comprehensive income/(loss) for the year	-	-	-	1,269	(24,656)	(23,387)
At 31 December 2017	-	2,574	1,000	854	(24,148)	(19,720)
IFRS 15 adjustment (see note 1)	-	-	-	-	(1,014)	(1,014)
At 1 January 2018 (restated)	-	2,574	1,000	854	(25,162)	(20,734)
Shares issues	-	30,000	-	-	-	30,000
Loss for the year	-	-	-	-	(4,510)	(4,510)
Other comprehensive income	-	-	-	(101)	-	(101)
Total comprehensive (loss) for the year	-	-	-	(101)	(4,510)	(4,611)
At 31 December 2018	-	32,574	1,000	753	(29,672)	4,655

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 2018

	Notes	2018 £'000	2017 £'000
Fixed assets			
Tangible assets	10	81,487	37,028
Intangible assets	11	1,586	1,797
Investments	12	371	229
		83,444	39,054
Current assets			
Stocks	13	8,807	18,209
Trade and other receivables	14	52,199	34,800
Cash at bank and in hand		871	761
		61,877	53,770
Creditors: amounts falling due within one year	15	(137,579)	(109,457)
Net current liabilities		(75,702)	(55,687)
Provisions	16	(3,087)	(3,087)
Net assets/(liabilities)		4,655	(19,720)
Capital and reserves			
Called up share capital	18	-	-
Share premium account		32,574	2,574
Capital redemption reserve		1,000	1,000
Cash flow hedge reserve		753	854
Profit and loss account		(29,672)	(24,148)
Total equity		4,655	(19,720)

These financial statements were approved by the board of directors on 3rd September 2019 and were signed on its behalf by:

L J Wilson

Mr L Wilson
Director

Notes to the financial statements

at 31 December 2018

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 2018 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

Following the significant losses incurred in 2017, the financial position of the Company showed a net deficit in Total Equity of £(19.7)m, which included £31.8m due to its parent (Airbus Group SE) and other group companies. Ongoing funding to the Company is provided by access to the Airbus Group cash pooling facility. This ongoing financial support was further evidenced by the £30.0m recapitalisation of the Company in May 2018, as detailed in Note 17. As a result of this recapitalisation and the trading activities in the year, the total equity of the company at 31 December 2018 amounted to £4.6m. The directors have received assurances that access to the Airbus group cash pooling facility will continue for the foreseeable future. After making appropriate enquiries as to the state of current and future contracts, and the expected availability of business financing facilities, 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 adopt the going concern basis in preparing the financial statements.

1.3 New and Amended Accounting Policies Adopted

The Company applied IFRS9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' for the first time in 2018. Details of the new accounting policies applied under both of these standards are set out below.

IFRS9 replaces IAS39 'Financial Instruments: Recognition and Measurement' and it applies to all three aspects of financial instruments: classification and measurement; impairment; and hedge accounting. The company applied IFRS9 retrospectively. The effect of the transition on the current and prior period is not considered to be material to the financial statements of the company, and accordingly no adjustment is required to the comparative balances reported in these financial statements.

IFRS15 supersedes IAS11 'Construction Contracts' and IAS18 'Revenue' and related interpretations and it applies to all revenue arising from contracts with customers. IFRS15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Company adopted IFRS15 using the modified retrospective method of adoption, with the date of application of 1 January 2018. Under this method, the company applied the standard to all contracts that were not completed at this date. The cumulative effect of initially applying IFRS15 is recognised at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore there has been no restatement of comparative prior year balances previously reported under the historic accounting policies.

The major change arising from the implementation of IFRS15 relates to the recognition of revenue under longer term contracts, and the related financial statement disclosures. In summary, revenue from these contracts is now measured using costs incurred to date as the method for recognising percentage of completion (POC) on these contracts. Previously, revenue on these contracts was normally recognised on the achievement of specific contract milestones and related billings raised to the customer.

Notes to the financial statements

at 31 December 2018

1 Accounting policies (continued)

1.3. New and Amended Accounting Policies Adopted (continued)

This change has had the following impact on the company's statement of financial position as at 1 January 2018:

Statement of Financial Position (£'000)

	Under IFRS15	*Previous IFRS*	*Change*
Inventory (contract work-in-progress)	9,363	7,708	1,655
Amounts recoverable on contracts	-	12,104	(12,104)
Contract assets	12,475	-	11,463
Payments received on account	-	44,166	(44,166)
Contract liabilities	44,166	-	44,166
Total (Retained earnings adjustment)	20,734	19,720	1,014

Following the change in the basis for accounting for IFRS 15 effective from 01 January 2018, the company ceased recording revenues and related margins under the old IAS 11 and IAS 18 basis. As a result, it is not possible to disclose the impact of the change in accounting policy on the results and financial position of the company for the year ended 31 December 2018.

1.4 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 2018.

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 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*,
(d) The requirement in paragraph 38 of IAS 1 '*Presentation of Financial Statements*' to present comparative information in respect of:
  a. paragraph 79(a)(iv) of IAS 1;
  b. paragraph 73(e) of IAS 16 *Property Plant and Equipment;*
  c. 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

Notes to the financial statements

at 31 December 2018

1 Accounting policies (continued)

1.5 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 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.

1.6 Significant Accounting Policies

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 over time method (PoC method), the 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.

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 contact obligation.

Notes to the financial statements

at 31 December 2018

1 Accounting policies (continued)

1.6. Significant Accounting Policies (continued)

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:

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 of loss arising on the de-recognition of the asset is included in the income statement in the period of de-recognition.

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 in derecognised. Amortisation is provided to write off the cost over the estimated useful life as follows:

Software	–	5 years (20% per annum)

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.

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.

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.

Notes to the financial statements

at 31 December 2018

1. Accounting policies (continued)

1.6. Significant Accounting Policies (continued)

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 in made though 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.

Leasing and hire purchase commitments

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operations leases and rentals payable are charged in the profit and loss account on a straight line basis over the lease term.

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 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.

Notes to the financial statements

at 31 December 2018

1 Accounting policies (continued)

1.6. Significant Accounting Policies (continued)

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 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.

Notes to the financial statements

at 31 December 2018

1 Accounting policies (continued)

1.6. Significant Accounting Policies (continued)

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.

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:

	2018	*2017*
	£'000	*£'000*
Europe - UK	11,106	6,730
Europe - other countries	60,011	28,293
Asia	3,081	5,625
Africa	207	790
Americas	4,485	14,634
	78,890	56,072

Notes to the financial statements

at 31 December 2018

3. Operating loss

This is stated after charging/(crediting):

	2018	*2017*
	£'000	*£'000*
Depreciation of owned fixed assets	5,199	1,687
Amortisation of intangibles	765	412
Operating leases - land and buildings	1,935	1,879
Research and development expenditure		
– Internally funded	3,584	1,358
– Externally funded	1,096	2,545
Above the line R&D tax credit (income)	(3,192)	(2,884)
Foreign exchange gain	40	255
Cost of stocks recognised as an expense (included in cost of sales)	7,980	1,902
Including: -write- down of stocks to net realisable value	779	245

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.

	2018	*2017*
	£'000	*£'000*
Audit of the financial statements	80	65

5. Directors' remuneration

	2018	*2017*
	£'000	*£'000*
Aggregate remuneration in respect of qualifying services	562	464
Aggregate amounts receivable under long term incentive plans	-	-
Company contributions to pension schemes	97	59

	No.	*No.*
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 £181k (2017: £159k). In addition, company pension contributions of £33k were made to a money purchase pension scheme on the director's behalf (2017: £22k). No share options were exercised by directors during this period.

Notes to the financial statements

at 31 December 2018

6. Staff costs

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

	2018	*2017*
	£'000	*£'000*
Wages and salaries	23,434	22,630
Social security costs	2,521	2,418
Other pension costs	3,460	2,865
	29,415	27,913

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

	2018	*2017*
	No.	*No.*
Engineering	401	394
Administration	56	54
	457	448

7. Interest payable and similar charges

	2018	*2017*
	£'000	*£'000*
Interest payable to group undertakings	276	206

8. Impairment of Investment

	2018	*2017*
	£'000	*£'000*
Net costs incurred by company relating to closure of subsidiary	-	3,885

Notes to the financial statements

at 31 December 2018

9. Taxation

(a) Tax on Loss on ordinary activities

The tax charge is made up as follows:

	2018 £'000	2017 £'000
Current tax:		
UK corporation tax on the profits for the year	(450)	(1,755)
Tax (over)/under provided in previous years	(12)	(531)
Total current tax	(462)	(2,286)
Deferred tax:		
Origination and reversal of timing differences	964	144
Tax (over)/under provided in previous years	(23)	1,546
R&D tax set off	(165)	(82)
Total deferred tax	776	1,608
Total tax charge / (credit) for the year	314	(678)

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

	2018 £'000	2017 £'000
Loss on ordinary activities before tax	(4,196)	(25,334)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2017: 19.25%)	(797)	(4,877)
Effects of:		
Expenses not deductible for tax purposes	61	989
Losses surrendered to the group	1,057	2,308
Tax under / (over)provided in previous years	(35)	983
Exempt amounts	193	-
Effect of change in tax rates	(165)	(81)
Total tax charge / (credit) for year	314	(678)

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

	2018 £'000	2017 £'000
Deferred Tax		
Cashflow hedging adjustment	(18)	260
Total tax charge/(credit) for the year	(18)	260

Notes to the financial statements
at 31 December 2018

9. Taxation (continued)

(d) Deferred tax

The deferred taxation asset is as follows:

	2018 *£'000*	*2017* *£'000*
Capital allowances in advance of depreciation	(1,246)	137
Other timing differences	(139)	(156)
R&D net set off	2,104	1,497
At 31 December 2018	719	1,478

The net deferred tax asset noted above at 31 December 2018 has been recognised in full (see note 14). 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.

10. 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 2018	4,352	42,028	1,546	1,155	3,087	7,343	59,511
Additions	340	49,204	76	319	-	66	50,005
Disposals	-	-	-	(183)	-	-	(183)
Transfers	583	20	43	(883)	-	73	(164)
At 31 December 2018	5,275	91,252	1,665	408	3,087	7,482	109,169
Depreciation:							
At 1 January 2018	3,849	12,499	869	-	1,542	3,724	22,483
Charge for year	317	4,168	142	-	-	572	5,199
Disposals	-	-	-	-	-	-	-
At 31 December 2018	4,166	16,667	1,011	-	1,542	4,296	27,682
Net book value:							
At 31 December 2018	1,109	74,585	654	408	1,545	3,186	81,487
At 1 January 2018	503	29,529	677	1,155	1,545	3,619	37,028

All land and building are held on a leasehold basis.

Notes to the financial statements

at 31 December 2018

11. Intangible assets

	Software Costs	*Total*
	£'000	*£'000*
Cost:		
At 1 January 2018	4,763	4,763
Additions	390	390
Transfers from tangible fixed assets	164	164
At 31 December 2018	5,317	5,317
Depreciation		
At 1 January 2018	2,966	2,966
Charge for year	765	765
At 31 December 2018	3,731	3,731
Net book value:		
At 31 December 2018	1,586	1,586
At 1 January 2018	1,797	1,797

12. Investments

	Other	*Equity held in Subsidiary undertaking*	*Total*
	£'000	*£'000*	*£'000*
Cost:			
At 31 December 2017	128	5,826	5,954
Additions	142	-	142
At 31 December 2018	270	5,826	6,096
Provision:			
At 31 December 2017	-	(5,725)	(5,725)
At 31 December 2018	-	(5,725)	(5,725)
Net book value:			
At 31 December 2018	270	101	371
At 1 January 2018	128	101	229

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

Notes to the financial statements

at 31 December 2018

12. 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:

Name of company	*Nature of Holding*	*Proportion of voting rights and shares held*	*Nature of business*
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.

13. Stocks

	2018	*2017*
	£'000	*£'000*
Raw materials and components	6,203	10,501
Work in progress	2,604	7,708
	8,807	18,209

14. Trade and other receivables

	2018	*2017*
	£'000	*£'000*
Trade debtors	21,447	7,551
Contract assets	16,790	-
Amounts recoverable on contracts	-	12,104
Amount owed by group undertakings – parent and fellow subsidiaries	3,642	4,953
Amount owed by subsidiary undertakings (including group relief)	142	20
R&D tax receivable	4,914	4,630
Financial instruments – foreign currency contracts	898	1,017
Other debtors	2,348	2,009
Prepayments	1,299	1,038
Deferred tax asset	719	1,478
	52,199	34,800

Amounts falling due after more than one year included above are rental deposits of £1,130,000 (2017: £1,087,000). Parts of the deferred tax asset are also likely to be realised after more than one year.

Notes to the financial statements

at 31 December 2018

15. Creditors: amounts falling due within one year

	2018	*2017*
	£'000	*£'000*
Payments received on account	-	44,166
Contract liabilities	75,638	-
Trade creditors	15,160	12,234
Amounts owed to group undertakings – parent and fellow subsidiaries	35,370	31,845
Other creditors	597	1,394
Other taxation & social security	622	680
Accruals and deferred income	10,192	19,138
	137,579	109,457

Amounts owed to group undertakings above includes short term finance balances of £30,614k (2017: £31,640k) on which interest is charged at a rate linked to bank LIBOR and EURIBOR rates.

16. Provisions

	Dilapidation Provision	*Total*
	£'000	*£'000*
At 1 January and 31 December 2018		
Current	230	230
Non-current	2,857	2,857
	3,087	3,087

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 2019 and £125k for leases ending in 2018.

17. Authorised, issued and called up share capital

	2018	*2017*
Allotted, called up and fully paid	*£*	*£*
1,179 "A" Ordinary shares of £0.1p each	1	1
116,739 Ordinary shares of 0.1p each	117	117
	118	118

In May 2018, the company issued 1 ordinary share to its parent for a consideration of £30.0m

Notes to the financial statements

at 31 December 2018

18. Other financial commitments

The Company had total future minimum lease payments due under non-cancellable operating leases as set out below:

	2018 Land and Buildings £'000	*2018* Other £'000	*2017* Land and Buildings £'000	*2017* Other £'000
Minimum lease payment due:				
Within one year	1,864	12	1,880	12
In two to five years	6,690	12	6,832	24
Above five years	5,308	-	6,965	-
	13,862	24	15,677	36

19. 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 £nil (2017: £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 (2017: £nil).

20. 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:

	2018 £'000	*2017* £'000
Foreign forward currency contracts	898	1,017

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 Schipol-Rijk, The Netherlands. Copies of the financial statements of Airbus Defence and Space Ltd are available from Gunnels Wood Road, Stevenage, Hertfordshire, SG1 2AS.