Surrey Satellite Technology Limited

Report and Financial Statements

31 December 2020

Contents

Directors

Professor Sir M N Sweeting
Mr L Wilson
Mr P Brownnett (appointed 31st January 2020)
Mr A I Marrakchi
Rt Hon D Willetts
Mr P Pham
Mr R Franklin (appointed 2nd December 2020)
Mr Colin Paynter (resigned 8th October 2020)
Mrs S Parker (resigned 31st January 2020)

Secretary

Mr Alan Shaw (appointed 1st June 2021)
Ms V Carpenter (resigned 31st May 2021)

Auditors

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

Registered Office

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

Strategic Report

Review of the Company

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

Launch & In-Orbit Events

In February 2020, in partnership with the National Oceanography Centre, the Company released data from the TechDemoSat-1 satellite, demonstrating how the reflection of satellite navigation signals (GNSS reflectometry) collected in space can be used to accurately map the extent of the sea ice in the Arctic and Antarctic. TechDemoSat-1 spacecraft was built by the Company and launched in 2014. The Company continued to pursue the use of GNSS Reflectometry Technology for climate monitoring purposes and later in the year successfully demonstrated GNSS-Reflectometry (GNSS-R) from its 18kg satellite, DOT-1.

In March 2020, the 5 satellite RapidEye Constellation commenced its retirement phase following an 11 year mission life, with all spacecraft exceeding the design life of 7.5 years. The Company had designed and built all 5 Earth Observation spacecraft platforms as a subcontractor to MDA from 2004 onwards. The retirement of RapidEye marks the end of a landmark mission for the Company as its first Commercial constellation contract.

Project Delivery

Galileo batch 3 payload deliveries continued throughout 2020 with the final 6 payload deliveries all completed, despite the impact of the Covid-19 pandemic. The Company continued to support the post-delivery integration and testing of a number of payload subsystems produced by various European suppliers as and when travel restrictions permitted.

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

The Company's S1-4 and NovaSAR satellites completed their first full year of service, providing various customers with Earth Observational optical & synthetic aperture radar data. Various customer ground stations were installed remotely for the NovaSAR mission.

Financial Summary

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

	2020	2019	Change %
	£'000	£'000	
Turnover	72,744	75,170	(3%)
Gross Profit	9,327	1,782	423%
Operating Profit / (Loss)	767	(6,866)	n/a
Total Order Backlog	130,163	161,458	(19%)
Total Equity	(2,597)	(617)	(321%)

Strategic Report (continued)

The Company secured a new contract with the Department of Science & Technology (DOST) in the Philippines for the 1st phase of a customer training programme that begins in 2021. The longer term programme will aim to use the Company's TrueColour imager which showcases wide swath super spectral technology. Further Galileo contract changes were also secured as well as a number of key study programmes that will greatly enhance the technological capabilities of the Company.

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

Gross profit margin has significantly improved reflecting a more stabilised contract cost base. The Company's restructuring programme of 2019 has enabled the Company to significantly reduce administration expenses and achieve its first profit on ordinary activities before tax since 2013.

The company achieved a small operating profit for the year, but after recognition of cash flow hedge losses and tax the company incurred an overall comprehensive loss. The significant tax charge is driven by capital allowances recognised in advance of depreciations on the satellites held on the balance sheet. The Company's financial position showed a year-end Total Equity of -£2.6m which included £44.1m due to its ultimate parent (Airbus Group SE) and other group companies. This balance included £42.2m/€46.9m in relation to an Airbus Group cash pooling facility which is provided to the Company with an authorised limit of €55m.

Principal risks and uncertainties

There is a process for identifying, evaluating and managing significant risks faced by the Company. A quarterly risk register report is presented to the board of directors. The aim is to manage and control identified risks - strategic, operational, commercial and financial - but risk cannot be eliminated completely. Risk is inherent in spacecraft projects and these risks are managed through the Company's risk management process. An initial risk register is identified during the bid phase and the associated contingency is included within the cost estimate. Risks being managed by the project are monitored actively throughout the life of the project and risk mitigation plans are activated by the project team as necessary.

Financial risk management and liquidity

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

Foreign exchange risk

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

Strategic Report (continued)

Credit risk

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

Covid-19

Despite Covid-19, the Company continued to progress key customer opportunities with some substantial leads expected to close during 2021. Management are satisfied that the value of credible market opportunities expected to materialise over the next 12 months remains significant and that the Company can secure its required market share over that period.

For ongoing missions that contractually required an on-site customer presence, such as training, the company has arranged remote practices to the satisfaction of various customers. Such missions have continued to progress accordingly.

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

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

Section 172(1) of the Companies Act 2006 statement

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

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

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

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

At the end of each board meeting, the Chairman requested all board members to reflect upon the discussion and decisions taken during the board meeting in specific reference to Section S172(1) and the matters contained therein. Each board member had the opportunity to confirm or disagree with the view that all discussions and decisions taken did consider the impact on the Company's various stakeholders and considered the long term success of the Company.

Strategic Report (continued)

Throughout the year, there were no detailed assessments of the impact of decisions upon the stakeholders of the Company as there were no key board level decisions made of such a nature that would have required such an assessment. A very specific note was made regarding Section S172(1) during the October 2020 Board Meeting and a board paper for review and discussion was drafted by the Company Secretary and presented to the board. This board paper reminded the Board of Directors of the Section S172(1) requirements and their legal responsibilities towards the regulation.

Employees

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

Customers

The board of directors engaged with customers in various forums. The Chairman & Managing Director both regularly engaged with key customers directly in relation to specific sales campaigns and often the Managing Director engaged with customers to discuss existing project topics. Certain non-executive members of the board interacted with customers on behalf of the Company in order to strengthen the position of the Company's key sales campaigns. Such engagements were made at virtual industry events and customer meetings via video-calls.

Shareholder

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

The financial results of the Company are reviewed at each board meeting and it is generally such key information which contributes to driving the board to make the strategic decisions of the Company. The financial stability of the Company and the financial return to the shareholder have been pertinent topics of consideration throughout the year.

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

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

Employees

The executive management team engaged with the employees in a number of different ways including the business connection forum which was a regular meeting held between employee representatives and management to address employee topics and concerns. The executive management team also engaged via staff updates, email and intranet communication updates.

Strategic Report (continued)

Due to Covid-19, the working practices of the Company were forced to rapidly and radically change in order to support remote working at the onset of the UK lockdown. The executive management team put a Crisis Management Team (CMT) in place containing various cross department members in order to manage the company's day to day response to the pandemic. The CMT also provided valuable weekly communications to all staff within the Company.

The executive management team ensured that the CMT had available resources to implement a Covid-19 secure site and provide remote working support to employees such as equipment, general support and an upgraded IT infrastructure. The executive team ensured that the top priority of the company throughout the crisis was the health of the workforce and therefore implemented split team pattern working, vastly increased cleaning measures and personal protective equipment (PPE). Such measures were vital for supporting employees that could not work remotely, such as manufacturing staff. The Covid-19 secure site status was vital for the return of certain key staff to the office as and when permitted by the UK government at various times throughout 2020.

As the welfare of employees was paramount to the executive management team, an initiative to support the mental health of employees was put into place. The company was then able to provide remote support to employees and managers. In addition, a team of mental health first aiders was set up to act as a point of contact for employees experiencing mental health issues and enabled employees to obtain the appropriate help and support.

Customers

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

Suppliers

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

Local Community

Due to Covid-19, the Company's charity committee took the difficult decision to suspend all planned events in 2020 in order to reduce the risk of spreading the virus. The employees were provided with the means to privately donate or fund-raise as a way to offer support to local charities via the Company's Sharepoint system. The Company aims to resume charitable activities in 2021, Covid-19 permitting.

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

By order of the Board

L J Wilson.

Mr L Wilson

Director *Date: 22nd July 2021*

Directors' Report

Directors of the Company

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

Professor Sir M N Sweeting
Mr L Wilson
Mr P Brownnett (appointed 31st January 2020)
Mr A I Marrakchi
Rt Hon D Willetts
Mr P Pham
Mr R Franklin (appointed 2nd December 2020)
Mr Colin Paynter (resigned 8th October 2020)
Mrs S Parker (resigned 31st January 2020)

Directors' liabilities

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

Dividend

The directors do not propose a dividend (2019:£nil).

Research and development

The Company has committed itself to research and development in the area of satellite technology. Internally funded expenditure in the year to 31 December 2020 totalled £2,663k (2019: £2,591k).

Financial instruments

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

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

Post balance sheet events

Since the year end the Company's 100% owned subsidiary DMC International Imaging Limited has been dissolved. Refer to Note 20 for detail.

Employment of disabled people and employee involvement

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

Directors' Report (continued)

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

Stakeholder engagement – Section 172(1) of the Companies Act 2006

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

Impact of the Company on the Environment

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

Streamlined Energy and Carbon Reporting (SECR)

In accordance with the requirements of the Streamlined Energy and Carbon Environmental Reporting, the Company provides its energy and emissions data for the period 1st January 2020 to 31st December 2020 (the base year) for its UK activities below.

1st January 2020 - 31st December 2020 (Base Year)			
Energy Type	**Energy use in KWh (hours)**	**Conversion to CO2 Emissions (tonnes)**	**Intensity Ratio - CO2 per Full Time Equivalent Employee**
Electricity - Scope 2	3,220,625	751	2.07
Gas - Scope 1	3,520,682	647	1.78
Transport (Fuel + Mileage converted the KWh) - Scope 3	26,890	7	0.02
Total	**6,768,197**	**1,405**	**3.87**

Note that figures above represent the Company's UK consumption, being its sole place of business. It should also be noted that the base year is likely to be a non-standard year of activity due to the impact of Covid-19 in areas such as business travel.

The figures relating to the use of electricity and gas has been provided by the Company's energy providers based on actual meter readings. Data relating to business transport has been obtained from the accounting system and the employee business expense claim system.

Directors' Report (continued)

The number of employees used in the calculation of the intensity ratio is 363. The number of employees has been selected as a practical reference as the level of energy used is related to the number of active employees.

For example, an increase in employees within the Assembly, Integration and Test area will usually be linked to an increase in electricity and gas consumption within the manufacturing facility. An employee increase in this area would nominally link to an increase in project delivery activities, requiring more energy usage.

The Company concentrated efforts dealing with the impact of Covid-19 and the priority to ensure Government guidelines were met offering a safe, secure environment for staff. This resulted in limited time and resources to dedicate to energy efficient measures. Despite the circumstances, the Company ensured that areas of the business not being used, or had a reduced occupancy, were closed down. For example, areas with air handling units or electrical items were switched off. Water use has been reduced due to the closure of the shower facilities normally available to employees and regular inspections were undertaken to ensure any water leaks were identified in advance and repaired.

The Company's complementary staff minibus service was taken out of service, helping to reduce the Company's carbon footprint on the environment. This change has provided the Company with the opportunity to review alternative transport links upon the lifting of social distancing rules, such as collaboration with the Surrey Research park to use an electric vehicle including the installation of electrical vehicle charging points to help towards a sustainable long-term solution. This venture is expected to progress throughout 2021.

The Company is certified to ISO 14001:2015 (all sites).

Going concern

The Company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management, liquidity objectives and its exposure to foreign exchange / credit risk are described in the Strategic Report on pages 1-5

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

Ongoing funding to the Company is provided by access to the Airbus Group cash pooling facility and in July 2021, Airbus SE provided the Company with an updated liquidity confirmation letter which validates committed access to the facility of €55m until 31st August 2022. The Directors have made enquiries with the Airbus Group and have received assurances that the Company will be supported for the foreseeable future and that Airbus Group has sufficient resources to provide this support.

An assessment of the Company's expected cash flows up to 31st July 2022 has been performed in June 2021. A 'reverse stress test' was performed to determine the break point of the going concern of the Company to identify those factors that could cause the Company to fail and to assist in the evaluation of those factors and determine if this is reasonably possible. The assessment included a number of downside scenarios such as no further order intake, key project milestones not being achieved and an increase in forecast costs to complete on contracts. The combination of these scenarios required to reach the break point (i.e. when the Airbus facility would be breached) was considered to be remote based on past history of order intake and past accuracy of cost forecasting notwithstanding other mitigating items such as cost reductions which would be available to the company if required. Full Company running costs and their related cash out have been included in the assessment. The assessment demonstrated liquidity within the cash pooling facility until the end of July 2022.

Directors' Report (continued)

Despite Covid-19, the Company expects to secure further orders as planned before the 31st December 2021 and has entered final negotiations with a number of customers. The Company is satisfied that the value of credible market opportunities expected to materialise over the next 12 months remains significant and that the Company can secure its required market share over that period.

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

Disclosure of information to auditors

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

By order of the Board

L J Wilson

Mr L Wilson
Director

Date: 22nd July 2021

Statement of directors' responsibilities

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 Surrey Satellite Technology Limited

Opinion

We have audited the financial statements of Surrey Satellite Technology Limited for the year ended 31 December 2020 which comprise the Income Statement and Statement of comprehensive income, Statement of changes in equity, Statement of financial position and the related notes 1 to 21, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2020 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, 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.

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 31 July 2022, 12 months from when the financial statements are authorised for issue.

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.

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.

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

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 there is 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.

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.

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

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.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework ('FRS 101' and the Companies Act 2006) and the relevant direct and indirect tax compliance regulations in the United Kingdom. In addition, the Company has to comply with laws and regulations relating to its operations, including exports of product and service regulations, offset terms on foreign contracts, UK Anti-bribery act, procurement regulations, Proceeds of Crime Act 2002 and The Money Laundering (Amendment) Regulations 2012, Intellectual property (IP) law and non-disclosure agreements (NDA), Health and Safety and GDPR.
- We understood how the Company is complying with those frameworks by making enquiries of management to understand how the company maintains and communicates its policies and procedures in these areas and corroborated this by reviewing supporting documentation. Specifically, we have completed board minute reviews to understand procedures in place and verify they are in line with the frameworks. We also held meetings with management and HR to understand the training on specific frameworks and inspected employee training schedules held by the Company.
- 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 – through manipulation of costs to complete and estimation of margins on long term contracts. 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, including challenging management assumptions on costs to complete and contingencies held on contracts.
    - 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 transactions 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 had a focus on compliance with the reporting framework set

out above through our walkthrough testing and the relevant tax legislation through review of tax computations and returns.

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

Use of our report

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

Ryan Squires

Ryan Squires (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Southampton
Date: 22nd July 2021

Income Statement and Statement of Comprehensive Income

for the year ended 31 December 2020

Income Statement

	Notes	2020 £'000	2019 £'000
Turnover	2	72,744	75,170
Cost of sales		(63,417)	(73,388)
Gross profit		9,327	1,782
Administration expenses		(8,560)	(8,648)
Operating profit / (loss)	3	767	(6,866)
Interest payable and similar charges	7	(432)	(696)
Dividend income from 100% owned subsidiary		102	900
Profit / (Loss) on ordinary activities before taxation		437	(6,662)
Tax on profit/loss on ordinary activities	8	(987)	308
Loss for the financial year		(550)	(6,354)

Statement of Comprehensive Income

	Notes	2020 £'000	2019 £'000
Other Comprehensive Income:			
Items that can be reclassified to profit and loss:			
Cash flow hedges losses/gains arising during the year		(1,731)	1,341
Tax on items relating to components of other comprehensive income	8	301	(259)
Other comprehensive (loss)/income for the year net of tax		(1,430)	1,082
Loss for the financial year		(550)	(6,354)
Total comprehensive loss for the year		**(1,980)**	**(5,272)**

Statement of Changes in Equity

for the year ended 31 December 2020

	Share Capital Account £'000	Share Premium Account £'000	Capital Redemption Reserve £'000	Cash Flow Hedge Reserve £'000	Profit and Loss Account £'000	Total Equity £'000
At 1 January 2019	-	32,574	1,000	753	(29,672)	4,655
Loss for the year	-	-	-	-	(6,354)	(6,354)
Other comprehensive income	-	-	-	1,082	-	1,082
Total comprehensive income/(loss) for the year	-	-	-	1082	(6,354)	(5,272)
At 31 December 2019	-	32,574	1,000	1,835	(36,026)	(617)
At 1 January 2020	-	32,574	1,000	1,835	(36,026)	(617)
Profit for the year	-	-	-	-	(550)	(550)
Other comprehensive loss	-	-	-	(1,430)	-	(1,430)
Total comprehensive (loss)/income for the year	-	-	-	(1,430)	(550)	(1,980)
At 31 December 2020	-	32,574	1,000	405	(36,576)	(2,597)

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

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

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

Profit and Loss account represents accumulated retained camings.

Statement of Financial Position

at 31 December 2020

	Notes	2020 £'000	2019 £'000
Fixed assets			
Tangible assets	9	68,660	79,409
Intangible assets	10	574	1,052
Investments	11	699	572
Right of use asset	12	8,967	10,099
		78,900	91,132
Current assets			
Stocks	13	8,565	10,756
Trade and other receivables	14	26,305	40,086
Cash at bank and in hand		177	1,184
		35,047	52,026
Creditors: amounts falling due within one year	15	(103,748)	(130,030)
Lease obligations	12	(9,134)	(10,187)
Net current liabilities		(77,835)	(88,191)
Provisions	16	(3,662)	(3,558)
Net assets/(liabilities)		(2,597)	(617)
Capital and reserves			
Called up share capital	17	-	-
Share premium account		32,574	32,574
Capital redemption reserve		1,000	1,000
Cash flow hedge reserve		405	1,835
Profit and loss account		(36,576)	(36,026)
Total equity		(2,597)	(617)

These financial statements were approved by the board of directors on 22nd July 2021 and were signed on its behalf by:

L Wilson

Mr L Wilson
Director

Notes to the financial statements

at 31 December 2020

1. Accounting policies

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

The financial statements for the year ended 31 December 2020 were authorised for issue by the board of directors on the date shown on the balance sheet and were signed on the board's behalf by Mr Lee Wilson. The Company is incorporated and domiciled in England and Wales. These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS101) and in accordance with applicable accounting standards. The Company's financial statements are presented in sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated. The Company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare group accounts as it is a wholly owned subsidiary of Airbus Group SE. Therefore, the financial statement reflect the results of the Company and not the group.

1.2 Going concern

The Company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management and liquidity objectives and its exposure to foreign exchange and credit risk are described in the Strategic Report on pages 1-5.

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

Ongoing funding to the Company is provided by access to the Airbus Group cash pooling facility and in July 2021, Airbus SE provided the Company with an updated liquidity confirmation letter which validates committed access to the facility of €55m until 31st August 2022. The Directors have made enquiries with the Airbus Group and have received assurances that the Company will be supported for the foreseeable future and that Airbus Group has sufficient resources to provide this support.

An assessment of the Company's expected cash flows up to 31st July 2022 has been performed in June 2021. A 'reverse stress test' was performed to determine the break point of the going concern of the Company to identify those factors that could cause the Company to fail and to assist in the evaluation of those factors and determine if this is reasonably possible. The assessment included a number of downside scenarios such as no further order intake, key project milestones not being achieved and an increase in forecast costs to complete on contracts. The combination of these scenarios required to reach the break point (i.e. when the Airbus facility would be breached) was considered to be remote based on past history of order intake and past accuracy of cost forecasting notwithstanding other mitigating items such as cost reductions which would be available to the company if required. Full Company running costs and their related cash out have been included in the assessment. The assessment demonstrated liquidity within the cash pooling facility until the end of July 2022.

Despite Covid-19, the Company expects to secure further orders as planned before the 31st December 2021 and has entered final negotiations with a number of customers. The Company is satisfied that the value of credible market opportunities expected to materialise over the next 12 months remains significant and that the Company can secure its required market share over that period.

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

Notes to the financial statements

at 31 December 2020

1 Accounting policies (continued)

1.3 Basis of preparation – other

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2020.

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

(a) The requirements of paragraphs 45(b) and 46-52 of IFRS 2 *Share based Payment*, because:
    (i) The share based payment arrangement concerns the instruments of another group entity;
(b) The requirements of *IFRS 7 Financial Instruments: Disclosures.*
(c) The requirements of paragraphs 91-99 of *IFRS 13 Fair Value Measurement,*
(d) The requirement in paragraph 38 of IAS 1 '*Presentation of Financial Statements*' to present comparative information in respect of:
    (i) paragraph 79(a)(iv) of IAS 1;
    (ii) paragraph 73(e) of IAS 16 *Property Plant and Equipment;*
    (iii) paragraph 118(e) of IAS 38 *Intangible Assets;*
(e) The requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of the Financial Statements;
(f) The requirements of IAS 7 Statement of Cash Flows;
(g) The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
(h) The requirements of paragraph 17 of IAS 24 Related Party Disclosures;
(i) The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
(j) The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets

1.4 Judgement and key sources of estimation uncertainty

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

Notes to the financial statements

at 31 December 2020

1 Accounting policies (continued)

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

Revenue recognition

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

Provisions

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

Useful lives

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

Revenue from contracts with customers

Revenue is produced from the design and construction of satellites and subsystems, the provision of related services and the sale of satellite ground stations. When control of produced goods or rendered services is transferred over time to the customer, revenue is recognised over time, i.e. under the percentage of completion method ("PoC" method). For the application of the overtime method (PoC method), the measurement of progress towards complete satisfaction of a performance obligation is based on inputs (i.e. cost incurred). Variable considerations are included in the transaction price when it is highly probable that there will be no significant reversal of the revenue in the future. The Company identifies the various performance obligations of the contract and allocates the transaction price to these performance obligations. Advances and pre-delivery payments (contract liabilities) are normal and not considered a significant financing component as they are intended to protect the Company from the customer failing to complete its obligations under the contract. Turnover is stated net of valued added tax.

Project specific inventory

Part of the inventory balance relates to inventory held under a previous customer contract which was novated post year end. The inventory balance is expected to be recovered via a sale to the end customer and a contract has been signed with a newly set up company. Management have assessed the recoverability of the inventory and considered the flow of the funds and deem the inventory balance to be recoverable. Management will continually assess the recoverability.

Capitalised satellites

Government Grants

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

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

Barter Transactions

In 2018 the Company agreed to exchange 40% of the NovaSar satellite data for a launch. This was valued by the launch agency in relation to other similar size satellites on an arm's length basis. This barter

Notes to the financial statements

at 31 December 2020

transaction was accounted for by trading this value as both revenue to represent the 40% share and cost of sales to represent the launch cost.

Recoverability
Management continually review the recoverability of the capitalised satellites. A breakeven analysis is performed for each satellite which takes into account secured and planned customer contracts.
If the analysis resulted in less revenue expected than the costs to be incurred over the life of the satellite then an impairment of the asset would be recognised.

1.5 Significant Accounting Policies

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

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

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

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

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

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

Right of use assets

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

Notes to the financial statements

at 31 December 2020

Intangible Assets

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

Research and development expenditure

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

Stocks

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

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

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

Foreign currency translation

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

Investments

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

Provisions

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

Impairment of non-financial assets

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

Notes to the financial statements

at 31 December 2020

Trade and other debtors

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

Lease obligations

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

Derivative financial instruments and hedging

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

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income, while the ineffective portion is recognised in profit or loss. Amounts taken to other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when a forecast sale or purchase occurs. The Company currently uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments. See note 19 for further details.

Taxation

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

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

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

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

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

Notes to the financial statements

at 31 December 2020

relates to items that are credited or charges directly to equity. Otherwise income tax is recognised in the income statement.

Government Grants

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

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

Pensions

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

Share based payments

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

Financial liabilities at amortised cost

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

Financial liabilities at fair value through the profit or loss

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

De-recognition

a) Financial assets

The Company derecognises a financial asset when;

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

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

b) Financial liabilities

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

Notes to the financial statements

at 31 December 2020

2. Turnover

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

	2020	*2019*
	£'000	*£'000*
Europe - UK	14,344	14,078
Europe - other countries	45,643	58,239
Asia	6,920	4,760
Africa	161	393
Americas	5,676	(2,300)
	72,744	75,170

3. Operating loss

This is stated after charging/(crediting):

	2020	*2019*
	£'000	*£'000*
Depreciation of owned fixed assets	12,822	6,264
Depreciation of right of use assets	1,768	1,678
Restructuring expenses	-	306
Amortisation of intangibles	594	675
Research and development expenditure		
– Internally funded	2,663	2,591
– Externally funded	468	1,368
Above the line R&D tax credit (income)	(1,542)	(977)
Foreign exchange gain	(71)	95
Cost of stocks recognised as an expense (included in cost of sales)	1,106	1,512
Including: -write- down of stocks to net realisable value	160	653

4. Auditor's remuneration

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

	2020	*2019*
	£'000	*£'000*
Audit of the financial statements	65	83

Notes to the financial statements

at 31 December 2020

5. Directors' remuneration

	2020	*2019*
	£'000	*£'000*
Aggregate remuneration in respect of qualifying services	554	486
Aggregate amounts receivable under long term incentive plans	-	-
Company contributions to pension schemes	100	87
Payment for loss of office	193	-

	No.	*No.*
Retirement benefits are accruing to the following number of directors under:		
Defined contribution schemes	3	3
Defined benefit schemes	1	1

The remuneration of the highest paid director for the year was £162k (2019: £163k). In addition, Company pension contributions of £33k were made to a money purchase pension scheme on the director's behalf (2019: £33k). No share options were exercised by directors during this period.

6. Staff costs

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

	2020	*2019*
	£'000	*£'000*
Wages and salaries	17,483	18,992
Social security costs	1,902	1,998
Other pension costs	2,701	2,934
	22,086	23,924

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

	2020	*2019*
	No.	*No.*
Engineering	319	339
Administration	44	47
	363	386

7. Interest payable and similar charges

	2020	*2019*
	£'000	*£'000*
Interest payable to group undertakings	267	510
Interest on lease liability	165	186
	432	696

Notes to the financial statements

at 31 December 2020

8. Taxation

(a) Tax on Loss on ordinary activities

The tax charge is made up as follows:

	2020	*2019*
	£'000	*£'000*
Current tax:		
UK corporation tax on the profits for the year	285	(583)
Tax (over)/under provided in previous years	(135)	(350)
Total current tax		
	150	(933)
Deferred tax:		
Origination and reversal of timing differences	(116)	531
Tax (over)/under provided in previous years	149	189
R&D tax set off	804	(95)
Total deferred tax		
	837	625
Total tax charge / (credit) for the year	987	(308)

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

	2020	*2019*
	£'000	*£'000*
Profit / (Loss) on ordinary activities before tax	437	(6,662)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019: 19%)	83	(1,266)
Effects of:		
Expenses not deductible for tax purposes	217	200
Losses surrendered to the group	-	963
Tax under / (over)provided in previous years	14	(160)
Exempt amounts	436	221
Income not taxable	(19)	(171)
Effect of change in tax rates	256	(95)
Total tax charge / (credit) for year	987	(308)

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

	2020	*2019*
	£'000	*£'000*
Deferred Tax		
Cashflow hedging adjustment	(301)	259
Total tax charge/(credit) for the year	(301)	259

Notes to the financial statements

at 31 December 2020

8. Taxation (continued)

(d) Deferred tax

The deferred taxation asset is as follows:

	2020 *£'000*	*2019* *£'000*
Capital allowances in advance of depreciation	(2,059)	(2,097)
Other timing differences	(96)	(357)
R&D net set off	1,455	2,289
At 31 December 2020	(700)	(165)

From 1 April 2017, the main rate of corporation tax was reduced from 20% to 19%. Deferred tax recognised at the year-end date has been calculated at 19%

The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the ongoing COVID-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were not substantively enacted at the balance sheet date and hence have not been reflected in the measurement of deferred tax balances at the period end. It is not anticipated that these changes will have a material impact on the company's deferred tax balances.

Notes to the financial statements

at 31 December 2020

9. Tangible fixed assets

	Tool and equipment	*Satellites, Plant and machinery*	*Fixtures and fittings*	*Assets in the course of construction*	*Land and Buildings*	*Leasehold imp'ments*	*Total*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Cost:							
At 1 January 2020	5,496	94,815	1,774	701	3,087	7,482	113,355
Additions	224	1,705	-	299	-	-	2,228
Disposals	(45)	(14,448)	-	(61)	-	-	(14,554)
Transfers	99	-	-	(451)	-	303	(49)
At 31 December 2020	5,774	82,072	1,774	488	3,087	7,785	100,980
Depreciation:							
At 1 January 2020	4,541	21,659	1,160	-	1,758	4,829	33,947
Charge for year	433	11,329	156	-	215	689	12,822
Disposals	-	(14,448)	-	-	-	-	(14,448)
At 31 December 2020	4,974	18,540	1,316	-	1,973	5,518	32,321
Net book value:							
At 31 December 2020	800	63,532	458	488	1,114	2,267	68,659
At 1 January 2020	955	73,156	614	701	1,330	2,653	79,409

All land and building are held on a leasehold basis.

Notes to the financial statements

at 31 December 2020

10. Intangible assets

	Software Costs	*Total*
	£'000	*£'000*
Cost:		
At 1 January 2020	5,458	5,458
Additions	67	67
Transfers from tangible fixed assets	49	49
At 31 December 2020	5,574	5,574
Depreciation		
At 1 January 2020	4,406	4,406
Charge for year	594	594
At 31 December 2020	5,000	5,000
Net book value:		
At 31 December 2020	574	574
At 1 January 2020	1,052	1,052

11. Investments

	Other	*Equity held in Subsidiary undertaking*	*Total*
	£'000	*£'000*	*£'000*
Cost:			
At 31 December 2019	471	5,826	6,297
Additions	127	-	127
At 31 December 2020	598	5,826	6,424
Provision:			
At 31 December 2019	-	(5,725)	(5,725)
At 31 December 2020	-	(5,725)	(5,725)
Net book value:			
At 31 December 2020	598	101	699
At 1 January 2020	471	101	572

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

Notes to the financial statements

at 31 December 2020

11. Investments (continued)

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

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

The registered office and trading address of the above subsidiary companies can be obtained from the Company's registered office at Tycho House, Surrey Research Park, Guildford, GU2 7YE. As of 1st June 2021 the Company's 100% owned subsidiary DMC International Imaging Limited has been dissolved.

12. Leases

Right of Use Asset:	*Land & Buildings* *£'000*	*Total* *£'000*
At 31 December 2019	10,099	10,099
Additions	669	669
Depreciation expense	(1,768)	(1,768)
Disposals	(33)	(33)
At 31 December 2020	8,967	8,967

Lease Liability:	*Land & Buildings* *£'000*	*Total* *£'000*
At 31 December 2019	10,187	10,187
Additions	669	669
Accretion of interest	165	165
Payment	(1,854)	(1,854)
Disposals	(33)	(33)
At 31 December 2020	9,134	9,134
Current	1,690	1,690
Non-Current	7,444	7,444

Notes to the financial statements

at 31 December 2020

13. Stocks

	2020	2019
	£'000	£'000
Raw materials and components	2,534	2,783
Work in progress	6,031	7,973
	8,565	10,756

14. Trade and other receivables

	2020	2019
	£'000	£'000
Trade debtors	5,299	9,820
Contract assets	12,155	13,455
Amount owed by group undertakings – parent and fellow subsidiaries (including group relief)	2,044	6,528
Amount owed by subsidiary undertakings	-	1,510
R&D tax receivable	2,711	3,378
Financial instruments – foreign currency contracts	508	2,239
Other debtors	1,352	1,281
Prepayments	2,236	1,875
	26,305	40,086

Amounts falling due after more than one year included above are rental deposits of £1,088k (2019: £1,088k).

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

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

15. Creditors: amounts falling due within one year

	2020	2019
	£'000	£'000
Contract liabilities	47,543	61,672
Trade creditors	4,444	7,247
Amounts owed to group undertakings – parent and fellow subsidiaries	44,152	48,719
Other creditors	4	3
Other taxation & social security	491	504
Accruals	7,114	11,885
	103,748	130,030

Notes to the financial statements

at 31 December 2020

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

Amounts owed to group undertakings above includes short term finance balances of £42,179k (2019: £45,136k) on which interest is charged at a rate linked to bank LIBOR and EURIBOR rates.

£8,262k of revenues recognised in the reporting period were included in the contract liability balance at 1 January 2020.

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

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

16. Provisions

	Deferred Tax Provision £'000	*Restructuring Provision £'000*	*Dilapidation Provision £'000*	*Total £'000*
At 1 January 2020	165	306	3,087	3,558
Additions in year	535	-	-	535
Utilised in year	-	(306)	(125)	(431)
At 31 December 2020	700	-	2,962	3,662
Current	-	-	105	105
Non-Current	700	-	2,857	3,557

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

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

17. Authorised, issued and called up share capital

	2020	*2019*
Allotted, called up and fully paid	*£*	*£*
1,179 "A" Ordinary shares of £0.1p each	1	1
116,739 Ordinary shares of 0.1p each	117	117
	118	118

Notes to the financial statements

at 31 December 2020

18. Pension schemes

The Company operates a defined contribution pension scheme for its directors and employees. The assets of the scheme are held separately from those of the Company in an independently administered fund. The unpaid contributions outstanding at the year end, included in 'Creditors: amounts falling due in one year' are £196k (2019: £208k).

The Company also makes contributions to the parent company's defined benefit pension scheme. The unpaid contributions outstanding at the year end, included in 'Creditors: amounts falling due within one year' are £nil (2019: £nil).

19. Derivatives

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

	2020	*2019*
	£'000	*£'000*
Foreign forward currency contracts	508	2,239

20. Post balance sheet events

Since the year end the Company's 100% owned subsidiary DMC International Imaging Limited has been dissolved. The Company was dissolved by voluntary strike-off, this is a non-adjusting post balance sheet event and there are no balances recorded by the Company that require impairment as a result of this event.

21. Ultimate parent undertaking and controlling party

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