

Airbus Defence and Space Limited

Annual Report and Financial Statements for the year ended 31 December 2021

Registered number: 2449259



Contents

Corporate Information	1
Strategic report	2-5
Directors' report	6-9
Statement of Directors' responsibilities	10
Independent auditor's report to the members of Airbus Defence and Space Limited	11-14
Income statement	15
Statement of comprehensive income	16
Statement of changes in equity	17
Balance sheet	18
Notes to the financial statements	19-52

Corporate Information

Directors

R. Franklin

N.R. Ede

B.L. Bridge

Secretary

A. Shaw

Auditors

Ernst & Young LLP

The Paragon

Counterslip

Bristol

BS1 6BX

Registered Office

Gunnels Wood Road

Stevenage

Hertfordshire

SG1 2AS

Strategic report

For the year ended 31 December 2021

The Directors present their strategic report for the year ended 31 December 2021.

Section 172 Statement

In line with the Companies Act requirement for periods commencing on or after 1 January 2019, the Directors set out below their key considerations and steps taken with regard to the 'enlightened shareholder value' requirements of s172 in performing their duties.

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

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

Strategic report (continued)

For the year ended 31 December 2021

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

Business review

The profit for the year, after taxation is £62,978,000 (2020 profit £16,700,000).

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

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

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

	2021 £'000	2020 £'000	Change %
Turnover	1,046,726	915,631	+14
Operating Profit	77,793	41,376	+88
Shareholders' funds	300,393	113,774	+164
Order intake	591,130	1,434,027	-59
Net Cash	<u>4,129</u>	<u>22,748</u>	-82

Strategic report (continued)

For the year ended 31 December 2021

The turnover for the business increased by 14% during the year mainly due to the Telecoms satellites business largely driven by revenue from satellite launches.

The business reported an increase in operating profit of 88% in the year. This was driven mainly by the higher volume of turnover, and a reduction in administration expenses.

Overall shareholders' funds increased in the year by £186.62m. This increase is driven by actuarial gains arising on the pension scheme together with the profit on the increased turnover.

The overall order intake shows a 59% decrease due to an exceptionally high order intake in 2020.

Net cash at year end is made up as follows:

	Note	2021 £'000	2020 £'000
Loan to parent undertaking	15	57,606	46,933
Loan from parent undertaking	16	(53,838)	(32,559)
Cash at bank and in hand		361	8,374
Total Net Cash		<u>4,129</u>	<u>22,748</u>

Future developments

The directors consider that during 2022 the overall satellite and related space industry will remain challenging and that no significant changes in the market are expected.

Principal risks and uncertainties

- Competitive Risks

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

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

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

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

Strategic report (continued)

For the year ended 31 December 2021

- Financial Instruments Risks

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

- Credit, liquidity, interest rate and cash flow risk

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

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

By order of the Board



A Shaw

Secretary

4th July 2022

Directors' report

For the year ended 31 December 2021

Registered Number: 2449259

The Directors present their report for the year ended 31 December 2021.

Dividends

The Directors do not recommend the payment of a dividend (2020 – nil).

Directors of the Company

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

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

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

J.B. Whitehead resigned 30 April 2022.

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

Financial Instruments

The Company finances its activities with a combination of group loans, and cash and short term deposits. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the Company's operating activities. The Company also enters into derivative transactions, including principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency risk arising from the Company's operations and its sources of finance.

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

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

Research and development

The Company continues to be committed to research and development activities and total self-funded expenditure for the year under review amounted to £32,227,000 (2020 - £32,569,000).

Directors' report (continued)

For the year ended 31 December 2021

Employment of disabled people and employee involvement

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

Going Concern

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

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

The Company participates in the parent company, Airbus S.E, centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiary undertakings.

Airbus SE Treasury have confirmed support for a period of at least the next 12 months to 30 June 2023 to support the Net Current Liability position at 31 December 2021. The Group Treasury have confirmed that they are operating within this arrangement, up to the limit of €265,000,000, and are forecast to do so throughout the going concern outlook period. The Directors have performed forecasts for a period of 12 months to 30 June 2023 and have concluded that they will not need to utilise the full facility at any point.

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

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

Streamlined Energy & Carbon Reporting Framework

The Company is committed to improving its environmental footprint and is undertaking activities framed within the UN Sustainable Development Goals. The Science Based Target method has been used to set improvement goals for energy, CO2 emissions, and water use. In addition to clear annual targets for each site, local sustainability teams have been set up at all large sites to develop initiatives and maintain progress. In the UK all sites are certified to ISO 14001:2015.

Airbus has continued to meet the reducing milestone targets set out in Climate Change Agreements sites.

Directors' report (continued)
For the year ended 31 December 2021

UK Greenhouse gas emissions and energy use data for period 1 January 2021 to 31 December 2021:

Emissions Source	Energy Consumption (kWh)	CO₂e (tonnes)
Scope 1 – Natural Gas and Company Vehicle Fuel	11,770,000	2,398
Scope 2 - Electricity	33,691,000	7,154
Total (Scope 1+2)	45,461,000	9,552
Revenue		£1,046,726
Intensity Ratio: tCO₂e/revenue		9,122

In reviewing the 2020 data provided for the first year of Streamlined Energy Carbon Reporting, it was concluded that the emissions data reported for Scope 3 (personal car usage for business travel) were not material in context to Airbus Defence and Space Ltd in 2021 (the Scope 3 emissions accounted for 0.6% of the total emissions).

Methodology and findings

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

- The IEA 2021 and The Department of Environment, Food and Rural Affairs (DEFRA) UK Fuels Standard (2021)
- The Department of Environment, Food and Rural Affairs (DEFRA) UK Electricity Standard (2021)

Energy Efficiency

The target to purchase 30% energy as renewable was far exceeded by the Airbus Defence and Space Ltd sites, with all purchased volume from July 2021 purchased with REGO. Due to access constraints related to the area occupied with the payload, the planned swap of 600 light fittings to LED standard has been delayed to 2022.

As part of its strategy to improve energy efficiency, Airbus Defence and Space Ltd is not only looking at specific energy improvement projects but also at maintenance driven replacements. This means that replacements under maintenance will no longer be replaced on a like for like basis, but instead with the latest energy standard.

At the Stevenage site, a new process to closely control lighting in large spaces with a small number of occupants has been deployed. In addition, a clean room heating ventilation and air conditioning optimization project has been launched to review 'out of hours' energy consumption whilst maintaining the required operational environmental conditions. In addition, a legacy 1950s boiler was replaced in 2021 by an optimised boiler which is set to reduce energy demand by 1,300 MWh per year, with further boilers being replaced in 2022. In parallel, a study has been launched to decarbonise the site steam demand through either using biomass fuel or electrification.

Directors' report (continued)

For the year ended 31 December 2021

During 2021 a study was completed on the Portsmouth and Stevenage sites with an external consultancy to identify the pathways to achieve the energy reduction and carbon reduction targets. The interventions identified are now being assessed in 2022 to prioritise the projects to progress.

Disclosure of information to the auditors

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

Auditors

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

By order of the Board



A Shaw
Secretary

Registered address:
Gunnels Wood Road
Stevenage
Hertfordshire
SG1 2AS
4th July 2022

Statement of Directors' responsibilities

For the year ended 31 December 2021

The directors are responsible for preparing the Strategic Report, the Directors' Report and the Financial Statements in accordance with applicable UK law and regulations.

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

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

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 31st December 2021 which comprise the Income Statement, the Balance Sheet, the Statement of Comprehensive Income, the Statement of Changes in Equity and the related notes 1 to 27, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2021 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 as applied to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

In auditing the financial statements, we 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 the period ending 30 June 2023.

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

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

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework (FRS 101 and the Companies Act 2006) and the relevant direct and indirect tax compliance regulation in the United Kingdom.
- We understood how Airbus Defence and Space Limited is complying with those frameworks by making enquiries of management, those responsible for legal and compliance and the company secretary to understand how the company maintains and communicates its policies and procedures in these areas. We corroborated our enquiries through our review of board minutes and correspondence with relevant authorities.

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

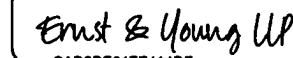
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by considering the risk of management override.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved review of board minutes and correspondence with relevant authorities, inquiries of management and those charged with governance and legal counsel. Where the risk was considered higher, we performed audit procedures to address each fraud risk. These procedures included testing journals identified by specific risk criteria, and testing specific transactions back to source documentation or independent confirmation.

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

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.

DocuSigned by:


CA00DE6A5FE414D5
John Howarth (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol
Date July 4, 2022

Income statement

For the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
Turnover	3	1,046,726	915,631
Cost of sales		(919,268)	(810,123)
Gross profit		127,458	105,508
Other operating expenses:			
- administration expenses		(38,191)	(56,256)
- distribution costs		(11,474)	(7,876)
Operating Profit		77,793	41,376
Interest receivable and similar income	7	103	1,877
Interest payable and similar cost	8	(7,049)	(12,256)
Impairment charge against investments	13	-	(3,005)
Other gains	13	11,440	-
Dividend income received	13	1,756	1,957
		6,250	(11,427)
Profit on ordinary activities before taxation		84,043	29,949
Tax on profit on ordinary activities	9	(21,065)	(13,249)
Profit for the financial year		62,978	16,700

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 2021

	Note	2021 £'000	2020 £'000
Profit for the financial year		62,978	16,700
Other comprehensive income:			
Actuarial gain / (loss) relating to pension scheme	20	128,400	(104,400)
Cash flow hedges		5,042	2,173
Tax on items relating to other comprehensive income		(9,801)	14,127
Other comprehensive gain / (loss) for the year		<u>123,641</u>	<u>(88,100)</u>
Total comprehensive gain / (loss) for the year		<u>186,619</u>	<u>(71,400)</u>

Statement of changes in equity

For the year ended 31 December 2021


	Share capital	Share premium	Cash flow hedge reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000
At 1 January 2020	29,282	41,100	(6,094)	120,886	185,174
Profit for the financial year	-	-	-	16,700	16,700
Actuarial loss recognised in pension scheme	-	-	-	(104,400)	(104,400)
Movement on cash flow hedges	-	-	2,173	-	2,173
Deferred tax	-	-	-	14,127	14,127
At 31 December 2020	<u>29,282</u>	<u>41,100</u>	<u>(3,921)</u>	<u>47,313</u>	<u>113,774</u>
Profit for the financial year	-	-	-	62,978	62,978
Actuarial gain recognised in pension scheme	-	-	-	128,400	128,400
Movement on cash flow hedges	-	-	5,042	-	5,042
Deferred tax	-	-	-	(9,801)	(9,801)
At 31 December 2021	<u>29,282</u>	<u>41,100</u>	<u>1,121</u>	<u>228,890</u>	<u>300,393</u>

Balance Sheet

For the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
Fixed assets			
Intangible assets	10	78,458	56,214
Tangible assets	11	183,136	337,474
Right-of-Use assets	12	17,905	22,072
Investments	13	53,708	40,514
		<u>333,207</u>	<u>456,274</u>
Current assets			
Stocks	14	103,662	133,117
Debtors due within one year	15	215,731	194,397
Debtors due in more than one year	15	59,514	84,363
Contract assets	18	77,079	69,353
Cash at bank and in hand		361	8,374
		<u>456,347</u>	<u>489,604</u>
Creditors: amounts falling due within one year	16	(299,452)	(313,823)
Contract liabilities	18	(173,404)	(234,833)
		<u>(16,509)</u>	<u>(59,052)</u>
Net current liabilities			
Total assets less current liabilities		316,698	397,222
Creditors: amounts falling due after more than one year	17	(13,974)	(18,233)
Provisions for liabilities and charges	19	(1,931)	(6,415)
		<u>303,793</u>	<u>372,574</u>
Net assets before pension deficit			
Pension deficit	20	(400)	(258,800)
		<u>300,393</u>	<u>113,774</u>
Net assets including pension deficit			
Capital and reserves			
Called-up share capital	21	29,282	29,282
Share Premium	21	41,100	41,100
Cash flow hedge reserve		1,121	(3,921)
Retained earnings		228,890	47,313
		<u>300,393</u>	<u>113,774</u>
Shareholders' funds			

Approved by the Board of Directors on 4th July 2022 and signed on its behalf by:



N Ede
Director

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

Notes to the financial statements

For the year ended 31 December 2021

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 2021 were authorised for issue by the board of directors on 4th July 2022 and the balance sheet was signed on the board's behalf by Nigel Ede. Airbus Defence and Space Limited is incorporated and domiciled in England and Wales. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out on page 3.

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

2 Accounting policies

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

2.1 Basis of preparation

The Company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare group accounts as it is a wholly owned subsidiary of Airbus S.E.

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

- a) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share Based Payment, because the share based payment arrangement concerns the instruments of another group entity;
- b) the requirements of IFRS 7 Financial Instruments: Disclosures;
- c) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- d) the requirement in paragraph 38 of IAS1 'Presentation of Financial Statements' to present comparative information in respect of:
 - i. paragraph 79(a)(iv) of IAS 1;
 - ii. paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - iii. paragraph 118(e) of IAS 38 Intangible Assets;
- e) the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111, and 134-136 of IAS 1 Presentation of Financial Statements;
- f) the requirements of IAS 7 Statement of Cash Flows;
- g) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;

Notes to the financial statements

For the year ended 31 December 2021

2.1 Basis of preparation (continued)

- h) the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- i) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member ; and
- j) the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

2.2 Going Concern

The financial statements have been prepared on a going concern basis, which assumes the Company will be able to meet its liabilities as they fall due, for at least the next 12 months to 30 June 2023.

The going concern basis has been adopted for the following reasons. 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. Airbus SE Treasury have confirmed support for a period of at least the next 12 months to 30 June 2023 to support the Net Current Liability position at the 31 December 2021. The Group Treasury have confirmed that they are operating within this arrangement, up to the limit of €265,000,000, and are forecast to do so throughout the going concern outlook period. The Directors have performed forecasts for a period of 12 months to 30 June 2023 and have concluded that they will not need to utilise the full facility at any point.

2.3 Judgements and key sources of estimation uncertainty

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

Long term contract accounting

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

Notes to the financial statements

For the year ended 31 December 2021

2.3 Judgements and key sources of estimation uncertainty (continued)

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.

Pension

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

Impairment of subsidiary investments

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

Notes to the financial statements

For the year ended 31 December 2021

2.4 Significant accounting policies

a) *Foreign currency translation*

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

Transactions and balances

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

b) *Tangible fixed assets and depreciation*

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

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

Freehold and Leasehold buildings – over 25 years

Technical equipment and office equipment – over 3 – 15 years

Assets Under Construction are not subject to depreciation.

The carrying values of property, technical equipment and office equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

c) *Intangible assets*

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

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

Notes to the financial statements

For the year ended 31 December 2021

2.4 Significant accounting policies (continued)

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.

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

e) Stocks and long term contracts in progress

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

Raw materials and consumables – purchase cost

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

Notes to the financial statements

For the year ended 31 December 2021

2.4 Significant accounting policies (continued)

f) Taxation

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

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

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

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

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

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

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 2021

2.4 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 an 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.

Notes to the financial statements

For the year ended 31 December 2021

2.4 Significant accounting policies (continued)

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

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

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

j) Revenue recognition

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

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

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

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

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

Notes to the financial statements

For the year ended 31 December 2021

2.4 Significant accounting policies (continued)

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

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

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

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

k) Financial assets and financial liabilities

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

Financial Assets

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

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

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

Notes to the financial statements

For the year ended 31 December 2021

2.4 Significant accounting policies (continued)

Loans and receivables

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

Financial assets at fair value through profit or loss

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

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

Derivatives designated as hedging instruments in an effective hedge

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

Financial Liabilities

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

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

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

Financial liabilities at fair value through profit or loss

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

Derivatives designated as hedging instruments in an effective hedge

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

Notes to the financial statements

For the year ended 31 December 2021

2.4 Significant accounting policies (continued)

Financial liabilities measured at amortised cost

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

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

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

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

l) Leases

Right of use assets

The Company leases real estate assets, cars and equipment.

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

Lease Liability

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

Short-term leases and leases of low-value assets

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

Notes to the financial statements

For the year ended 31 December 2021

3 Turnover

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

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

Analysis of turnover by geographical market was as follows:

	2021 £'000	2020 £'000
United Kingdom	663,086	493,530
Europe	333,487	315,465
The Americas	15,760	33,835
Asia	30,276	68,381
The Middle East	1,812	175
Africa	767	1,269
Australia	1,538	2,976
	<u>1,046,726</u>	<u>915,631</u>

Notes to the financial statements

For the year ended 31 December 2021

4 Operating Profit

This is stated after charging/(crediting):

	2021 £'000	2020 £'000
Depreciation of tangible fixed assets:		
- owned assets	175,179	175,308
Amortisation of intangible assets	5,150	4,513
Research and development costs	32,227	32,569
Operating lease charges:		
- plant and machinery/office equipment	483	-
R&D tax credit	<u>(12,809)</u>	<u>(15,390)</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.

	2021 £'000	2020 £'000
Audit of the financial statements	373	344
Other service fees	<u>-</u>	<u>4</u>

Notes to the financial statements

For the year ended 31 December 2021

6 Staff costs and directors' remuneration

a) <i>Staff costs</i>	2021 £'000	2020 £'000
Wages and salaries	149,048	165,679
Social security costs	17,263	18,841
Pension costs (see note 20):		
- Current service costs	61,500	57,200
	<u>227,811</u>	<u>241,720</u>

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

	2021 Number	2020 Number
Engineering and project staff	2,254	2,460
Administration, contracts and finance staff	462	450
	<u>2,716</u>	<u>2,910</u>

b) <i>Directors' remuneration</i>	2021 £'000	2020 £'000
Aggregate emoluments	629	575
Company contributions payable to pension schemes	70	66
	<u>699</u>	<u>641</u>

Amounts in respect of highest paid director:

- Emoluments	423	384
- Company contributions payable to pension schemes	8	8
- Value of accrued pension	-	-

Number of directors in company pension schemes	2	2
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Notes to the financial statements

For the year ended 31 December 2021

7 Interest receivable

	2021 £'000	2020 £'000
Amounts receivable from parent undertaking	<u>103</u>	<u>1,877</u>

8 Interest payable

	2021 £'000	2020 £'000
Amounts payable to parent undertaking	443	1,299
Other interest costs	4,132	3,776
Other finance cost – including pension scheme	1,900	2,600
Finance costs relating to interest rate swaps	<u>574</u>	<u>4,581</u>
Total interest expense	<u>7,049</u>	<u>12,256</u>

Notes to the financial statements

For the year ended 31 December 2021

9 Taxation

	2021 £'000	2020 £'000
<i>(a) Tax charged in the income statement</i>		
Current income tax:		
UK corporation tax	(8,108)	(4,008)
Prior year losses surrendered for group relief	-	(186)
Total current income tax	<u>(8,108)</u>	<u>(4,194)</u>
Deferred Tax:		
Origination and reversal of temporary differences	-	(3,526)
Impairment of Deferred Tax Asset	(12,957)	(11,798)
Impact of change in tax laws and rates	-	5,484
Amounts over provided in previous years	-	785
Total deferred tax	<u>(12,957)</u>	<u>(9,055)</u>
Total tax (Charge) in the income statement	<u>(21,065)</u>	<u>(13,249)</u>

(b) Tax relating to items charged or credited to other comprehensive income:

Deferred tax:		
Actuarial loss on defined benefit pension plans	-	19,836
Impairment of Deferred Tax Asset	(9,801)	(8,233)
Impact of change in tax laws and rates	-	2,524
Total deferred tax	<u>(9,801)</u>	<u>14,127</u>
Total deferred tax in the statement of other comprehensive income	<u>(9,801)</u>	<u>14,127</u>

Notes to the financial statements

For the year ended 31 December 2021

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% (2020: 19.00%).

The differences are reconciled below:

	2021 £'000	2020 £'000
Accounting Profit before tax	84,043	29,949
Tax calculated at UK standard rate of corporation tax in the UK of 19.00% (2020: 19.00%)	(15,968)	(5,690)
Disallowed expenses and non-taxable income	3,948	2,164
Change in tax laws and rate	-	5,484
Research & Development relief	(2,833)	(3,065)
Overseas taxes	(100)	(943)
Movement in unrecognised Deferred Tax asset	6,845	-
Impairment of Deferred Tax Asset	(12,957)	(11,798)
Prior year adjustment	-	599
Total tax (Charge) reported in the income statement	(21,065)	(13,249)

(d) Change in Corporation Tax rate

During FY21, it was announced that the rate of corporation tax will increase to 25% from 1 April 2023. This has been substantively enacted and therefore, the deferred tax asset has been recognized partially at 19% and partially at 25%, dependent on its forecast utilisation.

Notes to the financial statements

For the year ended 31 December 2021

9 Taxation (continued)

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

	2021 £'000	2020 £'000
Accelerated capital allowances	33,657	22,830
General provisions	803	1,307
Pensions	15,006	39,784
Tax losses carried forward	10,048	18,070
Research & development expenditure credit	-	281
	<u>59,514</u>	<u>82,272</u>
Disclosed on the balance sheet		
Deferred tax asset	<u>59,514</u>	<u>82,272</u>

Notes to the financial statements

For the year ended 31 December 2018

9 Taxation (continued)

(f) The company has an unrecognised deferred tax asset due to uncertainty over recoverability calculated at 25% (2020: 19%) which is comprised as follows:

	2021 £'000	2020 £'000
Accelerated capital allowances	17,655	5,559
General provisions	422	318
Pensions	7,871	9,686
Tax losses carried forward	73,899	53,720
Research & development expenditure credit	-	68
	<u>99,847</u>	<u>69,351</u>

The recognised deferred tax asset of £60m is based on forecast taxable profits over a four year period, recognised partially at 19% and partially at 25%, dependent upon whether utilisation is expected before or after the change in tax rate on 1st April 2023. Management derived their profit forecasts from approved budgets, with taxable profits subsequently forecast based on applicable tax laws and regulations. No reasonably possible change in any of the key assumptions would result in a significant reduction in projected tax profits such that the recognised deferred tax asset would not be realised in the aforementioned 4 year period. The four year recognition policy has led to a further impairment of the deferred tax asset in the year.

The company has an unrecognised deferred tax asset of £100m, partially due to insufficient forecast taxable profits over the next 4 years, and partially due to £65m of the unrecognised deferred tax asset being in respect of tax losses transferred into the company in a prior year when a division was transferred in. Whereas all tax losses may be carried forward indefinitely, the use of this £65m of tax losses is restricted.

Notes to the financial statements

For the year ended 31 December 2021

10 Intangible fixed assets

	Software costs	Development expenditure	Total
	£'000	£'000	£'000
Cost			
At 1 January 2021	7,429	65,256	72,685
Transfer to tangible assets	(126)	(10)	(136)
Additions (1)	115	27,307	27,422
At 31 December 2021	7,418	92,553	99,971
Amortisation			
At 1 January 2021	7,126	9,345	16,471
Transfer to tangible assets	(108)	-	(108)
Charge for the year	224	4,926	5,150
At 31 December 2021	7,242	14,271	21,513
Net book value			
At 31 December 2021	176	78,282	78,458
At 31 December 2020	303	55,911	56,214

(1) Additions during 2021 include £26.3m of development expenditure for a project due to be amortised from 2023.

Notes to the financial statements

For the year ended 31 December 2021

11 Tangible fixed assets

	Land and buildings £'000	Technical equipment £'000	Office equipment £'000	Assets under the course of construction £'000	Total £'000
Cost					
At 1 January 2021	39,699	2,264,265	116,850	25,636	2,446,450
Additions	642	5,287	1,892	13,015	20,836
Disposals (1)	(9,856)	(67,995)	(964)	-	(78,815)
Transfer from intangible assets	63	-	73	-	136
Transfers (2)	31,630	1,993	(7,086)	(26,537)	-
At 31 December 2021	<u>62,178</u>	<u>2,203,550</u>	<u>110,765</u>	<u>12,114</u>	<u>2,388,607</u>
Depreciation					
At 1 January 2021	26,598	1,981,288	101,090	-	2,108,976
Charge for the year	1,428	168,262	5,489	-	175,179
Disposals (1)	(9,846)	(67,995)	(951)	-	(78,792)
Transfer from intangible assets	63	-	45	-	108
Transfer (2)	2,398	1,353	(3,751)	-	-
At 31 December 2021	<u>20,641</u>	<u>2,082,908</u>	<u>101,922</u>	<u>-</u>	<u>2,205,471</u>
Net book value					
At 31 December 2021	<u>41,537</u>	<u>120,642</u>	<u>8,843</u>	<u>12,114</u>	<u>183,136</u>
At 31 December 2020	<u>13,101</u>	<u>282,977</u>	<u>15,760</u>	<u>25,636</u>	<u>337,474</u>

(1) Disposal in relation to fixed asset identification exercise

(2) Transfers include the entry into service of buildings from assets under construction in relation to a new building on the Stevenage site.

Notes to the financial statements

For the year ended 31 December 2021

12 IFRS 16 Right-of-Use assets

	Right-of-Use Land and buildings £'000	Right-of-Use Technical equipment £'000	Right-of-Use Office equipment £'000	Total £'000
Cost				
At 1 January 2021	27,891	1,182	1,650	30,723
Additions	75	-	740	815
Disposals (1)	(295)	-	(617)	(912)
At 31 December 2021	<u>27,671</u>	<u>1,182</u>	<u>1,773</u>	<u>30,626</u>
Depreciation				
At 1 January 2021	7,521	547	583	8,651
Charge for the year	3,641	195	851	4,687
Disposals (1)	-	-	(617)	(617)
At 31 December 2021	<u>11,162</u>	<u>742</u>	<u>817</u>	<u>12,721</u>
Net book value				
At 31 December 2021	<u>16,509</u>	<u>440</u>	<u>956</u>	<u>17,905</u>
At 31 December 2020	<u>20,370</u>	<u>635</u>	<u>1,067</u>	<u>22,072</u>

(1) Disposal value is in relation to an early termination of a real estate lease and Tech Equipment in 2021.

Notes to the financial statements

For the year ended 31 December 2021

13 Investments

	Cost £'000	Provisions £'000	Total £'000
Shares in subsidiary undertakings:			
Acquired	106,367	(68,119)	38,248
At 31 December 2021	<u>106,367</u>	<u>(68,119)</u>	<u>38,248</u>
Other investments:		Level 3 Investment	Level 1 Investment
At 1 January 2021		2,266	-
Additions (1)		149	-
Transfer of Investment (2)		(2,415)	2,415
Additions (3)		-	1,605
Fair value gain on investment (4)		-	11,440
At 31 December 2021		<u>-</u>	<u>15,460</u>
Total investments At 31 December 2021			<u>53,708</u>

- (1) During the year, Airbus Defence and Space Limited made an investment of £149,173 resulting in a total investment of £2,415,000 in Seraphim Space Fund as a level 3 investment.
- (2) From July 2021 The investment of £2,415,000 was transferred to a level 1 investment and converted into 7,146,358 100p shares in Seraphim Space Investment trust publicly traded on the London Stock exchange. 252,501 \$10.53 shares were also awarded in Arqit a company which was part of the portfolio of the initial investment and separately traded on NASDAQ. The investment sit at Level 1 (2020: Level 3) on the fair value hierarchy using inputs based on quoted process in an active market (2020: using inputs not based upon observable market data). These investments are measured at fair value through the Income statement.
- (3) In July 2021 Airbus Defence & Space Limited invested a further £1,604,556 in Seraphim Space Investment trust converted into 1,604,556 100p shares, measured at fair value through the income statement.
- (4) The Company's policy is to fair value instruments of this nature. At 31 December 2021 this was based on market valuation per the published share price and resulted in recognising a gain of £11.44m through the Income statement. If the share price changes then the valuation of the Company's investment would change proportionately.

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

Notes to the financial statements

For the year ended 31 December 2021

13 Investments (continued)

	<i>Business activity</i>	<i>Registered address</i>	<i>Proportion of nominal value of ordinary issued shares held</i>	<i>Country of incorporation</i>
<i>Subsidiary investments:</i>				
Paradigm Services Limited	Non-trading	1	100 percent	England
Airbus Defence and Space AS	Satellite Communications	2	100 percent	Norway
Airbus DS Limited	Non-trading	3	100 percent	England
GPT Special Project Management Limited	Project management	1	100 percent*	England
Cassidian Cybersecurity Limited	Non-trading	4	100 percent	England
Surrey Satellite Technology Limited	Satellite Communications	5	100 percent	England
Airbus DS (Satcom Australia) Pty Ltd	Satellite Communications	6	100 percent	Australia
Airbus Military UK Limited	Maintenance of aircraft and related services	7	100 percent	England
Airbus HAPS Connectivity Solutions Limited	Satellite Communications	1	100 percent	England

* Investment is held indirectly via Paradigm Services Limited.

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

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

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

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

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

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

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

Dividends were received in 2021 from Airbus Defence and Space AS £1,756,182 (2020: £856,712) and from Airbus Military UK Limited £nil (2020: £1,100,000).

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

Cassidian Cybersecurity Limited was dissolved on 10th May 2022.

Airbus Defence and Space Limited had a 3.66% shareholding in Seraphim Space Investment Trust at 31 December 2021.

Notes to the financial statements

For the year ended 31 December 2021

14 Stocks

	2021 £'000	2020 £'000
Finished goods available for resale	12,429	81,323
Raw materials and consumables	5,767	5,495
Long-term contract work in progress balances (at net cost less foreseeable losses)	85,466	46,299
	<u>103,662</u>	<u>133,117</u>

15 Debtors

Amounts falling due within one year:

	2021 £'000	2020 £'000
Trade debtors	49,332	31,463
Financial instruments	-	231
Amounts due from fellow subsidiary undertakings	35,205	37,134
Advance payments made	6,189	6,014
Accrued income	11,064	15,241
Loan to parent undertaking	57,606	46,933
Other debtors	43,271	43,572
Prepayments	13,064	13,809
	<u>215,731</u>	<u>194,397</u>

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

Notes to the financial statements

For the year ended 31 December 2021

15 Debtors (continued)

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

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

Financial instruments above include the fair value of interest rate swaps of £2,000 (2020: £231,000) and forward currency contracts of £nil (2020: £nil)

	2021 £'000	2020 £'000
Amounts due after more than one year:		
Financial Instruments	-	2,091
Deferred tax (see Note 9)	59,514	82,272
	<u>59,514</u>	<u>84,363</u>

Financial instruments above include the fair value of interest rate swaps of £nil (2020: £2,091,000) which fall due after more than one year.

16 Creditors: amounts falling due within one year

	2021 £'000	2020 £'000
Payments received on account	30,118	95,638
Trade creditors	119,559	79,939
Amounts due to fellow subsidiary undertakings	25,447	22,995
Loan from parent undertaking	53,838	32,559
Financial Instruments	-	231
Other taxation and social security	36,224	42,300
Other creditors and accruals	34,266	40,161
	<u>299,452</u>	<u>313,823</u>

Notes to the financial statements

For the year ended 31 December 2021

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

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

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

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

Financial instruments above include the fair value of interest rate swaps of £nil (2020: £231,000) and forward currency contracts of £nil (2020: £nil).

17 Creditors: amounts falling due after one year

	2021 £'000	2020 £'000
Other creditors	11	248
Lease Liabilities	13,963	17,985
	<u>13,974</u>	<u>18,233</u>

Other creditors above includes £11,000 (2020: £248,000) payable in two to five years and £nil (2020: £nil) payable in over five years.

Notes to the financial statements

For the year ended 31 December 2021

18 Contract asset and liability

	2021 £'000	2020 £'000
Contract asset	77,079	69,353
Contract liability	(173,404)	(234,833)
Revenue recognised in the period from:		
Amounts included in contract liability at the beginning of the period	169,914	69,858
Performance obligations satisfied in previous periods	(48,249)	(6,059)

19 Provisions for liabilities and charges

	Restructuring provision £'000	Other Provisions £'000	Total £'000
At 1 January 2021	3,360	3,055	6,415
Provisions arising during the year	-	271	271
Provisions utilised during the year	(3,360)	(1,086)	(4,446)
Provisions released during the year	-	(309)	(309)
	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2021	<u>-</u>	<u>1,931</u>	<u>1,931</u>

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

Other provisions comprise £421,000 (2020: £325,000) in respect of future liabilities under Airbus employee Long Term Incentive Plan scheme (a cash settled scheme), and £1,510,000 (2020: £2,730,000) in respect of loss and contract warranty provisions.

Notes to the financial statements

For the year ended 31 December 2021

20 Pensions

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

The assets and liabilities of the scheme are shown below:

	2021 £'000	2020 £'000
Equities	739,500	608,800
Index-linked gilts	397,300	339,100
Illiquid credit and inflation opportunities	119,100	114,100
Property	145,800	28,900
Schedule 1 retirement accounts	102,000	87,600
Cash and other assets	57,400	42,400
Fair value of scheme assets	1,561,100	1,220,900
Present value of scheme liabilities	(1,561,500)	(1,479,700)
Defined benefit pension plan deficit	(400)	(258,800)

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 2021

20 Pensions (continued)

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

Recognised in the Income Statement

	2021	2020
	£'000	£'000
Current service cost	(61,500)	(57,200)
Net interest on net defined benefit liability	(1,900)	(2,600)

Taken to the Statement of Comprehensive Income

	2021	2020
	£'000	£'000
Return on plan assets (excluding amounts included in net interest)	144,300	42,700
Actuarial changes arising from changes in financial assumptions	(15,900)	(147,100)
Gain / (Loss) Recognised in the Statement of Comprehensive Income	128,400	(104,400)

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

Defined benefit obligation

	2021	2020
	£'000	£'000
Deficit benefit liability at the end of the prior year	(258,800)	(146,700)
Net benefit expense for the year	(63,400)	(59,800)
Employer contributions	193,400	52,100
Gain / (Loss) recognised via the statement of comprehensive income	128,400	(104,400)
Defined benefit liability at the end of the current year	(400)	(258,800)

Notes to the financial statements

For the year ended 31 December 2021

20 Pensions (continued)

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

	2021	2020	2019
Main year-end assumptions used:			
Rate of salary increases	3.30%	2.55%	2.55%
Rate of increase in pensions in payment	3.00%	2.60%	2.75%
Rate of increase for deferred pensioners	2.55%	2.05%	2.05%
Discount rate	1.95%	1.45%	2.15%
Rate of inflation (RPI)	3.15%	2.65%	2.85%
Rate of inflation (CPI)	2.55%	2.05%	2.05%
Post retirement mortality:			
	113% (Schedule1), 87% (Schedule 2 and 3) x S2PXA	113% (Schedule1), 87% (Schedule 2 and 3) x S2PXA	113% (Schedule1), 87% (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 2018 improvements with a long term rate of 1.5% pa
	CMI 2020 improvements with a long term rate of 1.25% pa,	CMI 2019 improvements with a long term rate of 1.25% pa,	

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

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

Notes to the financial statements

For the year ended 31 December 2020

21 Share capital & Share Premium

Share Capital	2021	2020
	£'000	£'000
<i>Allotted and fully paid</i>		
Ordinary shares of £1 each	27,115	27,115
Income shares of £1 each	2,167	2,167
	<u>29,282</u>	<u>29,282</u>

Ordinary shares and income shares rank pari passu.

Share Premium	2021	2020
	£'000	£'000
Issue of shares	41,100	41,100
	<u>41,100</u>	<u>41,100</u>

Notes to the financial statements

For the year ended 31 December 2021

22 Reserves

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

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

23 Capital commitments

	2021 £'000	2020 £'000
Capital expenditure that has been contracted for but not provided for in the financial statements	<u>13,083</u>	<u>15,989</u>

24 Contingent liabilities

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

Notes to the financial statements

For the year ended 31 December 2021

25 Share based payments

Long-term incentive plan

Annually from 2008 to 2021 the board of directors of Airbus S.E. has approved long term incentive plans to grant performance and restricted units. The performance and restricted units will vest if the participant is still employed by an Airbus company at the respective vesting dates and, in the case of performance units, upon achievement of mid-term business performance. The shares vest in equal amounts every 6 months, commencing in the May following the third anniversary of the grant date.

26 Related party transactions

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

There are no other related party transactions that require disclosure.

27 Parent undertakings and controlling party

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