

## **Airbus Defence and Space Limited**

Annual Report and Financial Statements  
for the year ended 31 December 2018

Registered number: 2449259



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## Corporate Information

### **Directors**

C. Paynter

N.R Ede

J.B. Whitehead

### **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 2018

The Directors present their strategic report for the year ended 31 December 2018.

### Business review

The profit for the year, after taxation is £18,095,000 (2017 Restated £16,810,000).

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

- the design, manufacture and supply of satellite equipment and satellite ground stations.
- the sale of geospatial products and services and the delivery of services from the Skynet 5 satellites to the MOD.
- delivering mobile voice communications, multimedia based communication and broadcast communications:- and
- the provision of secure communications and cyber security services.

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

	2018 £'000	2017 £'000 Restated	Change %
Turnover	1,063,257	934,997	+14
Operating profit	66,203	14,956	+343
Shareholders' funds	242,886	191,657	+27
Order intake	537,662	787,529	-32
Net cash	<u>46,275</u>	<u>126,334</u>	-63

## Strategic report (continued)

For the year ended 31 December 2018

The turnover for business increased by 14% during the year.

The business reported an increase in operating profit of 343% in the year.

Overall shareholders' funds increased in the year by £51.2m. This increase is mostly due to the profit for the financial year and actuarial gains arising on the pension scheme.

The overall order intake shows a 32% decrease largely due to orders within Earth Observation being lower than in 2017.

The 2017 profit figure has been restated due to IFRS 15, this resulted in an impact of £41.4m.

Net cash at year end is made up as follows:

	Note	2018 £'000	2017 £'000
Loan to parent undertaking	14	184,970	115,339
Loan from parent undertaking	15	(157,238)	(8,695)
Cash at bank and in hand		18,543	19,690
Total net cash		46,275	126,334

### Future developments

The directors consider that during 2019 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 stable due to current world market conditions. The new Skynet 5 generation of satellites have increased the bandwidth capacity immediately available to meet future market demands.

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.

## Strategic report (continued)

For the year ended 31 December 2018

The impact of Brexit on the Company and our stakeholders, together with the uncertainties this brings, continues to be an area of concern.

- 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 the loan securitisation which formed part of the original Skynet 5 financing arrangements.

- Credit, liquidity 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 14 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 and cash flow risks faced.

By order of the Board



Alan Shaw  
Secretary  
8<sup>th</sup> March 2019

## Directors' report

For the year ended 31 December 2018

**Registered Number: 2449259**

The directors present their report for the year ended 31 December 2018.

### Dividends

The Directors do not recommend the payment of a dividend (2017 – nil).

### Directors of the Company

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

C. Paynter

N.R. Ede

J.B. Whitehead

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. There was no impact to the hedging policies as a result of IFRS 9 due to the Company already being compliant in this respect.

### 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 £41,971,000 (2017 - £29,928,000).

## Directors' report (continued)

For the year ended 31 December 2018

### 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 Company participates in the parent company, Airbus S.E, centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiary undertakings. The directors having made appropriate enquiries and reviewed the financial position of the Company and its parent undertaking, expect that the company will have continued access to the group banking facilities for working capital funding and will be able to continue in operational existence for the foreseeable future. The financial statements have therefore been prepared on the going concern basis.

### 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/she is obliged to take as a director in order to make himself/herself 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



Alan Shaw  
Secretary

Registered address:  
Gunnels Wood Road  
Stevenage  
Hertfordshire  
SG1 2AS  
8<sup>th</sup> March 2019



## Statement of Directors' Responsibilities

For the year ended 31 December 2018

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:

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

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.

# 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 31 December 2018 which comprise Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, the Balance Sheet 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 including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

## **In our opinion, the financial statements:**

- give a true and fair view of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## **Basis for opinion**

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

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

## **Conclusions relating to going concern**

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

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

# 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.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

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

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

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

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

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

## Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 7, 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.

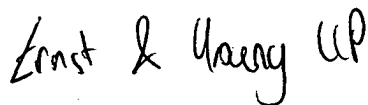
## Independent auditor's report to the members of Airbus Defence and Space Limited

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

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

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

A handwritten signature in black ink, appearing to read 'Ernst & Young LLP'.

John Howarth (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Bristol  
Date 8 MARCH 2019

# Income statement

For the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000 Restated
<b>Turnover</b>	3	1,063,257	934,997
Cost of sales		<u>(885,649)</u>	<u>(818,027)</u>
<b>Gross profit</b>		177,608	116,970
Other operating expenses:			
- administration expenses		(104,922)	(93,139)
- distribution costs		<u>(6,483)</u>	<u>(8,875)</u>
<b>Operating profit</b>	4	<u>66,203</u>	<u>14,956</u>
Interest receivable and similar income	7	279	160
Interest payable and similar cost	8	(22,334)	(30,009)
Impairment charge against investments	12	(20,100)	(27,019)
Dividend income received	12	2,721	56,004
		<u>(39,434)</u>	<u>(864)</u>
<b>Profit on ordinary activities before taxation</b>		26,769	14,092
Tax (charge)/credit on profit on ordinary activities	9	<u>(8,674)</u>	<u>2,718</u>
<b>Profit for the financial year</b>	21	<u>18,095</u>	<u>16,810</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 2018

	Note	2018 £'000	2017 £'000 Restated
<b>Profit for the financial year</b>		18,095	16,810
<b>Other comprehensive income:</b>			
Actuarial gain relating to pension scheme	19	4,900	24,200
Cash flow hedges		(12,033)	21,010
Tax on items relating to other comprehensive income		(833)	(4,114)
<b>Other comprehensive income for the year</b>		<u>(7,966)</u>	<u>41,096</u>
<b>Total comprehensive income for the year</b>		<u>10,129</u>	<u>57,906</u>

## Statement of changes in equity

For the year ended 31 December 2018

	Share capital	Share Premium	Cash flow hedge reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000
At 1 January 2017	29,282	-	(19,456)	123,925	133,751
Profit for the financial year	-	-	-	58,211	58,211
Actuarial gain recognised in pension scheme	-	-	-	24,200	24,200
Movement on cash flow hedges	-	-	21,010	-	21,010
Deferred tax	-	-	-	(4,114)	(4,114)
At 31 December 2017	29,282	-	1,554	202,222	233,058
Effect of adoption of new accounting standard (Note 2.4)	-	-	-	(41,401)	(41,401)
At 31 December 2017 (restated)	29,282	-	1,554	160,821	191,657
Profit for the financial year	-	-	-	18,095	18,095
Issue of shares	-	41,100	-	-	41,100
Actuarial gain recognised in pension scheme	-	-	-	4,900	4,900
Movement on cash flow hedges	-	-	(12,033)	-	(12,033)
Deferred tax	-	-	-	(833)	(833)
At 31 December 2018	29,282	41,100	(10,479)	182,983	242,886

The restatement impact of IFRS 15 on the opening position of the statement of changes in equity, 1 January 2017, does not have a material impact on the financial statements

# Balance Sheet

For the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
<b>Fixed assets</b>			Restated
Intangible assets	10	3,237	2,883
Tangible assets	11	637,602	773,180
Investments	12	53,094	31,524
		<u>693,933</u>	<u>807,587</u>
<b>Current assets</b>			
Stocks	13	85,228	19,797
Debtors due within one year	14	366,466	314,203
Debtors due in more than one year	14	68,346	84,025
Contract assets	17	102,385	26,085
Cash at bank and in hand		18,543	19,690
		<u>640,968</u>	<u>463,800</u>
<b>Creditors: amounts falling due within one year</b>	15	(608,486)	(408,467)
<b>Contract liabilities</b>	17	(190,792)	(182,650)
<b>Net current liabilities</b>		<u>(158,310)</u>	<u>(127,317)</u>
<b>Total assets less current liabilities</b>		535,623	680,270
<b>Creditors: amounts falling due after more than one year</b>	16	(182,070)	(340,434)
<b>Provisions for liabilities and charges</b>	18	(1,867)	(4,679)
<b>Net assets before pension deficit</b>		<u>351,686</u>	<u>335,157</u>
<b>Pension deficit</b>	19	(108,800)	(143,500)
<b>Net assets including pension deficit</b>		<u>242,886</u>	<u>191,657</u>
<b>Capital and reserves</b>			
Called-up share capital	20	29,282	29,282
Share Premium	20	41,100	-
Cash flow hedge reserve	21	(10,479)	1,554
Retained earnings		182,983	160,821
<b>Shareholders' funds</b>		<u>242,886</u>	<u>191,657</u>

Approved by the Board of Directors on 8<sup>th</sup> March 2019 and signed on its behalf by:

Colin Paynter  
Director



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



# Notes to the financial statements

For the year ended 31 December 2018

## 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 2018 were authorized for issue by the board of directors on 8<sup>th</sup> March 2019 and the balance sheet was signed on the board's behalf by Colin Paynter. 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 2.

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 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), 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;

## Notes to the financial statements

For the year ended 31 December 2018

### 2.1 Basis of preparation (continued)

- 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.

### 2.2 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.

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 2018

### 2.2 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 19.

#### *Impairment of subsidiary investments*

Determine 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.

### 2.3 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.

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

## Notes to the financial statements

For the year ended 31 December 2018

### 2.3 Significant accounting policies (continued)

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 amortised over the useful economic life of the related assets, up to a maximum of 10 years.

#### *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.

#### *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:

## Notes to the financial statements

For the year ended 31 December 2018

### 2.3 Significant accounting policies (continued)

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

The carrying amount of deferred income 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.

#### *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.

## Notes to the financial statements

For the year ended 31 December 2018

### 2.3 Significant accounting policies (continued)

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.

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.

## Notes to the financial statements

For the year ended 31 December 2018

### 2.3 Significant accounting policies (continued)

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) Leases*

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the assets are classified as operating leases and rentals payable are charged in the income statement on a straight line basis over the lease term.

#### *k) Revenue recognition*

Airbus Defence and Space Limited has adopted the full retrospective method of IFRS 15 for the first time in these financial statements.

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 PoC 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.

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.

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.

## Notes to the financial statements

For the year ended 31 December 2018

### 2.3 Significant accounting policies (continued)

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.

#### *1) Financial assets and financial liabilities*

##### *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.

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.

##### *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 2018

### 2.3 Significant accounting policies (continued)

#### *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.

#### *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.

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

## Notes to the financial statements

For the year ended 31 December 2018

### 2.4 Change in Accounting Policies and Disclosures

#### IFRS 9 Financial Instruments

In 2017, an assessment of the Company's hedge strategy was performed to validate the compliance of the hedge strategy with IFRS 9 and potential impact. It was concluded that the Company's existing strategy was IFRS 9 compliant, and that apart from small changes for disclosure purpose, and where we used options we could continue with our hedging policies. In particular, this was assessed for ADS PUR hedge strategy.

#### Initial adoption of IFRS 15 Revenue from Contracts with Customers

The standard has an effective date of 1 January 2018 but the Company has decided to adopt this standard with a date of initial application to the Company of 31 December 2017 using the full retrospective method.

The Company has applied IFRS 15 fully retrospectively in accordance with paragraph C3 (a) of the standard, restating the prior period's comparatives and electing to use the following expedients:

-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))

Details of the change in the Company's accounting policy in respect of revenue recognition, related matters consequent upon early adoption of IFRS 15 and an explanation of the impact on the Company's prior period financial statements are set out in note 27.

## Notes to the financial statements

For the year ended 31 December 2018

### 2.4 Change in Accounting Policies and Disclosures (continued)

New, Revised or Amended IFRS Standards and Interpretations Issues but not yet Applied.

A number of new or revised standards, amendments and improvements to standards as well as interpretations are not yet effective for the year ended 31 December 2018 and have not been applied in preparing this Report and Financial Statements. involving the Legal Form of a Lease.

#### IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-incentives and SIC-27 Evaluating the Substance of Transactions.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. At the commencement date of the lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of –use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

#### Transition to IFRS 16

The Group plans to adopt IFRS retrospectively to each reporting period in 2019. The group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4.

## Notes to the financial statements

For the year ended 31 December 2018

### 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 services from the Skynet 5 satellites to the Ministry of Defence, and other customers, which 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:

	2018 £'000	2017 £'000
		Restated
United Kingdom	443,320	381,488
Remainder of Europe	525,405	379,006
The Americas	78,985	153,150
Asia	-	363
The Middle East	11,378	18,026
Africa	1,221	2,449
Australia	2,948	515
	<u>1,063,257</u>	<u>934,997</u>

## Notes to the financial statements

For the year ended 31 December 2018

### 4 Operating profit

This is stated after charging / (crediting):

	2018 £'000	2017 £'000
Depreciation of tangible fixed assets:		
- owned assets	173,706	173,445
Amortisation of intangible assets	1,421	1,004
Research and development costs	41,971	29,928
Operating lease charges:		
- land and buildings	3,056	3,403
- plant and machinery/office equipment	1,628	2,077
R&D tax credit (income)	<u>(12,995)</u>	<u>(14,346)</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.

	2018 £'000	2017 £'000
Audit of the financial statements	313	275
Other service fees	<u>8</u>	<u>24</u>

## Notes to the financial statements

For the year ended 31 December 2018

### 6 Staff costs and directors' remuneration

<i>a) Staff costs</i>	2018 £'000	2017 £'000
Wages and salaries	165,781	156,316
Social security costs	18,704	17,883
Pension costs (see note 19):		
- Current service costs	<u>59,700</u>	<u>59,900</u>
	<u>244,185</u>	<u>234,099</u>

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

	2018 Number	2017 Number
Engineering and project staff	2,531	2,451
Administration, contracts and finance staff	<u>469</u>	<u>470</u>
	<u>3,000</u>	<u>2,921</u>

<i>b) Directors' remuneration</i>	2018 £'000	2017 £'000
Aggregate emoluments	755	700
Company contributions payable to pension schemes	<u>169</u>	<u>143</u>
	<u>924</u>	<u>843</u>

Amounts in respect of highest paid director:

- Emoluments	518	475
- Company contributions payable to pension schemes	98	86
- Value of accrued pension	224	217

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

During the year no directors were granted stock options under the Airbus S.E. long term incentive scheme (2017 – no Directors).

# Notes to the financial statements

For the year ended 31 December 2018

## 7 Interest receivable

	2018 £'000	2017 £'000
Amounts receivable from parent undertaking	<u>279</u>	<u>160</u>

## 8 Interest payable

	2018 £'000	2017 £'000
Amounts payable to parent undertaking	(218)	(428)
Other interest costs	(3,999)	(3,252)
Other finance cost – pension scheme	(2,700)	(3,900)
Finance costs relating to interest rate swaps	<u>(15,417)</u>	<u>(22,429)</u>
Total interest expense	<u>(22,334)</u>	<u>(30,009)</u>

# Notes to the financial statements

For the year ended 31 December 2018

## 9 Taxation

	2018 £'000	2017 £'000 Restated
<i>(a) Tax charged in the income statement</i>		
<b>Current Income tax:</b>		
UK corporation tax	(2,643)	(2,880)
Prior year losses surrendered for group relief	-	281
<b>Total current income tax</b>	<b>(2,643)</b>	<b>(2,599)</b>
<b>Deferred Tax:</b>		
Origination and reversal of temporary differences	(6,118)	3,870
Amounts over provided in previous years	87	1,447
<b>Total deferred tax</b>	<b>(6,031)</b>	<b>5,317</b>
<b>Total tax (charge)/credit in the income statement</b>	<b>(8,674)</b>	<b>2,718</b>
<i>(b) Tax relating to items charged or credited to other comprehensive income:</i>		
<b>Current Tax:</b>		
Total current income tax	-	-
<b>Deferred tax:</b>		
Actuarial gains on defined benefit pension plans	(833)	(4,114)
<b>Total deferred tax</b>	<b>(833)</b>	<b>(4,114)</b>
<b>Total deferred tax in the statement of other comprehensive income</b>	<b>(833)</b>	<b>(4,114)</b>



## Notes to the financial statements

For the year ended 31 December 2018

### 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% (2017 19.25%).

The differences are reconciled below:

	2018 £'000	2017 £'000 Restated
Accounting profit before tax	26,769	14,092
Tax calculated at UK standard rate of corporation tax in the UK of 19.00% (2017 19.25%)	(5,086)	(2,713)
Disallowed expenses and non-taxable income	(1,317)	7,002
Change in tax laws and rate	285	(419)
Research & Development relief	(2,626)	(2,869)
Overseas taxes	(16)	(11)
Prior year adjustment	86	1,728
Total tax (charge)/credit reported in the income statement	(8,674)	2,718

#### *(d) Unrecognized tax losses*

The company has tax losses which arose in the UK of £488m (2017 £509m) that are available indefinitely for offset against taxable profits. A deferred tax asset has not been recognised in respect of £259m of these losses as there is uncertainty over their recoverability.

#### *(e) Change in Corporation Tax rate*

During 2016, the Finance Act 2016 was enacted and included legislation to reduce the main rate of corporation tax to 17% from 1 April 2020. As this change was substantively enacted at the balance sheet date, deferred tax is recognised at 17% at the year-end date.

## Notes to the financial statements

For the year ended 31 December 2018

### 9 Taxation (continued)

*(f) The deferred tax assets/(liabilities) included in the balance sheet is as follows:*

	2018 £'000	2017 £'000 Restated
Accelerated capital allowances	(2,110)	(8,934)
General provisions	1,012	1,795
Pensions	18,822	24,735
Tax losses carried forward	38,976	42,432
Research & development expenditure credit	8,177	11,713
	<u>64,877</u>	<u>71,741</u>
<b>Disclosed on the balance sheet</b>		
Deferred tax asset	<u>64,877</u>	<u>71,741</u>

## Notes to the financial statements

For the year ended 31 December 2018

### 10 Intangible fixed assets

	Software costs £'000	Development expenditure £'000	Total £'000
<b>Cost</b>			
At 1 January 2018	6,530	5,117	11,647
Additions	431	1,344	1,775
At 31 December 2018	6,961	6,461	13,422
<b>Amortisation</b>			
At 1 January 2018	4,796	3,968	8,764
Charge for the year	969	452	1,421
At 31 December 2018	5,765	4,420	10,185
<b>Net book value</b>			
At 31 December 2018	1,196	2,041	3,237
At 31 December 2017	1,734	1,149	2,883

# Notes to the financial statements

For the year ended 31 December 2018

## 11 Tangible fixed assets

	Land and buildings £'000	Technical equipment £'000	Office equipment £'000	Assets under the course of construction £'000	Total £'000
<b>Cost</b>					
At 1 January 2018	46,978	2,185,199	126,576	35,581	2,394,334
Additions	448	16,561	9,334	12,145	38,488
Disposals	-	(1,135)	(24,723)	-	(25,858)
Transfers	801	5,742	(705)	(5,838)	-
At 31 December 2018	<u>48,227</u>	<u>2,206,367</u>	<u>110,482</u>	<u>41,888</u>	<u>2,406,964</u>
<b>Depreciation</b>					
At 1 January 2018	32,434	1,479,871	108,849	-	1,621,154
Charge for the year	2,004	163,366	8,336	-	173,706
Disposals	-	(775)	(24,723)	-	(25,498)
Transfer	310	-	(310)	-	-
At 31 December 2018	<u>34,748</u>	<u>1,642,462</u>	<u>92,152</u>	<u>-</u>	<u>1,769,362</u>
<b>Net book value</b>					
At 31 December 2018	<u>13,479</u>	<u>563,905</u>	<u>18,330</u>	<u>41,888</u>	<u>637,602</u>
At 31 December 2017	<u>14,544</u>	<u>705,328</u>	<u>17,727</u>	<u>35,581</u>	<u>773,180</u>

Included in land and buildings above is £8,598,662 (2017: £9,130,538) relating to the net book value of long leasehold property.

## Notes to the financial statements

For the year ended 31 December 2018

### 12 Investments

	Cost £'000	Provisions £'000	Total £'000
<b>Shares in subsidiary undertakings:</b>			
At 1 January 2018	58,034	(27,019)	31,015
Additions (1)	41,100	-	41,100
Impairment (2)	-	(20,100)	(20,100)
	<hr/>	<hr/>	<hr/>
At 31 December 2018	99,134	(47,119)	52,015
	<hr/>	<hr/>	<hr/>
<b>Other investments:</b>			
At 1 January 2018	509	-	509
Additions (3)	570	-	570
	<hr/>	<hr/>	<hr/>
At 31 December 2018	1,079	-	1,079
	<hr/>	<hr/>	<hr/>
At 31 December 2018	<u>100,213</u>	<u>(47,119)</u>	<u>53,094</u>

(1) There was a recapitalisation of SSTL by Airbus Defence and Space Holdings BV for £30MGBP in cash on 9<sup>th</sup> May 2018 before it was acquired by Airbus Defence and Space Limited on 18<sup>th</sup> May 2018 through a share for share exchange. (Airbus Defence and Space Limited issued 1 share for £41.1 MGBP to that company)

(2) Having performed a valuation of the SSTL shares at year end 2018, an impairment charge of £20.1m was made.

(3) During the year, Airbus Defence and Space Limited made an investment of £570,000 in Seraphim Space Fund.

## Notes to the financial statements

For the year ended 31 December 2018

### 12 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>				
<i>Name</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
Airbus DS Operations & Services Limited	Outsourced services management	3	100 percent	England
GPT Special Project Management Limited	Project management	4	100 percent*	England
Cassidian Cybersecurity Limited	Information assurance and managed IT security services	5	100 percent	England
Surrey Satellite Technology Limited	Satellite Communications	6	100 percent	England
Airbus DS (Satcom Australia) Pty Ltd	Satellite Communications	7	100 percent	Australia

\* 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: 21 Holborn Viaduct, London, EC1A 2DY

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

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

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

A dividend was received in 2018 of £2,721,000 (2017: £1,996,000) from Airbus Defence and Space AS

## Notes to the financial statements

For the year ended 31 December 2018

### 13 Stocks

	2018 £'000	2017 £'000 Restated
Finished goods available for resale	34,904	13,894
Raw materials and consumables	4,815	5,903
Long-term contract work in progress balances (at net cost less foreseeable losses)	45,509	-
	<u>85,228</u>	<u>19,797</u>

### 14 Debtors

Amounts falling due within one year:

	2018 £'000	2017 £'000 Restated
Trade debtors	106,346	63,474
Financial instruments	8,679	15,322
Amounts due from fellow subsidiary undertakings	26,800	65,157
Advance payments made	9,576	20,350
Accrued income	2,545	13,455
Loan to parent undertaking	184,970	115,339
Other debtors	18,395	13,660
Prepayments	9,155	7,446
	<u>366,466</u>	<u>314,203</u>

## Notes to the financial statements

For the year ended 31 December 2018

### 14 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 £8,679,000 (2017 £15,322,000).

	2018 £'000	2017 £'000
Amounts due after more than one year:		
Financial Instruments	3,469	12,284
Deferred tax (see Note 9)	64,877	71,741
	<u>68,346</u>	<u>84,025</u>

Financial instruments above include the fair value of interest rate swaps of £3,469,000 (2017 £12,284,000) which fall due after more than one year.

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

	2018 £'000	2017 £'000
		Restated
Payments received on account	195,228	196,340
Trade creditors	113,831	21,857
Amounts due to fellow subsidiary undertakings	78,126	99,917
Loan from parent undertaking	157,238	8,695
Financial Instruments	8,698	16,640
Other taxation and social security	18,919	18,364
Other creditors and accruals	36,446	46,654
	<u>608,486</u>	<u>408,467</u>



## Notes to the financial statements

For the year ended 31 December 2018

### 15 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 £8,679,000 (2017 £15,322,000) and forward currency contracts of £19,000 (2017 £1,318,000).

### 16 Creditors: amounts falling due after one year

	2018 £'000	2017 £'000
Advances received	178,398	325,516
Other creditors	158	2,468
Financial Instruments	3,514	12,450
	<u>182,070</u>	<u>340,434</u>

Other creditors above includes £158,000 (2017: £2,243,000) payable in two to five years and £nil (2017: £nil) payable in over five years.

Financial instruments above include the fair value of interest rate swap of £3,469,000 (2017 £12,284,000) and forward currency contracts of £45,000 (2017: £166,000) which fall due after more than one year.

## Notes to the financial statements

For the year ended 31 December 2018

### 17 Contract asset and liability

	2018 £'000	2017 £'000
Contract asset	102,385	26,085
Contract liability	(190,792)	(182,650)

Revenue recognised in the period from:

Amounts included in contract liability at the beginning of the period	136,725	86,246
Performance obligations satisfied in previous periods	-	(1,371)

Contract assets have increased significantly in the reporting period. Much of this is due to costs which are accrued at year end and are attributable to contracts. Additionally there were other major contracts that contributed to an increase where the progress of work was ahead of payment milestones.

### 18 Provisions for liabilities and charges

	Restructuring provision £'000	Other Provisions £'000	Total £'000
At 1 January 2018	3,361	1,318	4,679
Provisions arising during the year	354	586	940
Provisions utilised during the year	(240)	-	(240)
Provisions released during the year	(3,270)	(242)	(3,512)
At 31 December 2018	<u>205</u>	<u>1,662</u>	<u>1,867</u>

The restructuring provision relates to expected redundancy and other costs relating to the Company restructuring plans.

Other provisions comprise £1,253,000 (2017 - £1,194,000) in respect of future liabilities under Airbus employee Long Term Incentive Plan scheme (a cash settled scheme), and £409,000 (2017 - £124,000) in respect of other liabilities.

## Notes to the financial statements

For the year ended 31 December 2018

### 19 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:

	2018 £'000	2017 £'000
Equities	449,000	393,100
Index-linked gilts	248,200	258,600
Illiquid credit and inflation opportunities	116,200	112,400
Property	83,100	76,800
Schedule 1 retirement accounts	69,200	70,000
Cash and other assets	3,400	5,500
Fair value of scheme assets	969,100	916,400
Present value of scheme liabilities	(1,077,900)	(1,059,900)
Defined benefit pension plan deficit	(108,800)	(143,500)

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

## Notes to the financial statements

For the year ended 31 December 2018

### 19 Pensions (continued)

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

#### Recognised in the Income Statement

	2018	2017
	£'000	£'000
Current service cost	(59,700)	(59,900)
Net interest on net defined benefit liability	(2,700)	(3,900)

#### Taken to the Statement of Comprehensive Income

	2018	2017
	£'000	£'000
Return on plan assets (excluding amounts included in net interest)	(41,600)	51,300
Actuarial changes arising from changes in financial assumptions	46,500	(27,100)
Recognised in the Statement of Comprehensive Income	4,900	24,200

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

#### Defined benefit obligation

	2018	2017
	£'000	£'000
Deficit benefit liability at the end of the prior year	(143,500)	(171,700)
Net benefit expense for the year	(62,500)	(63,800)
Employer contributions	92,300	67,800
Gain recognised via the statement of comprehensive income	4,900	24,200
Deficit benefit liability at the end of the current year	(108,800)	(143,500)

## Notes to the financial statements

For the year ended 31 December 2018

### 19 Pensions (continued)

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

	2018	2017	2016
Main year-end assumptions used:			
Rate of salary increases	2.60%	2.55%	2.60%
Rate of increase in pensions in payment	3.00%	2.95%	3.00%
Rate of increase for deferred pensioners	2.10%	2.05%	2.10%
Discount rate	2.75%	2.50%	2.70%
Rate of inflation (RPI)	3.10%	3.05%	3.10%
Rate of inflation (CPI)	2.10%	2.05%	2.10%
Post retirement mortality:			
	113% (Schedule 1), 87% (Schedule 2 and 3) x S2PXA	113% (Schedule 1), (Schedule 2 and 3) x S2PXA	113% (Schedule 1), (Schedule 2 and 3) x S2PXA
- current rates			
- allowance for future improvements	CMI 2015 improvements with a long term rate of 1.5% pa 2016, CMI 2017 improvements with a long term rate of 1.5% pa	CMI 2015 improvements with a long term rate of 1.5% pa 2016, CMI 2016 improvements with a long term rate of 1.5% pa	CMI 2015 improvements with a long term rate of 1.5% 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 2.0%,
- 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 0.75%,

The total employer contributions to the scheme in 2018 are expected to be £50,900,000. The Company estimates the present value of the duration of the scheme liabilities on average fall due in approximately 24 years.

# Notes to the financial statements

For the year ended 31 December 2018

## 20 Share capital & Share Premium

Share Capital	2018 £'000	2017 £'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	2018 £'000	2017 £'000
Issue of shares	41,100	-
	<u>41,100</u>	<u>-</u>

## Notes to the financial statements

For the year ended 31 December 2018

### 21 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.

### 22 Capital commitments

	2018 £'000	2017 £'000
Capital expenditure that has been contracted for but not provided for in the financial statements	22,062	4,343

### 23 Contingent liabilities and financial commitments

The Company had contingent liabilities arising in the course of normal activity in respect of contract related guarantees at 31 December 2018 of £3,194,965 (2017 - £4,231,023).

Future minimum rentals payable under non-cancellable operating leases are as follows:

	31 December 2018		31 December 2017	
	Land and Buildings £'000	Plant and Machinery £'000	Land and Buildings £'000	Plant and Machinery £'000
Operating leases which expire:				
- within one year	2,608	857	2,931	1,351
- in the second to fifth years inclusive	8,045	1,131	11,779	1,220
- after 5 years	1,818	-	77	-
	<u>12,471</u>	<u>1,988</u>	<u>14,787</u>	<u>2,571</u>

## Notes to the financial statements

For the year ended 31 December 2018

### **24 Share based payments**

#### **Long-term incentive plan**

Annually from 2008 to 2018 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 four equal quarters every 6 months, commencing in the May following the third anniversary of the grant date.

#### **25 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.

#### **26 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.



# Notes to the financial statements

For the year ended 31 December 2018

## 27 Financial Statements Restatement under IFRS 15

The Company adopted IFRS 15 Revenue from Contracts with Customers on 31 December 2017 using the full retrospective method. This note details the Company's new accounting policy for revenue and shows the impact of the adoption of IFRS 15 on the Company's primary financial statements.

### income statement restatement under IFRS15

	As reported year ended 31 December 2017 £'000	Impact of IFRS 15 £'000	Restated year end 31 December 2017 £'000
<b>Turnover</b>	1,073,651	(138,654)	934,997
<b>Cost of sales</b>	(906,289)	88,262	(818,027)
<b>Gross profit</b>	167,362	(50,392)	116,970
Other operating expenses:			
- administration expenses	(93,139)	-	(93,139)
- distribution costs	(8,875)	-	(8,875)
<b>Operating profit</b>	65,348	(50,392)	14,956
Interest receivable and similar income	160	-	160
Interest payable and similar cost	(30,009)	-	(30,009)
Impairment charge against investments	(27,019)	-	(27,019)
Dividend income received	56,004	-	56,004
	(864)	-	(864)
<b>Profit on ordinary activities before taxation</b>	64,484	(50,392)	14,092
Tax (charge)/credit on profit on ordinary activities	(6,273)	8,991	2,718
<b>Profit for the financial year</b>	58,211	(41,401)	16,810

# Notes to the financial statements

For the year ended 31 December 2018

## Consolidated balance sheet restatement under IFRS15

	Notes	As reported 31 December 2017 £'000	IFRS 15 Impact £'000	Restated 31 December 2017 £'000
<b>Fixed assets</b>				
Intangible assets		2,883	-	2,883
Tangible assets		773,180	-	773,180
Investments		31,524	-	31,524
		<u>807,587</u>	<u>-</u>	<u>807,587</u>
<b>Current assets</b>				
Stocks		78,387	(58,590)	19,797
Debtors due within one year		314,203	-	314,203
Debtors due in more than one year		75,034	8,991	84,025
Contract assets		-	26,085	26,085
Cash at bank and in hand		19,690	-	19,690
		<u>487,314</u>	<u>(23,514)</u>	<u>463,800</u>
<b>Creditors: amounts falling due within one year</b>		<u>(573,230)</u>	<u>164,763</u>	<u>(408,467)</u>
<b>Contract liabilities</b>		<u>-</u>	<u>(182,650)</u>	<u>(182,650)</u>
<b>Net current liabilities</b>		<u>(85,916)</u>	<u>(41,401)</u>	<u>(127,317)</u>
<b>Total assets less current liabilities</b>		<u>721,671</u>	<u>(41,401)</u>	<u>680,270</u>
<b>Creditors: amounts falling due after more than one year</b>		<u>(340,434)</u>	<u>-</u>	<u>(340,434)</u>
<b>Provisions for liabilities and charges</b>		<u>(4,679)</u>	<u>-</u>	<u>(4,679)</u>
<b>Net assets before pension deficit</b>		<u>376,558</u>	<u>(41,401)</u>	<u>335,157</u>
<b>Pension deficit</b>		<u>(143,500)</u>	<u>-</u>	<u>(143,500)</u>
<b>Net assets including pension deficit</b>		<u>233,058</u>	<u>(41,401)</u>	<u>191,657</u>
<b>Capital and reserves</b>				
Called-up share capital		29,282	-	29,282
Cash flow hedge reserve		1,554	-	1,554
Retained earnings		202,222	(41,401)	160,821
<b>Shareholders' funds</b>		<u>233,058</u>	<u>(41,401)</u>	<u>191,657</u>