

Airbus Defence and Space Limited

**Annual Report and Financial Statements
for the year ended 31 December 2022**

Registered number: 2449259



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Corporate Information

Directors

R. Franklin

N.R. Ede

B.L. Bridge

Secretary

A. Shaw

Auditors

Ernst & Young LLP

The Paragon

Counterslip

Bristol

BS1 6BX

Registered Office

Gunnels Wood Road

Stevenage

Hertfordshire

SG1 2AS

Strategic report

For the year ended 31 December 2022

The Directors of Airbus Defence and Space Limited (“the Company”) present their strategic report for the year ended 31 December 2022.

Section 172 Statement

In line with the Companies Act requirement, the Directors set out below their key considerations and steps taken with regard to the ‘enlightened shareholder value’ requirements of s172 in performing their duties.

The Board continuously reviews which relationships support the generation and preservation of value in the Company. The Directors have identified the following parties who have an interest in, or are impacted by, the decisions taken by the Company: customers, suppliers, employees, pension scheme members, shareholders, tax authorities, regulators, Her Majesty’s Government, Welsh Assembly Government, tax authorities and local communities. All strategic decisions take into account these stakeholders’ interests and the Directors consider that they have acted in a way that is most likely to promote the success of the Company for the benefit of its members as a whole. In particular, the Directors have considered the following matters:

- Long term factors affecting the Company – the company aligns its development and production strategy with the order book and forecast global demand alongside other factors such as suppliers’ ability to ramp up supply, global economic conditions and sustainability targets.
- Interests of the Company’s employees and former employees who are pension scheme members.
- Business relationships with suppliers - which are crucial to the success of the Company and are constantly monitored.
- Business relationships with customers – the Company’s main customers are Her Majesty’s Government Ministry of Defence and other UK government departments, European Space Agency, Satellite Operators and Airbus subsidiaries.
- Business relationships with others – the Company has a number of other stakeholders with which it has business relationships, notably HMRC, the Department for Business, Energy and Industrial Strategy and other Government bodies. The Company is an important contributor to the UK economy through job creation, tax payments and Research and Development. The Company always aims to be transparent, provide information in a timely manner and operate in a collaborative manner.
- Impact of the Company’s operations on the community and the environment – Responsible behaviour is an integral part of everyday business decisions. We do this by making safety our top priority and integrating high standards of environmental performance at our sites and in our activities. We respect and value our employees, work closely with our suppliers and strive to maintain high standards of ethical conduct. We give back to our local communities and add significant value to the UK economy. We aim to be a trusted and responsible company and take pride in our reputation to strive for excellence.

Strategic report (continued)

For the year ended 31 December 2022

- Reputation for high standards of business conduct – Airbus has established a robust internal control framework and actively considers risks and opportunities that might impact in the long or short term.
- Acting fairly between members of the Company – the Airbus Values, which underpin the day-to-day working environment in which the Company operates, include 'Respect', 'Integrity' and 'We Are One / Teamwork'. There is an expectation that all employees, at all levels in the Company, 'live' these Values.

Business review

The loss for the year, after taxation is £40,166,000 (2021 profit £62,978,000).

The Company operates in the following principal areas of activity:-

- the design, manufacture and supply of satellites and satellite ground stations.
- the provision of secure communications and cyber security services.
- the sale of geospatial products and services.
- delivering mobile voice communications, multimedia based communication and broadcast communications.

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

| | 2022 £'000 | 2021 £'000 | Change % |
|---------------------|---------------|---------------|-------------|
| Turnover | 866,064 | 1,046,726 | -17 |
| Operating Profit | 5,777 | 77,793 | -93 |
| Shareholders' funds | 504,027 | 300,393 | +68 |
| Order intake | 540,774 | 591,130 | -9 |
| Net Cash | <u>27,492</u> | <u>4,129</u> | +566 |

Strategic report (continued)

For the year ended 31 December 2022

The turnover for the business decreased by 17% during the year. This was mainly due to completion of a large UK contract in the Secure Communications business and in the Telecom satellite business due to a lower order intake.

The business reported an decrease in operating profit of 93% in the year. This was mainly driven by lower profitability in the Telecoms and Earth Observation business and completion of the large UK contract in the Secure Communications business.

Overall shareholders' funds increased in the year by £203.63m. This increase is driven by actuarial gains on the pension scheme partly offset by the losses in the year.

The overall order intake shows a 9% decrease compared to 2021 mainly driven by no Civil Telecommunications satellite contracts being won during the year.

Net cash at year end is made up as follows:

| | Note | 2022 £'000 | 2021 £'000 |
|------------------------------|------|---------------|---------------|
| Loan to parent undertaking | 15 | 86,446 | 57,606 |
| Loan from parent undertaking | 16 | (58,860) | (53,838) |
| Cash at bank and in hand | | 6 | 361 |
| Total Net Cash | | <u>27,492</u> | <u>4,129</u> |

Future developments

The directors consider that during 2023 the overall satellite and related space industry will remain challenging and that no significant changes in the market are expected.

Principal risks and uncertainties

- Competitive Risks

The Company operates in a very competitive market in its main satellite, related equipment manufacture and supply operation, with strong competition from both European and American companies. The key competitive risk for the Company is the limited number of new potential orders each year and that each potential order will normally go through a competitive tender bid process.

The Secure Communications business runs the risk of a shortfall in third party revenues. Opportunities are monitored on a regular basis against the annual plan. The future trend for this risk is currently stable.

The main Ministry of Defence customer has been given a certain level of assured capacity for which they will pay regardless of it being utilised. Assumptions were made prior to the contract on the extent of service utilisation above the agreed assured capacity threshold. There is a risk that these assumptions prove to be optimistic and the revenue is not generated. The business regularly monitors actual performance against anticipated performance and this measure was satisfactory during 2022.

The Ukraine conflict is expected to impact the satellite business to some extent, mainly due to the difficulty to launch satellites and sourcing certain satellite parts as a result of sanctions imposed in various countries.

Strategic report (continued)

For the year ended 31 December 2022

- Financial Instruments Risks

The Company uses forward foreign currency contracts provided by the parent company Airbus S.E. to reduce exposure to the variability of foreign exchange rates by fixing the rate of material receipts and payments in a foreign currency. The Company also uses interest rate swaps on loan securitization in place.

- Credit, liquidity, interest rate and cash flow risk

Company policies are aimed at minimising credit risk and require that deferred terms are only granted to customers who satisfy credit worthiness procedures. The Company's debtors are shown in Note 15 of the financial statements and includes some debtors with companies within the Airbus S.E. group where the credit risk is low.

The Company uses certain financial instruments to help manage the main operating risks. In particular, the Company utilises the cash and overdraft borrowing facilities provided by the Airbus S.E. group to manage the liquidity, interest rate and cash flow risks faced.

By order of the Board



A Shaw
Secretary
10 May 2023

Directors' report

For the year ended 31 December 2022

Registered Number: 2449259

The Directors present their report for the year ended 31 December 2022.

Dividends

The Directors do not recommend the payment of a dividend (2021 – nil).

Directors of the Company

The members of the Board who served during the year and subsequently are as follows:

B.L. Bridge
R.J. Franklin
N.R. Ede

B.L. Bridge was appointed as a director on 1 June 2022.

J.B. Whitehead resigned as a director on 30 April 2022.

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

Financial Instruments

The Company finances its activities with a combination of group loans, and cash and short term deposits. 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 derivative transactions, including principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency risk arising from the Company's operations and its sources of finance.

Financial instruments give rise to foreign currency, interest rate, credit, and liquidity risk, information on how these risks arise is set out in the Strategic Report, as are the objectives, policies and processes for their management.

The Company uses forward foreign currency contracts to reduce exposure to the variability of foreign exchange rates by fixing the rate of any material payments in a foreign currency. The Company also uses interest rate swaps to adjust interest rate exposures in order to guarantee fixed interest payments where payments are variable and hence exposed to interest rate movements. Hedge accounting is used for these derivatives when certain criteria are met as set out in the Accounting Policies Note 2.

Research and development

The Company continues to be committed to research and development activities and total self-funded expenditure for the year under review amounted to £27,953,000 (2021 - £32,227,000).

Directors' report (continued)

For the year ended 31 December 2022

Employment of disabled people and employee involvement

The Company's policy and practice is to encourage and assist the employment of disabled people, their recruitment, training, career development and promotion and the retention of employees who become disabled. Senior management consults regularly with employees through their staff and trade union representatives and information is disseminated to staff following management communication meetings.

Going Concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report.

The Directors have also assessed the impact of the Covid-19 virus on business operations and customer requirements. The company has ensured the introduction of safe working practices for staff and stakeholders. Any cost and risk impact is understood, well managed and is not material to affect the financial statements.

The Company participates in the parent company, Airbus S.E, centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiary undertakings. This includes an automatic cash pooling arrangement and the ability of the company to draw down funds from the treasury department to meet its operational requirements.

Airbus S.E. Treasury have issued a liquidity confirmation letter which confirms that for a period of at least the next 12 months from date of approval of the balance sheet, daily cash availability will be provided to settle liabilities as they fall due through this treasury arrangement, up to a limit of €265,000,000.

The net treasury position (included in loans to/from parent undertaking) at 31 December 22 was £27,492,000 (€30,997,000).

The Directors have concluded that the going concern period runs to 10 May 2024 and as such have performed forecasts for the period up until this point to ensure that the business can operate within this €265,000,000 limit. They have concluded that they will not need to utilise the full facility at any point, even under a severe downside scenario where indirect costs are fixed and revenues fall significantly. This is also before mitigating actions the company could make. The Directors have concluded that Airbus S.E. will be able to provide such support due to Airbus S.E strong credit rating as assessed by external credit agencies.

The Directors conclude that the requirement of the UK business continues. It is strategically important to the Airbus Group as well as UK national defence capability and has not been diminished by the Covid-19 pandemic.

As a result, the Directors expect that the Company will be able to continue in operational existence for the foreseeable future, and the financial statements have been prepared on the going concern basis.

Streamlined Energy & Carbon Reporting Framework

The Company is committed to improving its environmental footprint and is undertaking activities framed within the UN Sustainable Development Goals. The Science Based Target method has been used to set improvement goals for energy, CO2 emissions, and water use. In addition to clear annual targets for each site, local sustainability teams

Directors' report (continued)

For the year ended 31 December 2022

have been set up at all large sites to develop initiatives and maintain progress. In the UK, all sites are certified to ISO 14001.

In line with the Government's Streamlined Energy and Carbon Reporting requirements, the Board of Directors set out, below, details of emissions and actions undertaken.

UK Greenhouse gas emissions and energy use data for period 1 January 2022 to 31 December 2022:

| | 2022 | 2022 | 2021 | 2021 |
|--|-----------------------|--------------|-----------------------|--------------|
| | Energy Consumption | CO2e | Energy Consumption | CO2e |
| | (kWh) | (tonnes) | (kWh) | (tonnes) |
| Emissions Source | | | | |
| Scope 1 – Natural Gas and Company Vehicle Fuel | 9,527,830 | 1,941 | 11,770 | 2,398 |
| Scope 2 - Electricity | 33,263,180 | 6,432 | 33,691 | 7,154 |
| Total (Scope 1+2) | 42,791,010 | 8,373 | 45,461 | 9,552 |

| | 2022 | 2021 |
|-----------------------------------|----------|----------|
| Revenue | £866.06M | 1046.73M |
| Intensity Ratio: tCO2e/revenue £m | 9.67 | 9.13 |

In reviewing the 2020 data provided for the first year of Streamlined Energy Carbon Reporting, it was concluded that the emissions data reported for Scope 3 (personal car usage for business travel) were not material in context to Airbus Defence and Space Limited in 2022 (the Scope 3 emissions accounted for 0.6% of the total emissions).

Methodology and findings

The following methodologies have been used to calculate the above Co2 emissions:

- The IEA 2022 and The Department of Environment, Food and Rural Affairs (DEFRA) UK Fuels Standard Set (Diesel Average Biofuel Blend) Scope 1 2022 v2
- The conversion factors used for carbon emissions due to electricity usage (Scope 2) are the DEFRA UK Electricity Standard Set Scope 2 2022 v2 conversion factors

Directors' report (continued)

For the year ended 31 December 2022

Energy Efficiency

As part of its strategy to improve energy efficiency, Airbus is exploring specific energy improvement projects and maintenance replacements. Replacements under maintenance will be to the latest applicable energy standard.

At our Stevenage site, replacement of a 1950s boiler was completed last year and the replacement for another is scheduled during 2023. These new, and more efficient, boilers are expected to provide for reductions on gas consumed. Photovoltaic panels were also installed at our Stevenage site during 2023 and commissioned in January. During 2023, 50% of the electricity we purchased came from renewable energy with Renewable Energy Guarantees of Origin.

Airbus Defence and Space Limited is certified to ISO50001 Energy Management Systems standard.

Disclosure of information to the auditors

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

Auditors

The auditors, Ernst & Young LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

By order of the Board



A Shaw
Secretary

Registered address:
Gunnels Wood Road
Stevenage
Hertfordshire
SG1 2AS
10 May 2023

Statement of Directors' responsibilities

For the year ended 31 December 2022

The directors are responsible for preparing the Strategic Report, the 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 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 those financial statements, the directors are required to:

- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper 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 to 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the members of Airbus Defence and Space Limited

Opinion

We have audited the financial statements of Airbus Defence and Space Limited for the year ended 31st December 2022 which comprise the Income Statement, the Balance Sheet, the Statement of Comprehensive Income, the Statement of Changes in Equity and the related notes 1 to 27, 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 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 31st December 2022 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. 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 as applied to other entities of public interest, 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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included, confirming the Company's treasury arrangements and liquidity facilities with the parent auditor, vouching its current indebtedness, rationalisation and challenge of assumptions used by management in their base case cash flow scenario (which showed that they would be operating within the treasury limits for the going concern period) and performance of independent stress testing and assessing controllable mitigating actions available to the Company.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period to 10th May 2024.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Independent auditor's report to the members of Airbus Defence and Space Limited

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Independent auditor's report to the members of Airbus Defence and Space Limited

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 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are Companies Act 2006, International Financial Reporting Standards, Financial Reporting Standards FRS 101 and UK tax legislation. In addition, the Company has to comply with laws and regulations relating to General Data Protection Regulations, the UK Bribery Act, Anti-Money Laundering Legislation, The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017, Competition Laws and Health & Safety Laws.

Independent auditor's report to the members of Airbus Defence and Space Limited

- We understood how Airbus Defence and Space Limited is complying with those frameworks by making enquiries of management, those responsible for legal and compliance and the Company secretary to understand how the company maintains and communicates its policies and procedures in these areas. We corroborated our enquiries through our review of board minutes and correspondence with relevant authorities, including HMRC where applicable.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by considering the risk of management override and through assessing revenue as a fraud risk – either through the manipulation of costs to complete and estimation of margins on long term contracts, or via recognising revenue in the incorrect period for 'point in time' sales. We also considered whether revenue could be recognised incorrectly through inappropriate conclusions being reached on the IFRS 15 5 step model. Our procedures to address this involved:
 - Understanding the revenue recognition process, policy and how it is applied, including relevant controls;
 - Selecting a sample of key contracts to test based on various risk criteria and testing a sample of costs incurred to supporting documentation to assess their accuracy and that they were recorded to the appropriate contract. For the same contracts we performed detailed contract reviews, corroborating the conclusions reached in the 5 step model for IFRS 15 and challenging management assumptions on costs to complete and contingencies held on contracts;
 - Testing of revenue cut-off at the year end by selecting a sample of revenue transactions and testing whether revenue was recorded in the correct period through agreement to proof of delivery to confirm the period that the revenue relates to, and
 - We incorporated data analytics into our testing of manual journals, including segregation of duties, and into our testing of revenue recognition, investigating journals posted to revenue as part of our journal entry testing work, with focus on transaction recorded at or close to the year-end date
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved review of board minutes and correspondence with relevant authorities, inquires of management and those charged with governance and legal counsel. Where the risk was considered higher, we performed audit procedures to address each fraud risk. These procedures included testing journals identified by specific risk criteria, and testing specific transactions back to source documentation or independent confirmation.

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.

Independent auditor's report to the members of Airbus Defence and Space Limited

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 12th May 2023

Income statement

For the year ended 31 December 2022

| | Notes | 2022 £'000 | 2021 £'000 |
|---|-------|------------------|------------------|
| Turnover | 3 | 866,064 | 1,046,726 |
| Cost of sales | | <u>(806,369)</u> | <u>(919,268)</u> |
| Gross profit | | 56,965 | 127,458 |
| Other operating expenses: | | | |
| - administration expenses | | (39,049) | (38,191) |
| - distribution costs | | <u>(14,869)</u> | <u>(11,474)</u> |
| Operating Profit | | <u>5,777</u> | <u>77,793</u> |
| Interest receivable and similar income | 7 | 1,733 | 103 |
| Interest payable and similar cost | 8 | (2,947) | (7,049) |
| Impairment charge against investments | 13 | (10,830) | - |
| Other income and gains | 13 | 1,849 | 11,440 |
| Dividend income received | 13 | 456 | 1,756 |
| | | <u>(9,739)</u> | <u>6,250</u> |
| (Loss) / Profit on ordinary activities before taxation | | (3,962) | 84,043 |
| Tax on (Loss) / Profit on ordinary activities | 9 | <u>(36,204)</u> | <u>(21,065)</u> |
| (Loss) / Profit for the financial year | | <u>(40,166)</u> | <u>62,978</u> |

All of the above are derived from the continuing activities of the Company.

The accompanying notes form an integral part of this profit and loss account.

Statement of comprehensive income

For the year ended 31 December 2022

| | Note | 2022 £'000 | 2021 £'000 |
|---|------|----------------|----------------|
| (Loss) / Profit for the financial year | | (40,166) | 62,978 |
| Other comprehensive income: | | | |
| Actuarial gain relating to pension scheme | 20 | 261,700 | 128,400 |
| Cash flow hedges | | 7,221 | 5,042 |
| Tax on items relating to other comprehensive income | | (25,121) | (9,801) |
| Other comprehensive gain for the year | | <u>243,800</u> | <u>123,641</u> |
| Total comprehensive gain for the year | | <u>203,634</u> | <u>186,619</u> |

Statement of changes in equity

For the year ended 31 December 2022

| | Share capital | Share premium | Cash flow hedge reserve | Retained earnings | Total |
|---|---------------|---------------|-------------------------|-------------------|----------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| At 1 January 2021 | 29,282 | 41,100 | (3,921) | 47,313 | 113,774 |
| Profit for the financial year | - | - | - | 62,978 | 62,978 |
| Actuarial loss recognised in pension scheme | - | - | - | 128,400 | 128,400 |
| Movement on cash flow hedges | - | - | 5,042 | - | 5,042 |
| Deferred tax | - | - | - | (9,801) | (9,801) |
| At 31 December 2021 | <u>29,282</u> | <u>41,100</u> | <u>1,121</u> | <u>228,890</u> | <u>300,393</u> |
| Loss for the financial year | - | - | - | (40,166) | (40,166) |
| Actuarial gain recognised in pension scheme | - | - | - | 261,700 | 261,700 |
| Movement on cash flow hedges | - | - | 7,221 | - | 7,221 |
| Deferred tax | - | - | - | (25,121) | (25,121) |
| At 31 December 2022 | <u>29,282</u> | <u>41,100</u> | <u>8,342</u> | <u>425,303</u> | <u>504,027</u> |

Balance Sheet

For the year ended 31 December 2022

| | Notes | 2022 £'000 | 2021 £'000 |
|--|-------|----------------|-----------------|
| Fixed assets | | | |
| Intangible assets | 10 | 59,870 | 78,458 |
| Tangible assets | 11 | 78,008 | 183,136 |
| Right-of-Use assets | 12 | 25,089 | 17,905 |
| Investments | 13 | 111,624 | 53,708 |
| | | <u>274,591</u> | <u>333,207</u> |
| Current assets | | | |
| Stocks | 14 | 151,871 | 103,662 |
| Debtors due within one year | 15 | 243,858 | 215,731 |
| Debtors due in more than one year | 15 | - | 59,514 |
| Contract assets | 18 | 64,282 | 77,079 |
| Cash at bank and in hand | | 6 | 361 |
| | | <u>460,017</u> | <u>456,347</u> |
| Creditors: amounts falling due within one year | 16 | (251,304) | (299,452) |
| Contract liabilities | 18 | (181,180) | (173,404) |
| | | <u>27,533</u> | <u>(16,509)</u> |
| Net current assets / (liabilities) | | | |
| | | 302,124 | 316,698 |
| Total assets less current liabilities | | | |
| Creditors: amounts falling due after more than one year | 17 | (23,748) | (13,974) |
| Provisions for liabilities and charges | 19 | (1,349) | (1,931) |
| | | <u>277,027</u> | <u>303,793</u> |
| Net assets before pension surplus / (deficit) | | | |
| Pension surplus / (deficit) | 20 | 227,000 | (400) |
| | | <u>504,027</u> | <u>300,393</u> |
| Net assets including pension surplus / (deficit) | | | |
| | | | |
| Capital and reserves | | | |
| Called-up share capital | 21 | 29,282 | 29,282 |
| Share Premium | 21 | 41,100 | 41,100 |
| Cash flow hedge reserve | | 8,342 | 1,121 |
| Retained earnings | | 425,303 | 228,890 |
| | | <u>504,027</u> | <u>300,393</u> |
| Shareholders' funds | | | |
| | | | |

Approved by the Board of Directors on 10 May 2023 and signed on its behalf by:



N Ede
Director

The accompanying notes form an integral part of this balance sheet.

Notes to the financial statements

For the year ended 31 December 2022

1 Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of Airbus Defence and Space Limited (the "Company") for the year ended 31 December 2022 were authorised for issue by the board of directors on 10 May 2023 and the balance sheet was signed on the board's behalf by Nigel Ede. Airbus Defence and Space Limited is incorporated and domiciled in England and Wales. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out on page 3.

These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS101) and in accordance with applicable accounting standards.

2 Accounting policies

The principal accounting policies are summarised below to facilitate the interpretation of the financial statements.

2.1 Basis of preparation

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 S.E.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- 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 IAS1 '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), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111, and 134-136 of IAS 1 Presentation of 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;

Notes to the financial statements

For the year ended 31 December 2022

2.1 Basis of preparation (continued)

- 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.

2.2 Going Concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report.

The Directors have also assessed the impact of the Covid-19 virus on business operations and customer requirements. The company has ensured the introduction of safe working practices for staff and stakeholders. Any cost and risk impact is understood, well managed and is not material to affect the financial statements.

The Company participates in the parent company, Airbus S.E, centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiary undertakings. This includes an automatic cash pooling arrangement and the ability of the company to draw down funds from the treasury department to meet its operational requirements. Airbus SE Treasury have issued a liquidity confirmation letter which confirms that for a period of at least the next 12 months from date of approval of the balance sheet, daily cash availability will be provided to settle liabilities as they fall due through this treasury arrangement, up to a limit of €265,000,000. The net treasury position (included in loans to/from parent undertaking) at 31 December 2020 was £27,492,000 (€30,997,000).

The Directors have concluded that the going concern period runs to 10 May 2024 and as such have performed forecasts for the period up until this point to ensure that the business can operate within this €265,000,000 limit. They have concluded that they will not need to utilise the full facility at any point, even under a severe downside scenario where indirect costs are fixed and revenues fall significantly. This is also before mitigating actions the company could make. The Directors have concluded that Airbus S.E. will be able to provide such support due to Airbus S.E strong credit rating as assessed by external credit agencies.

The Directors conclude that the requirement of the UK business continues. It is strategically important to the Airbus Group as well as UK national defence capability and has not been diminished by the Covid-19 pandemic.

As a result, the Directors' expect that the Company will be able to continue in operational existence for the foreseeable future, and the financial statements have been prepared on the going concern basis.

Notes to the financial statements

For the year ended 31 December 2022

2.3 Judgements 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 that actual outcomes could differ from those estimates.

Long term contract accounting

Profit on long-term contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit included is calculated to reflect the proportion of work carried out at the year end, by recording turnover and related costs as contract activity progresses. Full provision is made for losses on all contracts in the year in which they are first foreseen. Turnover in respect of long-term contracts is calculated to fairly reflect the level of completion of the contract. Revenues derived from variations on contracts are recognised only when they have been accepted by the customer.

Revenue is based on the transaction price ascribed to each performance obligation within a contract and includes an assessment of the variable elements of consideration including discounts, price escalations and liquidated damages. Variable consideration included in the selling price is only taken into account to the extent that it is highly probable that a significant reversal in the amount of revenue already recognised will not occur. Liquidated damages are recognised as a reduction in revenue.

Contracts that contain distinct goods and services are unbundled and the transaction price allocated to the performance obligations as stand-alone values. Judgement is exercised where a series of goods and services are substantially the same and create an asset with no alternative use and in this instance one performance obligation is recognised.

Advance payments received from customers are shown as payments received on account in creditors until there is a right of set-off against the value of work undertaken. Progress payments received are deducted from the value of work carried out, any excess being included within payments received on account.

Taxation

Management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in Note 9.

Notes to the financial statements

For the year ended 31 December 2022

2.3 Judgements and key sources of estimation uncertainty (continued)

Pension

The cost of the defined benefit pension plan is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to uncertainty. In determining the appropriate discount rate, management considers the interest rates of UK corporate bonds with at least an AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates. Further details are given in Note 20.

Impairment of subsidiary investments

The Company determines whether there are indicators of impairment of the Company's tangible and intangible and other assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.

2.4 Significant accounting policies

a) Foreign currency translation

The Company's financial statements are presented in sterling, which is also the Company's functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

b) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and impairment losses. Cost comprises the aggregate amount paid and includes costs directly attributable to making the asset capable of operating as intended. Borrowing costs directly attributable to assets under construction and which meet the criteria in IAS 23 are capitalised as part of the cost of the asset.

Notes to the financial statements

For the year ended 31 December 2022

2.4 Significant accounting policies (continued)

Depreciation is provided on all property, technical and office equipment, other than land, on a straight line basis over its expected useful life as follows:

Freehold and Leasehold buildings – over 25 years

Technical equipment and office equipment – over 3 – 15 years

Assets Under Construction are not subject to depreciation.

The carrying values of property, technical equipment and office equipment 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.

c) Intangible assets

Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the asset may be impaired. The amortisation period and the amortisation method are reviewed at least each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method as appropriate, and are treated as changes in accounting estimates.

Research and development costs

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 assets 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 assets will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

Development expenditure capitalised is mainly amortised over the useful economic life of the related assets, up to a maximum of 10 years. For one specific project amortisation based on apportionment against units sold.

Notes to the financial statements

For the year ended 31 December 2022

2.4 Significant accounting policies (continued)

Software

Software costs are amortised over a period of 3-5 years.

d) Investments

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

Other equity Investments in level 3 hierarchy investments are held at historical cost. Other equity investments in level 1 hierarchy investments are held at fair value, and subsequently measured annually at fair value through the income statement (FVTIS).

e) Stocks and long term contracts in progress

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

Raw materials and consumables – purchase cost

Work in progress and finished goods – costs of direct materials and labour plus attributable overheads based on a normal level of activity, excluding borrowing costs.

f) 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 at the balance sheet date.

Deferred tax is recognised on all temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements, with the following exception:

Deferred tax assets are recognised only to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred 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 the tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred tax is reviewed at each balance sheet date.

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

Notes to the financial statements

For the year ended 31 December 2022

2.4 Significant accounting policies (continued)

g) Provisions for liabilities

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event; it is probable that an outflow of economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

h) Derivative financial instruments and hedging

The Company uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate 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. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is 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 a regular basis to determine that they actually have been highly effective throughout the reporting period for which they were designated.

For the purpose of hedge accounting, hedges are classified as cash flow hedges, when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

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 gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of the hedging relationship.

For cash flow hedges, 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.

i) Pensions

The Company operates a defined benefit pension plan. This scheme also provides defined benefit pension arrangements to other contributing Airbus subsidiary undertakings in the UK, including Airbus Group Limited, Airbus Helicopters Limited, Airbus Operations Limited, and Surrey Satellite Technology Limited.

Notes to the financial statements

For the year ended 31 December 2022

2.4 Significant accounting policies (continued)

The cost of providing benefits under the defined benefit plan is determined separately using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice. Past service costs are recognised in profit or loss. When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership for a reduction in future entitlement) occurs, the obligation and related plan assets are re measured using current actuarial assumptions and the resultant gain or loss is recognised in the income statement during the period in which the settlement or curtailment occurs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in profit or loss as other finance income or cost. The discount rate is the yield at the balance sheet date on AA credit rated corporate bonds (excluding government backed) denominated in the currency of, and having maturity dates approximating to the terms of the Company's obligations.

Re-measurements, comprising actuarial gains and losses, the effect of any asset ceiling and the actual return on the net assets (excluding amounts included in net interest) are recognised immediately in other comprehensive income in the period in which they occur.

The defined benefit pension asset or liability in the balance sheet comprises the total of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds) less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information. The value of a net pension benefit asset is restricted to the present value of any amount the Company expects to recover by way of refunds from the plan or agreed reductions in future contributions.

j) Revenue recognition

Airbus Defence and Space Limited has recognised revenue under IFRS 15.

Revenue recognition should depict the transfer of control of the goods and services to the customer. IFRS 15 requires Airbus Defence and Space Limited to identify the different performance obligations it assumes under a contract, and account for them separately based on their relative stand-alone selling prices. For all contracts, including long-term construction contracts currently accounted for under the Percentage of Completion method, Airbus Defence and Space Limited will only be able to recognise revenue once certain conditions providing evidence that control of a good or service has transferred to the customer are met.

Revenue and related production costs will be recognised at the delivery of each separate performance obligation instead of over the contract using a single margin.

Notes to the financial statements

For the year ended 31 December 2022

2.4 Significant accounting policies (continued)

In certain circumstances, the IFRS 15 standard considers work in progress to be controlled by the customer, in which case it would be inappropriate for an entity to recognise work in progress as an asset on its balance sheet. As a result, Airbus Defence and Space Limited uses a method which reflects the over time transfer of control when sold assets have no alternative use to the final customer.

In respect of completed contracts, the Company will not restate contracts that (i) begin and end with the same annual reporting period; or (ii) are completed contracts at the beginning of the earliest period presented (para, C5(a)).

In respect of completed contracts that have variable consideration, the Company will use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative periods (para, C5 (b)).

Revenue from the design, manufacture and supply of satellite equipment and satellite ground stations is recognised by the achievement of contractually defined technical milestones.

The principal activities of the Secure Communications business is to service military, defence and government organisations with specialized military satellite communications. Revenue from this is measured and recognised based on the delivery of the communication services provided.

Revenue from the Intelligence and Cyber business, relates to the provision of geospatial products and cyber services, is measured and recognised based on the timing of the delivery of the product to the customers or the provision of the related services.

k) Financial assets and financial liabilities

The Company applies IFRS 9 to all financial assets and liabilities which form part of the overall hedging strategy.

Financial Assets

Financial assets are classified as loans and receivables; financial assets at fair value through profit or loss; derivatives designated as hedging instruments in an effective hedge; held-to-maturity financial assets; or as available-for-sale financial assets, as appropriate. Financial assets include cash and cash equivalents, trade receivables, other receivables, loans, other investments, and derivative financial instruments. The Company determines the classification of its financial assets at initial recognition.

Financial assets are recognised initially at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Notes to the financial statements

For the year ended 31 December 2022

2.4 Significant accounting policies (continued)

The subsequent measurement of financial assets depends on their classification, as follows:

Loans and receivables

Loans and receivables are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process. This category of financial assets includes trade and other receivables. Cash and cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to insignificant risk of changes in value and have a maturity of three months or less from the date of acquisition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried on the balance sheet at fair value with gains or losses recognised in the income statement. Derivatives, other than those designated as effective hedging instruments, are classified as held for trading and are included in this category.

Other equity investments are initially recognized at fair value and are subsequently recognized at fair value through profit and loss (FVTPL).

Derivatives designated as hedging instruments in an effective hedge

These derivatives are carried on the balance sheet at fair value. The treatment of gains and losses arising from revaluation is described below in the accounting policy for derivative financial instruments and hedging activities.

Financial Liabilities

Financial liabilities are classified as financial liabilities at fair value through profit or loss; derivatives designated as hedging instruments in an effective hedge; or as financial liabilities measured at amortized cost, as appropriate.

Financial liabilities include trade and other payables, accruals, finance debt and derivative financial instruments. The group determines the classification of its financial liabilities at initial recognition.

The measurement of financial liabilities depends on their classification, as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are carried on the balance sheet at fair value with gains or losses recognised in the income statement. Derivatives, other than those designated as effective hedging instruments, are classified as held for trading and are included in this category.

Derivatives designated as hedging instruments in an effective hedge

These derivatives are carried on the balance sheet at fair value. The treatment of gains and losses arising from revaluation is described below in the accounting policy for derivative financial instruments and hedging activities.

Notes to the financial statements

For the year ended 31 December 2022

2.4 Significant accounting policies (continued)

Financial liabilities measured at amortised cost

All other financial liabilities are initially recognised at fair value. For interest-bearing loans and borrowings this is the fair value of the proceeds received net of issue costs associated with the borrowing.

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognized respectively in interest and other income and finance costs.

The Company recognises the obligation as a lessor in line with IFRS 16: Leases.

This category of financial liabilities includes trade and other payables and finance debt.

l) Leases

Right of use assets

The Company leases real estate assets, cars and equipment.

The Company recognises a right-of-use asset at the lease commencement date. The discount rate used to determine the right of use asset is calculated based on the incremental borrowing rate at inception of the lease. The Company calculated the rate applicable to each lease contract on the basis of the lease duration. Right of use assets are depreciated using a straight line method from commencement date to the earlier of the end of the useful life or the end of the lease terms.

Lease Liability

At the commencement date of the lease, the Company recognises lease liabilities at the present value of lease payments paid over the lease term. Discount rates applied are based on incremental borrowing rates to take account of any specific economic environment. These discount rates are determined with respect to the remaining terms of leases from the date of first time application.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have lease terms of 12 months or less and low-value assets less than £5,000. The expense in relation to short-term and low-value assets is insignificant. The Group recognises the lease payments associated with these leases as an expense on a straight line basis over the lease term.

Notes to the financial statements

For the year ended 31 December 2022

3 Turnover

Turnover represents the amounts derived from the provision of services which fall within the Company's ordinary activities, stated net of value added tax.

The Company operates in four principal areas of activity. Firstly the design, manufacture and supply of satellite equipment and satellite ground stations. Secondly for the Intelligence business, the sale of geospatial products and services. For the Secure Communications business, the delivery of satellite related services includes delivering mobile voice communications, multimedia based communication and broadcast communications. Finally, the provision of secure ground communications and cyber security services.

Analysis of turnover by geographical market was as follows:

| | 2022 £'000 | 2021 £'000 |
|-----------------|----------------|------------------|
| United Kingdom | 516,586 | 663,086 |
| Europe | 344,254 | 333,487 |
| The Americas | 9,638 | 15,760 |
| Asia | (11,773) | 30,276 |
| The Middle East | 1,580 | 1,812 |
| Africa | 559 | 767 |
| Australia | 5,220 | 1,538 |
| | <u>866,064</u> | <u>1,046,726</u> |

Notes to the financial statements

For the year ended 31 December 2022

4 Operating Profit

This is stated after charging/(crediting):

| | 2022 £'000 | 2021 £'000 |
|--|-----------------|-----------------|
| Depreciation of tangible fixed assets: | | |
| - owned assets | 118,184 | 175,179 |
| Amortisation of intangible assets | 10,481 | 5,150 |
| Research and development costs | 27,953 | 32,227 |
| Operating lease charges: | | |
| - plant and machinery/office equipment | 2,413 | 483 |
| R&D tax credit | <u>(22,952)</u> | <u>(12,809)</u> |

5 Auditors remuneration

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

| | 2022 £'000 | 2021 £'000 |
|-----------------------------------|---------------|---------------|
| Audit of the financial statements | <u>449</u> | <u>373</u> |

Notes to the financial statements

For the year ended 31 December 2022

6 Staff costs and directors' remuneration

| <i>a) Staff costs</i> | 2022 £'000 | 2021 £'000 |
|------------------------------|----------------|----------------|
| Wages and salaries | 154,701 | 149,048 |
| Social security costs | 19,111 | 17,263 |
| Pension costs (see note 20): | | |
| - Current service costs | 59,300 | 61,500 |
| | <u>233,112</u> | <u>227,811</u> |

The average monthly number of persons employed by the Company (including directors) during the year was made up as follows:

| | 2022 Number | 2021 Number |
|---|----------------|----------------|
| Engineering and project staff | 2,208 | 2,254 |
| Administration, contracts and finance staff | 539 | 462 |
| | <u>2,747</u> | <u>2,716</u> |

| <i>b) Directors' remuneration</i> | 2022 £'000 | 2021 £'000 |
|--|---------------|---------------|
| Aggregate emoluments | 737 | 629 |
| Company contributions payable to pension schemes | 79 | 70 |
| | <u>816</u> | <u>699</u> |

Amounts in respect of highest paid director:

| | | |
|--|-----|-----|
| - Emoluments | 514 | 423 |
| - Company contributions payable to pension schemes | 9 | 8 |
| - Value of accrued pension | - | - |

| | | |
|--|---|---|
| Number of directors in company pension schemes | 2 | 2 |
|--|---|---|

Notes to the financial statements

For the year ended 31 December 2022

7 Interest receivable

| | 2022 £'000 | 2021 £'000 |
|--|---------------|---------------|
| Amounts receivable from parent undertaking | <u>1,733</u> | <u>103</u> |

8 Interest payable

| | 2022 £'000 | 2021 £'000 |
|---|---------------|---------------|
| Amounts payable to parent undertaking | 1,723 | 443 |
| Other interest costs | 943 | 4,132 |
| Other finance cost – including pension scheme | - | 1,900 |
| Finance costs relating to interest rate swaps | <u>281</u> | <u>574</u> |
| Total interest expense | <u>2,947</u> | <u>7,049</u> |

Notes to the financial statements

For the year ended 31 December 2022

9 Taxation

| | 2022 £'000 | 2021 £'000 |
|---|-----------------|-----------------|
| <i>(a) Tax charged in the income statement</i> | | |
| Current income tax: | | |
| UK corporation tax | (1,539) | (8,108) |
| Prior year losses surrendered for group relief | (273) | - |
| Total current income tax | <u>(1,812)</u> | <u>(8,108)</u> |
| Deferred tax: | | |
| Impairment of deferred tax asset | (34,392) | (12,957) |
| Total deferred tax | <u>(34,392)</u> | <u>(12,957)</u> |
| Total tax charge in the income statement | <u>(36,204)</u> | <u>(21,065)</u> |
| <i>(b) Tax relating to items charged or credited to other comprehensive income:</i> | | |
| Deferred tax: | | |
| Impairment of deferred tax asset | (25,121) | (9,801) |
| Total deferred tax | <u>(25,121)</u> | <u>(9,801)</u> |
| Total deferred tax in the statement of other comprehensive income | <u>(25,121)</u> | <u>(9,801)</u> |

Notes to the financial statements

For the year ended 31 December 2022

9 Taxation (continued)

(c) Reconciliation of the total tax charge

The tax expense in the income statement for the year differs from the standard rate of corporation tax of 19.00% (2021: 19.00%).

The differences are reconciled below:

| | 2022 | 2021 |
|---|-----------------|-----------------|
| | £'000 | £'000 |
| Accounting (Loss)/profit before tax | <u>(3,962)</u> | <u>84,043</u> |
| Tax calculated at UK standard rate of corporation tax in the UK of 19.00% (2021 19.00%) | 753 | (15,968) |
| Disallowed expenses and non-taxable income | 386 | 3,948 |
| Research & development tax relief | - | (2,833) |
| Overseas taxes | (255) | (100) |
| Movement in unrecognised deferred Tax asset | (2,423) | 6,845 |
| Impairment of Deferred Tax Asset | (34,392) | (12,957) |
| Prior year losses surrendered as group relief | <u>(273)</u> | <u>-</u> |
| Total tax (charge) reported in the income statement | <u>(36,204)</u> | <u>(21,065)</u> |

(d) Change in Corporation Tax rate

During FY21, it was announced that the rate of corporation tax will increase to 25% from 1 April 2023.

Notes to the financial statements

For the year ended 31 December 2022

9 Taxation (continued)

(e) The deferred tax assets included in the balance sheet is as follows:

| | 2022 £'000 | 2021 £'000 |
|---------------------------------------|---------------|---------------|
| Accelerated capital allowances | - | 33,657 |
| General provisions | - | 803 |
| Pensions | - | 15,006 |
| Tax losses carried forward | - | 10,048 |
| | <hr/> | <hr/> |
| | - | 59,514 |
| Disclosed on the balance sheet | | |
| Deferred tax asset | - | 59,514 |
| | <hr/> | <hr/> |

Notes to the financial statements

For the year ended 31 December 2022

9 Taxation (continued)

(f) The company has an unrecognised deferred tax asset due to uncertainty over recoverability calculated at 25% (2021: Blended 19%/25% rate) which is comprised as follows:

| | 2022 | 2021 |
|---|----------------|---------------|
| | £'000 | £'000 |
| Accelerated capital allowances | 64,638 | 17,655 |
| General provisions | 1,376 | 422 |
| Pensions | (41,447) | 7,871 |
| Tax losses carried forward | 78,900 | 73,899 |
| Research & development expenditure credit | - | - |
| | <u>103,467</u> | <u>99,847</u> |

The company has an unrecognised deferred tax asset of £103m, due to insufficient forecast taxable profits over the next 4 years, and due to £65m of the unrecognised deferred tax asset being in respect of tax losses transferred into the company in a prior year when a division was transferred in. Whereas all tax losses may be carried forward indefinitely, the use of this £65m of tax losses is restricted. The previously recognised deferred tax asset was impaired in the year on the basis of updated taxable profit forecasts being prepared which did not support its recognition.

Notes to the financial statements

For the year ended 31 December 2022

10 Intangible fixed assets

| | Software costs £'000 | Development expenditure £'000 | Total £'000 |
|-----------------------------|-------------------------|-------------------------------------|----------------|
| Cost | | | |
| At 1 January 2022 | 7,418 | 92,553 | 99,971 |
| Transfer to tangible assets | 234 | - | 234 |
| Additions (1) | 202 | 18,582 | 18,784 |
| Disposals (2) | (513) | (34,488) | (35,001) |
| At 31 December 2022 | <u>7,341</u> | <u>76,647</u> | <u>83,988</u> |
| Amortisation | | | |
| At 1 January 2022 | 7,242 | 14,271 | 21,513 |
| Charge for the year | 331 | 10,150 | 10,481 |
| Disposals (2) | (513) | (7,363) | (7,876) |
| At 31 December 2022 | <u>7,060</u> | <u>17,059</u> | <u>24,118</u> |
| Net book value | | | |
| At 31 December 2022 | <u>281</u> | <u>59,589</u> | <u>59,870</u> |
| At 31 December 2021 | <u>176</u> | <u>78,282</u> | <u>78,458</u> |

(1) Additions during 2022 include £18m of development expenditure for a project amortised from 2022.

(2) Disposals relate to the carve out of the Zephyr activity of the business into newly incorporated subsidiary company (see note 13).

A significant proportion of the development costs above relate to the design and build of the "OneSat" telecommunications satellite product. The business case supporting the capitalisation of these costs is based on an estimated number of these being sold, whose gross margin are predicted to exceed the amounts capitalised. Based on contracted sales to date and pipeline of new opportunities, management remains confident that the amounts capitalised will be recoverable through amortisation on profitable contracts.

For those contracts which have begun the proportionate amount (based on the number of satellites in the original business case) capitalised is being amortised on a percentage of completion basis, consistent with the revenue recognition on these contracts.

Notes to the financial statements

For the year ended 31 December 2022

11 Tangible fixed assets

| | Land and buildings £'000 | Technical equipment £'000 | Office equipment £'000 | Assets under the course of construction £'000 | Total £'000 |
|-----------------------|--------------------------------|---------------------------------|------------------------------|--|----------------|
| Cost | | | | | |
| At 1 January 2022 | 62,178 | 2,203,550 | 110,765 | 12,114 | 2,388,607 |
| Additions | 1,626 | 8,653 | 941 | 9,758 | 20,978 |
| Disposals (1) | (9,179) | (2,068,511) | (10,889) | (122) | (2,088,701) |
| Transfers | (2,099) | 2,271 | 2,433 | (2,839) | (234) |
| At 31 December 2022 | <u>52,526</u> | <u>145,963</u> | <u>103,250</u> | <u>18,911</u> | <u>320,650</u> |
| Depreciation | | | | | |
| At 1 January 2022 | 20,641 | 2,082,908 | 101,922 | - | 2,205,471 |
| Charge for the year | 2,101 | 112,163 | 3,920 | - | 118,184 |
| Disposals (1) | (9,155) | (2,062,689) | (9,169) | - | (2,081,013) |
| Transfer | (727) | 7 | 720 | - | - |
| At 31 December 2022 | <u>12,860</u> | <u>132,389</u> | <u>97,393</u> | <u>-</u> | <u>242,642</u> |
| Net book value | | | | | |
| At 31 December 2022 | <u>39,666</u> | <u>13,574</u> | <u>5,857</u> | <u>18,911</u> | <u>78,008</u> |
| At 31 December 2021 | <u>41,537</u> | <u>120,642</u> | <u>8,843</u> | <u>12,114</u> | <u>183,136</u> |

(1) Disposals in the year include 5.3m in relation to a carve out and net asset transfer of the Zephyr activity of the business, and £2bn in relation to sale of assets primarily at zero NBV which related to completion of the Skynet 5 PFI contract in 2022 as planned.

Notes to the financial statements

For the year ended 31 December 2022

12 IFRS 16 Right-of-Use assets

| | Right-of-Use Land and buildings £'000 | Right-of-Use Technical equipment £'000 | Right-of-Use Office equipment £'000 | Total £'000 |
|-----------------------|--|---|--|----------------|
| Cost | | | | |
| At 1 January 2022 | 27,671 | 1,182 | 1,773 | 30,626 |
| Additions | 24,101 | - | 111 | 24,212 |
| Disposals (1) | (17,658) | - | (62) | (17,720) |
| At 31 December 2022 | <u>34,114</u> | <u>1,182</u> | <u>1,822</u> | <u>37,118</u> |
| Depreciation | | | | |
| At 1 January 2022 | 11,162 | 742 | 817 | 12,721 |
| Charge for the year | 2,416 | 312 | 543 | 3,271 |
| Disposals (1) | (3,890) | - | (73) | (3,963) |
| At 31 December 2022 | <u>9,688</u> | <u>1,054</u> | <u>1,287</u> | <u>12,029</u> |
| Net book value | | | | |
| At 31 December 2022 | <u>24,426</u> | <u>128</u> | <u>535</u> | <u>25,089</u> |
| At 31 December 2021 | <u>16,509</u> | <u>440</u> | <u>956</u> | <u>17,905</u> |

(1) Disposal value is in relation to a carve out and net asset transfer of the Zephyr activity of the business.

Notes to the financial statements

For the year ended 31 December 2022

13 Investments

| | Cost £'000 | Provisions £'000 | Total £'000 |
|---|----------------|---------------------|----------------|
| Shares in subsidiary undertakings: | | | |
| Acquired | 106,367 | (68,119) | 38,248 |
| Additions (1) | 69,421 | - | 69,421 |
| At 31 December 2022 | <u>175,788</u> | <u>(68,119)</u> | <u>107,669</u> |

| | | |
|---------------------------------------|--|-----------------------|
| Other investments: | | Level 1 Investment |
| At 1 January 2022 | | 15,460 |
| Disposal (2) | | (1,313) |
| Fair value loss on investment (3) | | (10,192) |
| At 31 December 2022 | | <u>3,955</u> |
| Total investments At 31 December 2022 | | <u>111,624</u> |

(1) On 1st May 2022 Airbus Defence and Space Limited made an investment of £69,421,000 in Airbus HAPS Connectivity Solutions Limited (renamed Aalto HAPS Limited on 12 January 2023).

(2) During the year, Airbus Defence and Space Limited sold its 252,501 Arqit shares, the sale was recorded through the income statement.

(3) The Company's policy is to fair value instruments of this nature. At 31 December 2022 this was based on market valuation per the published share price and resulted in recognising a loss of £10.192m through the Income statement. If the share price changes then the valuation of the Company's investment would change proportionately.

The Directors believe that the carrying value of the investments is supported by the value of the underlying assets.

Notes to the financial statements

For the year ended 31 December 2022

13 Investments (continued)

| | <i>Business activity</i> | <i>Registered address</i> | <i>Proportion of nominal value of ordinary issued shares held</i> | <i>Country of incorporation</i> |
|--|--|---------------------------|---|---------------------------------|
| <i>Subsidiary investments:</i> | | | | |
| Paradigm Services Limited | Non-trading | 1 | 100 percent | England |
| Airbus Defence and Space AS | Satellite Communications | 2 | 100 percent | Norway |
| Airbus DS Limited | Non-trading | 3 | 100 percent | England |
| GPT Special Project Management Limited | Project management | 1 | 100 percent* | England |
| Surrey Satellite Technology Limited | Satellite Communications | 4 | 100 percent | England |
| Airbus DS (Satcom Australia) Pty Ltd | Satellite Communications | 5 | 100 percent | Australia |
| Airbus Military UK Limited | Maintenance of aircraft and related services | 6 | 100 percent | England |
| Airbus HAPS Connectivity Solutions Limited (Renamed Aalto HAPS Limited on 12 January 2023) | Satellite Communications | 1 | 100 percent | England |

* Investment is held indirectly via Paradigm Services Limited.

1 – Registered address: Gunnels Wood Road, Stevenage, Hertfordshire, SG1 2AS

2 – Registered address: Lysaker Torg 8, PO Box 518, 1327 Lysaker, Norway

3 – Registered address: Quadrant House, Celtic Springs, Coedkernew, Newport, NP10 8FZ

4 – Registered address: Tycho House, 20 Stephenson Road, Surrey Research Park, Guildford, Surrey, GU2 7YE

5 – Registered address: Case Governance Pty Ltd, Level 13, 41 Exhibition Street, Melbourne, Vic 3000, Australia

6 – Registered address: Britannia House, West Oxfordshire Business Park, Unit 10, Wavers Ground, OX183YJ

Dividends were received in 2022 from Airbus Defence and Space AS £455,534 (2021: £1,756,182) and from Airbus Military UK Limited £nil (2021: £nil).

On 18th February 2022 Airbus HAPS Connectivity Solutions Limited was incorporated as a 100 percent controlled entity of Airbus Defence and Space Limited.

Airbus DS Limited was dissolved on 9th August 2022.

Cassidian Cybersecurity Limited was dissolved on 10th May 2022.

Notes to the financial statements

For the year ended 31 December 2022

14 Stocks

| | 2022 £'000 | 2021 £'000 |
|--|----------------|----------------|
| Finished goods available for resale | 130,490 | 85,466 |
| Raw materials and consumables | 6,832 | 5,767 |
| Long-term contract work in progress balances (at net cost less foreseeable losses) | 14,549 | 12,429 |
| | <u>151,871</u> | <u>103,662</u> |

15 Debtors

Amounts falling due within one year:

| | 2022 £'000 | 2021 £'000 |
|---|----------------|----------------|
| Trade debtors | 57,448 | 49,332 |
| Financial instruments | 2,541 | - |
| Amounts due from fellow subsidiary undertakings | 53,574 | 35,205 |
| Advance payments made | 1,659 | 6,189 |
| Accrued income | 5,878 | 11,064 |
| Loan to parent undertaking | 86,446 | 57,606 |
| Other debtors | 26,223 | 43,271 |
| Prepayments | 10,089 | 13,064 |
| | <u>243,858</u> | <u>215,731</u> |

Amounts due from group undertakings are unsecured, interest free and have no fixed date of repayment.

Notes to the financial statements

For the year ended 31 December 2022

15 Debtors (continued)

Loans to the parent undertaking Airbus S.E. are unsecured, have no fixed date of repayment and attract the following interest rates.

| | |
|-------------------------|-------------------------|
| Euro balances | EURIBOR 1 month - 0.05% |
| US Dollar balances | LIBOR 1 month - 0.05% |
| Sterling Pound balances | LIBOR 1 month - 0.05% |
| Other currency balances | LIBOR 1 month - 0.10% |

Financial instruments above include the fair value of interest rate swaps of £2,434 (2021: £nil) and forward currency contracts of £107 (2021: £nil)

| | 2022 £'000 | 2021 £'000 |
|---------------------------------------|---------------|---------------|
| Amounts due after more than one year: | | |
| Deferred tax (see Note 9) | - | 59,514 |
| | <u>-</u> | <u>59,514</u> |

16 Creditors: amounts falling due within one year

| | 2022 £'000 | 2021 £'000 |
|---|----------------|----------------|
| Payments received on account | 18,077 | 30,118 |
| Trade creditors | 101,988 | 119,559 |
| Amounts due to fellow subsidiary undertakings | 39,723 | 25,447 |
| Loan from parent undertaking | 58,860 | 53,838 |
| Financial Instruments | 127 | - |
| Other taxation and social security | 4,015 | 36,224 |
| Other creditors and accruals | 28,514 | 34,266 |
| | <u>251,304</u> | <u>299,452</u> |

Notes to the financial statements

For the year ended 31 December 2022

16 Creditors: amounts falling due within one year (continued)

Loans due to the parent undertaking Airbus S.E. are unsecured, have no fixed date of repayment and attract the following interest rates.

| | |
|-------------------------|-------------------------|
| Euro balances | EURIBOR 1 month + 0.30% |
| US Dollar balances | LIBOR 1 month + 0.30% |
| Sterling Pound balances | LIBOR 1 month + 0.30% |
| Other currency balances | LIBOR 1 month + 0.40% |

Amounts due to other group undertakings are unsecured, interest free and have no fixed date of repayment.

Financial instruments above include the fair value of interest rate swaps of £127,000 (2021: £nil) and forward currency contracts of £nil (2021: £nil).

17 Creditors: amounts falling due after one year

| | 2022 £'000 | 2021 £'000 |
|-------------------|---------------|---------------|
| Other creditors | - | 11 |
| Lease Liabilities | 23,748 | 13,963 |
| | <u>23,748</u> | <u>13,974</u> |

Other creditors above includes £nil (2021: £11,000) payable in two to five years and £nil (2021: £nil) payable in over five years.

Notes to the financial statements

For the year ended 31 December 2022

18 Contract asset and liability

| | 2022 £'000 | 2021 £'000 |
|--|---------------|---------------|
| Contract asset | 64,282 | 77,079 |
| Contract liability | (181,180) | (173,404) |
| Revenue recognised in the period from: | | |
| Amounts included in contract liability at the beginning of the period | 54,124 | 169,914 |
| Amounts billed in the current period appearing as contract assets at the start of the year | (52,813) | (48,249) |

19 Provisions for liabilities and charges

| | Other provisions £'000 | Total £'000 |
|-------------------------------------|------------------------------|----------------|
| At 1 January 2022 | 1,931 | 1,931 |
| Provisions arising during the year | 596 | 596 |
| Provisions utilised during the year | (1,100) | (1,100) |
| Provisions released during the year | (78) | (78) |
| At 31 December 2022 | <u>1,349</u> | <u>1,349</u> |

Other provisions comprise £363,000 (2021: £421,000) in respect of future liabilities under Airbus employee Long Term Incentive Plan scheme (a cash settled scheme), and £986,000 (2021: £1,510,000) in respect of loss and contract warranty provisions.

Notes to the financial statements

For the year ended 31 December 2022

20 Pensions

Pension contributions are determined with the advice of independent qualified actuaries, Willis Towers Watson, on the basis of annual valuations using the projected unit credit method. The projected unit credit method is an accrued benefits valuation method in which the scheme liabilities make allowance for future earnings. Scheme assets are stated at their market values at the respective Balance Sheet dates and overall expected rates of return are established by applying published brokers' forecasts to each category of scheme assets.

The assets and liabilities of the scheme are shown below:

| | 2022 | 2021 |
|--|------------------|------------------|
| | £'000 | £'000 |
| Equities | 395,400 | 739,500 |
| Index-linked gilts | 87,300 | 397,300 |
| Illiquid credit and inflation opportunities | 399,100 | 119,100 |
| Property | 137,000 | 145,800 |
| Schedule 1 retirement accounts | 94,900 | 102,000 |
| Cash and other assets | 88,500 | 57,400 |
| Fair value of scheme assets | <u>1,202,200</u> | <u>1,561,100</u> |
| Present value of scheme liabilities | (975,200) | (1,561,500) |
| Defined benefit pension plan asset/(deficit) | <u>227,000</u> | <u>(400)</u> |

The pension scheme has not invested in any of the Company's own financial instruments nor in the properties or other assets used by the Company. The Company has recognised the Pension asset in line with IFRIC 14 because any surplus would be returned to them in the event of winding up the Pension Scheme.

Notes to the financial statements

For the year ended 31 December 2022

20 Pensions (continued)

The amounts recognised in the Income Statement for the year are analysed as follows:

Recognised in the Income Statement

| | 2022 | 2021 |
|---|-----------------|-----------------|
| | £'000 | £'000 |
| Current service cost | <u>(59,300)</u> | <u>(61,500)</u> |
| Net interest on net defined benefit asset / (liability) | <u>400</u> | <u>(1,900)</u> |

Taken to the Statement of Comprehensive Income

| | 2022 | 2021 |
|--|----------------|-----------------|
| | £'000 | £'000 |
| Return on plan assets (excluding amounts included in net interest) | (399,100) | 144,300 |
| Actuarial changes arising from changes in financial assumptions | <u>637,000</u> | <u>(15,900)</u> |
| Gain recognised in the Statement of Comprehensive Income | <u>237,900</u> | <u>128,400</u> |

Changes on the present value of the defined benefit pension obligations are analysed as follows:

Defined benefit obligation

| | 2022 | 2021 |
|--|----------------|----------------|
| | £'000 | £'000 |
| Deficit benefit liability at the end of the prior year | (400) | (258,800) |
| Net benefit expense for the year | (58,900) | (63,400) |
| Employer contributions | 48,400 | 193,400 |
| Gain recognised via the statement of comprehensive income | <u>237,900</u> | <u>128,400</u> |
| Defined benefit asset/(liability) at the end of the current year | <u>227,000</u> | <u>(400)</u> |

Notes to the financial statements

For the year ended 31 December 2022

20 Pensions (continued)

The principal assumptions used to measure the scheme liabilities are set out below:

| | 2022 | 2021 | 2020 |
|--|---------------|---------------|---------------|
| Main year-end assumptions used: | | | |
| Rate of salary increases | 3.30% | 3.30% | 2.55% |
| Rate of increase in pensions in payment | 3.00% | 3.00% | 2.60% |
| Rate of increase for deferred pensioners | 2.55% | 2.55% | 2.05% |
| Discount rate | 4.75% | 1.95% | 1.45% |
| Rate of inflation (RPI) | 3.15% | 3.15% | 2.65% |
| Rate of inflation (CPI) | 2.55% | 2.55% | 2.05% |
| Post retirement mortality: | | | |
| | 113% | 113% | 113% |
| | (Schedule1), | (Schedule1), | (Schedule1), |
| | 87% (Schedule | 87% (Schedule | 87% (Schedule |
| | 2 and 3) x | 2 and 3) x | 2 and 3) x |
| | S2PXA | S2PXA | S2PXA |
| - current rates | | | |
| - allowance for future improvements | CMI 2021 | CMI 2020 | CMI 2019 |
| | improvements | improvements | improvements |
| | with a long | with a long | with a long |
| | term rate of | term rate of | term rate of |
| | 1.25% pa, | 1.25% pa, | 1.25% pa, |

An indication of the sensitivity of the above key assumptions include:

- 0.1% p.a. increase to the discount rate would reduce the gross pension liability by 2.50%,
- 0.1% p.a. increase to RPI inflation would increase the pension liability by 1.75%,
- 0.1% p.a. increase in the gap between RPI and CPI inflation would reduce the pension liability by 1.0%,
- 0.1% p.a. increase to the salary increases would increase the gross pension liability by 0.5%,

Notes to the financial statements

For the year ended 31 December 2022

21 Share capital & Share Premium

| Share Capital | 2022 | 2021 |
|--------------------------------|---------------|---------------|
| | £'000 | £'000 |
| <i>Allotted and fully paid</i> | | |
| Ordinary shares of £1 each | 27,115 | 27,115 |
| Income shares of £1 each | 2,167 | 2,167 |
| | <u>29,282</u> | <u>29,282</u> |

Ordinary shares and income shares rank pari passu.

| Share Premium | 2022 | 2021 |
|-----------------|---------------|---------------|
| | £'000 | £'000 |
| Issue of shares | 41,100 | 41,100 |
| | <u>41,100</u> | <u>41,100</u> |

Notes to the financial statements

For the year ended 31 December 2022

22 Reserves

Movements on reserve account balances during the year are disclosed in the Statement of Changes in Equity. Other reserve balances comprise:

Cash flow hedge reserve: This is used to record the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge at the year-end date.

23 Capital commitments

| | 2022 £'000 | 2021 £'000 |
|---|---------------|---------------|
| Capital expenditure that has been contracted for but not provided for in the financial statements | <u>21,653</u> | <u>13,083</u> |

24 Contingent liabilities

There are no contingent liabilities arising in the course of normal activity.

Notes to the financial statements

For the year ended 31 December 2022

25 Share based payments

Long-term incentive plan

Annually from 2008 to 2022 the board of directors of Airbus S.E. has approved long term incentive plans to grant performance and restricted units. The performance and restricted units will vest if the participant is still employed by an Airbus company at the respective vesting dates and, in the case of performance units, upon achievement of mid-term business performance. The shares vest in equal amounts every 6 months, commencing in the May following the third anniversary of the grant date.

26 Related party transactions

As the Company is a wholly owned subsidiary of Airbus S.E. it has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with fellow wholly owned subsidiaries.

There are no other related party transactions that require disclosure.

27 Parent undertakings and controlling party

The Company's ultimate parent company and controlling party is considered by the Directors to be Airbus S.E. which is registered in The Netherlands. Airbus S.E. is the parent undertaking of the largest and smallest group of undertakings of which the Company is a subsidiary undertaking for which group financial statements are prepared. Copies of the financial statements of Airbus S.E. are available from The Secretary, Airbus S.E. Mendelweg 30, 2333 CS Leiden, The Netherlands.