

In-Space Missions Limited

Annual Report and Financial Statements

31 December 2023

Registered number: 09747274

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In-Space Missions Limited
Annual Report and Financial Statements
31 December 2023

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Strategic Report
for the year ended 31 December 2023

Review of business and principal activities

In-Space Missions Limited (the "Company") is a member of the BAE Systems plc Group ("BAE Systems Group" or "Group") of companies. The principal activity of the Company is the manufacture of scientific equipment.

Key performance indicators

Key financial performance indicators are shown below:

	2023	2022
	£	£
Order intake	13,824,411	834,466
Revenue	7,553,373	6,311,928

Order intake represents the value of funded orders received from customers in the year. It is a measure of in year performance and supports future years' sales performance. Order intake for 2023 was significantly higher than during the previous period following the receipt of an order from BAE Systems Applied Intelligence Limited for three satellite platforms to form part of the first Cluster for the Azalea Programme.

Revenue represents the amounts derived from the provision of goods and services. Revenue has increased following the commencement of the Azalea Cluster 1 programme secured during the year. This accounted for 85% of the revenue for the year.

Strategic Report (continued)
for the year ended 31 December 2023

Principal risks and uncertainties

The Company's principal risks are identified below, along with their potential impact on the Company and how these are currently being managed:

Contract risk, execution and supply chain

Contract risk and execution

Description: It is important that the Company delivers on its projects within tight tolerances of quality, time and cost performance in a reliable, predictable and repeatable manner.

Impact: The failure by the Company to anticipate technical problems or deliver on its contractual commitments could result in (among other things) the loss, expiration, suspension, cancellation or termination of any one of its large contracts, which could have a material adverse effect on the Company's business, results of operations, financial condition, prospects or reputation.

Mitigation: Contract-related risks and uncertainties are managed under the BAE Systems Group's mandated Lifecycle Management process.

Robust bid preparation and approvals processes are well established throughout the Company, with decisions required to be taken at the appropriate level in line with clear delegations of authority.

In the UK, development programmes are normally contracted with appropriate levels of risk being initially held by the customer and contract structures are used to mitigate risk on production programmes, including where the customer and contractor share cost savings and overruns against target prices.

Supply chain

Description: The Company is dependent upon the delivery of services and materials by suppliers and the assembly of components and subsystems by subcontractors used in its products in a timely and satisfactory manner, on satisfactory commercial terms and in full compliance with applicable terms and conditions.

This can be exacerbated where the Company is dependent on either one or a limited number of suppliers.

Some of the Company's suppliers or subcontractors may be impacted by the economic environment (including inflationary pressures and material shortages) which could impair their ability to meet their obligations to the Company and to supply on satisfactory commercial terms.

Impact: A failure by one or more of the Company's suppliers to provide the agreed-upon materials, components or products or perform the agreed-upon services, on a timely basis, at the agreed price, according to specifications (including compliance with regulatory requirements) or at all may adversely affect the Company's ability to perform its obligations, result in additional costs or delays, require the Company to transition work to other companies (resulting in further additional costs and delay) and/or result in penalties under, or the termination of, customer contracts.

This impact is heightened where a supplier is a sole supplier or one of a small number of suppliers.

Additionally, the Company could be adversely affected by actions, or issues experienced by, the Company's suppliers which are outside its control, such as misconduct and reputational issues involving the Company's suppliers, which could subject the Company to liability or adversely affect its ability to compete for contracts.

Any of the foregoing could have a material adverse effect on the Company's business, results of operations, financial condition, prospects and reputation.

Mitigation: The BAE Systems Group's supply chain function establishes and manages enduring end-to-end integrated supplier arrangements, in partnership with the programmes it supports.

Strategic Report (continued)
for the year ended 31 December 2023

In many cases, the BAE Systems Group benefits from long-term programme positions and incumbencies with more stable forward visibility for long-lead items allowing the BAE Systems Group to better manage supplier deliverables against programme requirements.

Supply chain management starts with the BAE Systems Group's Global Procurement Policy which defines the requirements to be implemented by each of its sectors for the establishment of procurement controls and the management of supplier-related risk.

Risk-based due diligence and audit activity is undertaken for each supplier whom the BAE Systems Group engages. Once a supplier has been approved, and a contract has been executed, the supply chain function continues to monitor that supplier.

The supply chain risk management programme is working toward providing an enterprise-wide view of supplier risk, contributing to the continuity of supply and enabling better intelligence of sub-tier supply chain risk. Regular global supply chain meetings are held with senior procurement leaders to ensure that the latest risk data is appropriately shared.

The BAE Systems Group seeks to manage inflation risk through its customer contracting arrangements on many of its major programmes, supplier cost management activity and through its long-term supplier agreements.

The Company could be negatively impacted by threats to the security of its information technology and operational technology systems

Description: It is critical that the Company's information technology and operational technology (IT & OT) infrastructure, as well as the products and services it sells, are cyber resilient and the proprietary, classified, confidential or otherwise protected information, intellectual property and personal data held and processed on them are appropriately secured.

Cyber security threats are continuous and evolving, and vary from attacks common to most industries, including those originating both externally and internally, to those from more advanced and persistent, highly organised adversaries, including nation states.

The cyber security threats faced by the Company include (but are not limited to): an attack impacting the availability of the Company's IT & OT infrastructure and systems and/or those of its customers, partners and suppliers; unlawful attempts to gain access to the Company's proprietary, classified, confidential or otherwise protected information, intellectual property and personal data, and that held or generated by the Company on behalf of its customers, partners and suppliers; and compromise of products and services for the purposes of sabotage or to disable or deny their use and/or alter their performance characteristics.

The Company might also be exposed to cyber security risks through an attack on its supply chain.

Impact: Given the nature and scope of cyber attacks, it is possible that the Company is unable to defend itself against all cyber-attacks, that unknown vulnerabilities could be exploited or that the Company may otherwise be unable to mitigate customer losses and other potential liabilities (including potential liabilities related to privacy and intellectual property).

The Company could potentially be subject to: (a) production downtimes; (b) operational delays; (c) other detrimental impacts to its operations or ability to provide products and services to customers; (d) the compromise, misappropriation, destruction or corruption of the Company's proprietary, classified, confidential or otherwise protected information, intellectual property and personal data, and that held or generated by the Company on behalf of its customers, partners and suppliers; (e) security breaches; (f) other manipulation or improper use of the Company's or third-party systems, networks or products; and/or (g) financial losses from remedial actions, loss of business, or potential liability, penalties, fines and/or damages.

Strategic Report (continued)
for the year ended 31 December 2023

Any of these could have a material adverse effect on the Company's business, results of operations, financial condition, prospects and reputation.

Mitigation: The security of the BAE Systems Group's products and services, data, facilities and IT & OT infrastructure is regularly considered by the BAE Systems Group's Board and senior management and underpins the BAE Systems Group's strategy and influences its engineering, technology and digital strategies.

Education and awareness to embed a strong cyber security culture across the BAE Systems Group is another vital part of its preventative activities. Employees are subject to mandatory training which, depending on role, covers cyber security, physical security, document marking, security of export-controlled information, and personal data protection. As many cyber-attacks involve email, the BAE Systems Group runs a programme of phishing exercises for all email users across the enterprise.

To further increase cyber resilience, In-Space Missions Limited's core networks are protectively monitored by an external Cyber Security Operations Centre and have been Cyber Essential Plus certified since 2022.

The Cyber Incident Response plan feeds into the BAE Systems Group's crisis management plan and regular exercises are conducted across the business to test the Cyber Incident Response plan, including up to the BAE Systems Group's Executive Committee.

The BAE Systems Group purchases cyber insurance; however, as with all insurance, it does not provide full cover against all potential loss scenarios.

To mitigate the cyber security risk posed by suppliers, the BAE Systems Group includes cyber security-related obligations in its contracts where relevant.

Cyber security risk is constantly reviewed and an agile, proactive, approach to mitigating the risk is taken. The BAE Systems Group does this by efficiently leveraging its core internal capabilities in cyber security, including its specialist threat intelligence service, to maintain a managed risk position as it digitally transforms and the threat landscape evolves.

The Company's strategy is dependent on its ability to recruit and retain people with appropriate talent and skills

Description: The Company's strategy and business plan is dependent on its ability to recruit and retain people with appropriate talent and skills. Competition for the people the Company needs to deliver its strategy, including those with innovative technological capabilities, is high. Competition may be intensified by nationality and regulatory restrictions (including the requirement for security clearances for certain roles), and exacerbated by macroeconomic, industry and labour market conditions more generally.

Impact: The loss of key employees or inability to attract the appropriate people on a timely basis could adversely impact the Company's ability to deliver its strategy, meet its business plan and deliver on its contractual commitments, which could have a material adverse effect on the Company's business, results of operations, financial condition and prospects.

Mitigation: The Company recognises that its employees are key to delivering its strategy and business plan, and focuses on developing the existing workforce and hiring talented people to meet current and future requirements.

The BAE Systems Group has well-established graduate recruitment and apprenticeship programmes and, in order to maximise the contribution that its workforce can make to the performance of the business, has an effective through-career capability development programme.

Strategic Report (continued)
for the year ended 31 December 2023

In order to seek to maximise its talent pool, the Company is committed to creating a diverse and inclusive environment for its employees.

Employees work with hazardous materials and in challenging locations

Description: Given the nature of the Company's business, employees work in challenging locations, perform high-risk activities and at times use hazardous materials.

The risks associated with the Company's activities and working environments can cause harm to its people and those affected by its operations.

Impact: There could be significant impacts if the Company fails to meet the necessary standards to adequately mitigate against health and safety risks.

The Company may face criminal and civil prosecution in connection with health and safety incidents, which could result in substantial penalties and fines. Furthermore, the Company could be prevented from operating, due to employees being unavailable for work, investigations being conducted or if a regulatory approval or certification is withdrawn, potentially leading to contractual penalties due to loss of productivity or inability to deliver on contractual commitments.

Any of these factors could have a material adverse effect on the Company's business, results of operations, financial condition, prospects and reputation.

Mitigation: Safety of the BAE Systems Group's personnel, contractor personnel and the wider communities in which the BAE Systems Group operates is a primary concern. The BAE Systems Group monitors its safety performance constantly through leading and lagging indicators and strives to be a leader in safety performance.

Safety performance is led at the BAE Systems Group Executive Committee level by the ESG, Culture and Business Transformation Director and is reported to the BAE Systems plc Board quarterly (with the BAE Systems plc Chief Executive providing updates at each Board meeting). Accountability for safety performance at a business level rests with the Company's Managing Director, who is responsible for ensuring compliance with the BAE Systems Group's Safety, Health and Environmental management systems and the BAE Systems Group's Operational Framework (the "Operational Framework").

At a user level, every employee receives safety training that is both company-wide and job role-specific. The Company follows recognised safety risk assessment processes that are task specific and seeks to ensure hazards are identified, classified and mitigated against prior to activities taking place.

The Company's safety performance and practices are assured both internally and by external consultants to ensure compliance with both BAE Systems Group and regulatory standards.

The Company's products and services, and those of its customers' or suppliers', inherently pose a safety risk

Description: The Company designs, develops, manufactures and maintains highly complex and specialised products and services. Technical, mechanical and other failures may occur from time to time, whether as a result of a manufacturing or design defect, ineffective maintenance, incorrect usage, poorly executed integration with a third party's products or services or through some other cause. In addition, the safety of the Company's products could be compromised as a result of cyber-attacks, such as those that seize control and result in misuse or unintended use of the Company's products, or other intentional acts.

Strategic Report (continued)
for the year ended 31 December 2023

Impact: A catastrophic product, service or system failure or similar safety incident affecting the Company's, its customers' or its suppliers' products or services could result in injuries or death, property damage, loss of strategic capabilities, loss of intellectual property, environmental harm, reputational damage or other significant effects. It could also lead to a loss of equipment, product recalls and product liability and warranty claims, other service, repair and maintenance costs, significant damages and other costs (including fines and other remedies), regulatory and environmental liabilities and a reduction in demand for the Company's products and services.

Any of the foregoing could have a material adverse effect on the Company's business, results of operations, financial condition, prospects and reputation

Mitigation: The Company recognises it is vitally important to work with its customers, suppliers and partners to ensure its products continue to work safely, securely and with integrity, within their intended operational environments.

The Company ensures the safe design and development of its products through a system of controls centred on the Operational Framework and associated policies and procedures, including those specifically addressing Product Safety and Engineering standards. Assurance of adherence to these aspects of the Operational Framework is provided through regular operating business review, reporting and assessment, with independent assessment of the effectiveness of controls by in-house subject matter experts, BAE Systems Group Internal Audit and external domain regulators.

In addition to the above, the Company continues to evolve and improve product safety best practice driven by new technologies and ways of working; liaise across industry and its government customers to develop new safety-related standards; and learn from safety-related failures in adjacent industries.

Section 172(1) statement

This statement contains an overview of how the directors have performed their duty to promote the success of the Company as set out in Section 172(1) of the UK's Companies Act 2006. That section requires a director of a company to act in the way they consider, in good faith, would most likely promote the success of the Company for the benefit of its shareholders. In doing this, the director must have regard, amongst other matters, to:

- a) the likely consequences of any decision in the long term,
- b) the interests of the Company's employees,
- c) the need to foster the Company's business relationships with suppliers, customers and others,
- d) the impact of the Company's operations on the community and the environment,
- e) the desirability of the Company maintaining a reputation for high standards of business conduct, and
- f) the need to act fairly as between members of the Company.

Decision making

The Operational Framework sets out the principles of good governance to which BAE Systems Group subsidiaries are required to adhere, together with BAE Systems Group's values, policies and processes. Decisions affecting a subsidiary are required to be taken in line with the Operational Framework, including in accordance with applicable delegations of authority.

Pursuant to the Operational Framework, BAE Systems' businesses each produce a strategic plan, a financial forecast for the current year and financial projections for the next five years. The directors of the Company contribute towards this process for the respective businesses of the Company for which they are responsible and are also responsible for identifying and managing principal and emerging risks in such businesses. In so doing the directors have regard to a variety of matters including the interests of various stakeholders, the consequences of their decisions in the long term and the long-term reputation of the Company and its businesses.

Strategic Report (continued)
for the year ended 31 December 2023

Employees

The safety, wellbeing, skills, capabilities and commitment of the Company's people are critical to ensuring the long-term sustainability of the Company's business and delivering the innovation needed to solve the Company's customers' complex challenges.

Effective engagement enables our employees to contribute to improving business performance and helps the Company to create an environment in which everyone is safe, valued and can fulfil their potential.

The Company used a range of channels to engage with employees throughout the year, as well as keeping employees informed about the performance, developments and prospects of the business and the BAE Systems Group. This included surveys and insight sessions; in-person and virtual meetings, briefings, conferences, events and listening forums at all levels; regular leadership updates through videos and events throughout the year (including in relation to financial and business performance); and engagement through the BAE Systems Group's Employee App, intranet, email and TV systems..

The Company operates an Employee Incentive Scheme which entitles all employees to a financial benefit against the achievement of a set of business and programme milestones. This ensures that all employees feel connected with, and are invested in, the Company's achievements.

These engagement activities form part of the Company's implementation of the BAE Systems group-wide employee engagement processes and policies which are described on pages 24 and 56 of BAE Systems plc's Annual Report 2023 (available at: www.baesystems.com/investors).

Pursuant to the BAE Systems Group's People Policy, directors and employees are required to contribute to creating an engaged and inclusive working environment, where individuals are respected and where the value of a diverse workforce is recognised. Also, pursuant to the Policy, employees are to be provided with the means to give their views and feedback.

Through the implementation by the Company of these processes and policies, the directors have regard to the interests of the Company's employees.

Fostering business relationships with suppliers, customers and others

The directors recognise that fostering business relationships with key stakeholders, such as customers and suppliers, is essential to the Company's success. The Company has close relationships with its customers, suppliers and industry partners which help it to create best-in-class, cost-effective equipment, goods, services and solutions.

The Company, together with its procurement and supply chain function, works with its suppliers and their supply chains to provide equipment, goods and services that meet its customers' requirements. The Company's supplier relationships are often long-term due to the length of the product life-cycles and the directors meet with key suppliers and work with the BAE Systems Group's procurement function to foster deeper relationships with businesses in the supply chain and develop strategic relationships with key suppliers. The BAE Systems Group's procurement function continues to actively manage supply lead times against demand requirements.

The community and the environment

The directors recognise the importance of leading a company that not only generates value for shareholders but also contributes to wider society. The Company implements the requirements of the BAE Systems Group's Community Investment Policy which is mandated through the Operational Framework and which looks to ensure that the Company builds and nurtures mutually beneficial relationships between its business, its people and local stakeholders. Giving back to local communities, and to charities that have a significance to the business, is important to the Company and its employees, allowing them to make a positive difference and have an impact where it counts.

Strategic Report (continued)
for the year ended 31 December 2023

The community and the environment (continued)

As a manufacturer, the Company recognises that its operations have an impact on the environment – from the energy and resources the Company uses, to the products it manufactures and the waste that it generates. As an organisation, the BAE Systems Group is committed to reducing the environmental impact of its operations and products, minimising its environmental footprint and, in turn, decreasing its operational costs.

Through the Operational Framework, the Company implements the requirements of the BAE Systems Group's Environmental Policy, which details the Company's commitment to high standards of environmental management. In particular, the Company is supporting the BAE Systems Group's target of achieving net zero greenhouse gas emissions across the BAE Systems Group's operations (scope 1 and 2) by 2030 and its target of working towards a net zero value chain by 2050.

All the above activities form part of the Company's implementation of the BAE Systems Group-wide community and environment processes and policies and the BAE Systems Group's impacts thereon which are described on pages 48 to 55 of BAE Systems plc's Annual Report 2023 (available at: www.baesystems.com/investors).

Maintaining a reputation for high standards of business conduct

The BAE Systems Group aims to be a recognised leader in business conduct which helps us to earn and maintain stakeholder trust and sustain business success. The directors consider it fundamental to maintain a culture focused on embedding responsible business behaviours. All employees of the Company are expected to act in accordance with the requirements of BAE Systems Group policies, including the Code of Conduct, at all times. As well as being the right thing to do, this reduces the risk of compliance failure and supports the Company in attracting and retaining high-calibre employees.

Detailed information on the BAE Systems Group-wide business conduct processes and policies is described on pages 62 to 65 in BAE Systems plc's Annual Report 2023 (available at: www.baesystems.com/investors).

Approved by the Board and signed on its behalf by:

Sarah Parker

S Parker
Director

Date: 14 May 2024

Directors' Report

Company registration

In-Space Missions Limited is a private company, limited by shares and registered in England and Wales with the registered number 09747274.

Results and dividends

The Company's loss for the financial year is £5,768,697 (16 month period ended 31 December 2022: £4,134,646). The Directors do not propose a dividend for 2023 (16 month period ending 31 December 2022: £nil).

The loss in the year has arisen due to investment in product development and engineering infrastructure and capability.

The prior accounting period covered 16 months as the Company changed its year end from 31 August to 31 December.

Looking forward

The company intends to continue with its existing contracts and build on both external opportunities and those arising from it joining the BAE Systems Group. These opportunities will be further increased following the announcement in January 2024 of the intent to stand up a Space Business unit within BAE Systems plc Digital Intelligence business.

Going concern

The financial statements have been prepared on the going concern basis, notwithstanding net liabilities of £8,759,242. The Company is dependent for its working capital on funds provided to it by BAE Systems plc, the Company's ultimate parent. BAE Systems plc has indicated that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the Company. The directors consider that this should enable the Company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As with any company placing reliance on other Group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Energy and carbon reporting exemption

The Company has taken advantage of the exemption granted under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 as this information is disclosed on pages 232 to 235 of BAE Systems plc's Annual Report 2023 (available at www.baesystems.com/investors).

Financial instruments

The international nature of the Company's business means it is exposed to volatility arising from movements in currency exchange rates. In order to protect itself against currency fluctuations, the Company's policy is to hedge all material firm transactional currency exchange rate exposures.

Directors' Report (continued)

Directors and their interests

The directors who served throughout the year and up to the date of this Directors' Report, unless otherwise stated, were as follows:

D I Armstrong (resigned 31 December 2023)
A P Holt (resigned 14 May 2024)
J D Liddle
K O'Donnell (resigned 14 May 2024)
S Parker
E J Stevens (resigned 14 May 2024)
A J Thompson (appointed 01 January 2024)

The Board is not aware of any contract of significance in relation to the Company in which any director has, or has had, a material interest.

Post balance sheet events

There have been no significant events affecting the Company since the year end.

Disclosure of information to auditor

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditor

The auditor, Deloitte LLP, has indicated its willingness to continue in office and, in accordance with Section 487(2) of the Companies Act 2006, has been re-appointed.

Approved by the Board and signed on its behalf by:

Sarah Parker

S Parker
Director

Date: 14 May 2024

Registered office:
In-Space Missions Limited
8 Oriol Court
Omega Park
Alton
Hampshire
GU34 2YT

Directors' Responsibilities Statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable 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), including Financial Reporting Standard 101 ("FRS 101") Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Independent Auditor's Report to the Members of In-Space Missions Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of In-Space Missions Limited (the "company"):

- give a true and fair view of the state of the company's affairs as at 31 December 2023 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 23.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 our report, we do not express any form of assurance conclusion thereon.

Independent Auditor's Report to the Members of In-Space Missions Limited (continued)

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 this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Extent to which 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 material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These UK Companies Act and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty including in respect of export controls, defence contracting and anti-bribery and corruption legislation

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

Independent Auditor's Report to the Members of In-Space Missions Limited (continued)

As a result of performing the above, we identified the greatest potential for fraud to be in relation to revenue recognition on significant contracts. The specific procedures we performed to address this risk included:

- making inquiries of project engineers with regard to contract progress, future risks and the existence of any unusual contract terms;
- obtaining relevant evidence including customer and supplier agreements, purchase orders, sales invoices, milestone completion certificates, and delivery notes; and
- assessing the terms of the agreements to ensure appropriate recognition of revenue.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

Report on other legal and regulatory requirements**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 the directors' report have been prepared in accordance with applicable legal requirements.

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 any material misstatements in the strategic report or the Directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

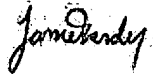
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law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

We have nothing to report in respect of these matters.

Independent Auditor's Report to the Members of In-Space Missions Limited (continued)

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.



Jamie Mander ACA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Reading, United Kingdom

14 May 2024

In-Space Missions Limited
Annual Report and Financial Statements
31 December 2023

Income Statement
for the year ended 31 December 2023

	Note	Year ended 31 December 2023 £	As restated 16 months to 31 December 2022 £
Revenue	3	7,553,373	6,311,928
Operating costs	4	(13,824,411)	(11,158,925)
Other income	5	793,150	770,660
Operating loss		(5,477,888)	(4,076,337)
Financial expense	6	(98,002)	(45,167)
Loss before tax		(5,575,890)	(4,121,504)
Tax	9	(192,807)	(13,142)
Loss for the financial year/16 month period		(5,768,697)	(4,134,646)

The results for 2023 and 2022 arise from continuing activities.

The notes on pages 21 to 47 form part of these financial statements.

Prior year figures have been restated, see note 21.

In-Space Missions Limited
Annual Report and Financial Statements
31 December 2023

Statement of Comprehensive Income
for the year ended 31 December 2023

	Year ended 31 December 2023 £	16 months to 31 December 2022 £
Loss for the financial year	(5,768,697)	(4,134,646)
Items that may be reclassified to the Income Statement:		
Fair value (loss)/gain arising on hedging instruments during the year/16 month period	(74,690)	40,402
Cumulative fair value (gain)/loss on hedging instruments reclassified to the Income Statement	(75,000)	17,299
Tax on items that may be reclassified to the Income Statement	18,750	(14,425)
Total other comprehensive (expense)/income for the year/16 month period	(130,940)	43,276
Total comprehensive expense for the year/16 month period	(5,899,637)	(4,091,370)

The notes on pages 21 to 47 form part of these financial statements.

The results for 2023 and 2022 arise from continuing activities.

In-Space Missions Limited
Annual Report and Financial Statements
31 December 2023

Balance Sheet
as at 31 December 2023

	Note	As at 31 December 2023 £	As restated year ended 31 December 2022 £
Non-current assets			
Intangible assets	10	497,828	47,487
Property, plant and equipment	11	738,656	479,409
Right-of-use assets	12	508,391	509,746
Other receivables	13	-	1,972,714
		<u>1,744,875</u>	<u>3,009,356</u>
Current assets			
Inventories	16	575,059	186,660
Trade and other receivables	13	2,397,356	1,623,361
Other financial assets	14	4,431	75,000
Cash and cash equivalents		100	1,002,480
Current tax		1,205,096	494,650
		<u>4,182,042</u>	<u>3,382,151</u>
Total assets		<u>5,926,917</u>	<u>6,391,507</u>
Non-current liabilities			
Lease liabilities	12	(504,945)	(512,635)
Provisions	18	(382,825)	(76,007)
Deferred tax liabilities	15	(201,588)	(27,531)
		<u>(1,089,358)</u>	<u>(616,173)</u>
Current liabilities			
Trade, contract and other payables	17	(13,517,680)	(8,634,939)
Other financial liabilities	14	(79,121)	-
		<u>(13,596,801)</u>	<u>(8,634,939)</u>
Total liabilities		<u>(14,686,159)</u>	<u>(9,251,112)</u>
Net liabilities		<u>(8,759,242)</u>	<u>(2,859,605)</u>

In-Space Missions Limited
Annual Report and Financial Statements
31 December 2023

Balance Sheet (continued)
as at 31 December 2023

	Note	As at 31 December 2023 £	As at 31 December 2022 £
Capital and reserves			
Issued share capital	19	2,000,222	2,000,222
Other reserves	19	(74,690)	56,250
Retained deficit		(10,684,774)	(4,916,077)
Total equity		<u>(8,759,242)</u>	<u>(2,859,605)</u>

Approved by the Board on 14 May 2024 and signed on its behalf by:

Sarah Parker

S Parker
Director

Registered number: 09747274

The notes on pages 21 to 47 form part of these financial statements.

Prior year figures have been restated, see note 21.

Statement of Changes in Equity
for the year ended 31 December 2023

	Issued share capital £	Other reserves* £	Retained deficit £	Total equity £
At 1 September 2021	214	-	(781,431)	(781,217)
Loss for the 16 month period	-	-	(4,134,646)	(4,134,646)
Other comprehensive income for the 16 month period	-	43,276	-	43,276
Shares issued during the 16 month period	2,000,008	-	-	2,000,008
Cumulative fair value loss on hedging instruments transferred to the balance sheet (net of tax) for the 16 month period	-	12,974	-	12,974
At 31 December 2022	<u>2,000,222</u>	<u>56,250</u>	<u>(4,916,077)</u>	<u>(2,859,605)</u>
Loss for the year	-	-	(5,768,697)	(5,768,697)
Other comprehensive expense	-	(130,940)	-	(130,940)
At 31 December 2023	<u><u>2,000,222</u></u>	<u><u>(74,690)</u></u>	<u><u>(10,684,774)</u></u>	<u><u>(8,759,242)</u></u>

The notes on pages 21 to 47 form part of these financial statements.

*Other reserves are defined in note 19.

Notes to the Financial Statements

1. General information

In-Space Missions Limited is a private company, limited by shares, and registered in England and Wales and incorporated in the United Kingdom. Its ultimate controlling party is disclosed in note 23. The address of the Company's registered office is shown on page 10.

The principal activity of the Company is set out in the Strategic Report on page 1. These financial statements, which have been prepared in accordance with the Companies Act 2006, are presented in pounds sterling and, unless otherwise stated, rounded to the nearest pound.

2. Accounting policies

2.1 Basis of preparation

These financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework". The financial statements have been prepared under the historical cost convention, as modified by the revaluation of relevant financial assets and financial liabilities (including derivative instruments), and in accordance with the Companies Act 2006. Advantage has been taken of the FRS 101 disclosure exemptions as set out below:

- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases. The requirements of paragraph 58 of IFRS 16, provided that the disclosure of details in indebtedness relating to amounts payable after 5 years required by company law is presented separately for lease liabilities and other liabilities, and in total;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1 Presentation of Financial Statements;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures;
- 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
- 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.

The Company intends to continue to prepare its financial statements in accordance with FRS 101.

These financial statements have been prepared using the going concern basis of accounting. As discussed in the Director's Report (page 9).

Notes to the Financial Statements

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

Key sources of estimation uncertainty

There were no significant accounting policies that are considered by the directors to be critical because of the level of complexity and estimation uncertainty involved in their application and their impact on the financial statements.

Critical accounting judgments

In the course of preparing the financial statements, no judgements have been made in the process of applying the Company's accounting policies, that have had a significant effect on the amounts recognised in the financial statements.

Changes in accounting policies

The following standards, interpretations and amendments to existing standards became effective on 1 January 2023 and have not had a material impact on the Company:

- IFRS 17 Insurance Contracts, effective from 1 January 2023;
- Amendments to IAS 1: Presentation of Financial Statements, effective from 1 January 2023;
- Amendments to IFRS Practice Statement 2: Disclosure of Accounting Policies, effective from 1 January 2023;
- Amendments to IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors, effective from 1 January 2023; and
- Amendments to IAS 12: Income Taxes, effective from 1 January 2023.

The following other standards, interpretations and amendments to existing standards have been issued but were not mandatory for accounting periods beginning on 1 January 2023. These either have been, or are expected to be endorsed by the UK Endorsement Board and are not expected to have a material impact on the Company:

- Amendments to IAS 1: Classification of Liabilities as Current or Non-current, effective from 1 January 2024;
- Amendments to IAS 1: Non-Current Liabilities with Covenants, effective from 1 January 2024;
- Amendments to IAS 7 and IFRS 7: Supplier Finance Arrangements, effective from 1 January 2024;
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- Amendments to IFRS 16: Lease Liability in a Sale and Leaseback, effective from 1 January 2024; and
- IFRS 18: Presentation and Disclosure in Financial Statements, effective from 1 January 2027.

Material accounting policies

The material accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated. The directors believe that the financial statements reflect appropriate judgements and estimates, and provide a true and fair view of the Company's financial performance and position.

Notes to the Financial Statements

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

2.2 Revenue and profit recognition

Revenue represents income derived from contracts for the provision of goods and services, over time or at a point in time, by the Company to customers in exchange for consideration in the ordinary course of the Company's activities.

Performance obligations

Upon approval by the parties to a contract, the contract is assessed to identify each promise to transfer either a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct and accounted for as separate performance obligations in the contract if the customer can benefit from them either on their own or together with other resources that are readily available to the customer and they are separately identifiable in the contract.

Transaction price

At the start of the contract, the total transaction price is estimated as the amount of consideration to which the Company expects to be entitled in exchange for transferring the promised goods and services to the customer, excluding sales taxes. Variable consideration, such as price escalation, is included based on the expected value or most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. The transaction price does not include estimates of consideration resulting from contract modifications, such as change orders, until they have been approved by the parties to the contract. The total transaction price is allocated to the performance obligations identified in the contract in proportion to their relative stand-alone selling prices.

Given the bespoke nature of many of the Company's products and services, which are designed and/or manufactured under contract to the customer's individual specifications, there are typically no observable stand-alone selling prices. Instead, stand-alone selling prices are typically estimated based on expected costs plus contract margin consistent with the Company's pricing principles. Whilst payment terms vary from contract to contract, on many of the Company's contracts, an element of the transaction price is received in advance of delivery. The Company therefore has significant contract liabilities. The Company's contracts are not considered to include significant financing components on the basis that there is no difference between the consideration and the cash selling price either as a result of UK Ministry of Defence contracting rules which prohibit the inclusion of financing in the sales price or negotiations on competitive international export contracts which do not make allowance for the cash payment profile.

Revenue and profit recognition

Revenue is recognised as performance obligations are satisfied as control of the goods and services is transferred to the customer. For each performance obligation within a contract, the Company determines whether it is satisfied over time or at a point in time. Performance obligations are satisfied over time if one of the following criteria is satisfied:

- the customer simultaneously receives and consumes the benefits provided by the Company's performance as it performs;
- the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Company's performance does not create an asset with an alternative use to the Company and it has an enforceable right to payment for performance completed to date.

The Company has determined that most of its contracts satisfy the over-time criteria, either because the

The majority of the Company's contract modifications are treated under either 1 (for example, the requirement for additional distinct goods or services) or 3 (for example, a change in the specification of the distinct goods or services for a partially completed contract), although the facts and circumstances of any contract modification are considered individually as the types of modifications will vary contract-by-contract and may result in different accounting outcomes.

1. prospectively, as an additional, separate contract; or
2. prospectively, as a termination of the existing contract and creation of a new contract; or
3. as part of the original contract using a cumulative catch-up.

The Company's contracts are often amended for changes in customers' requirements and specifications. A contract modification exists when the parties to the contract approve a modification that either changes existing or creates new enforceable rights and obligations. The effect of a contract modification on the transaction price and the Company's measure of progress towards the satisfaction of the performance obligation to which it relates is recognised in one of the following ways:

Contract modifications

The Company regularly reviews outstanding commitment for purchases in its supply chain in order to inform revenue recognition under IFRS 15 trading principles. Where the Company has received notification that the supplier has completed the manufacture of goods, but has not yet delivered and invoiced for them and the ultimate customer controls the asset, i.e. neither the subcontractor or the Company have an alternative use for the asset, the Company will accrue for these costs and recognise revenue in line with overtime trading principles under IFRS 15.

Outstanding commitments

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately as an expense.

If the over time criteria for revenue recognition are not met, revenue is recognised at the point in time that control is transferred to the customer, which is usually when legal title passes to the customer and the business has the right to payment, for example, on delivery.

For each performance obligation to be recognised over time, the Company recognises revenue using an input method, based on costs incurred in the period. Revenue and attributable margin are calculated by reference to reliable estimates of transaction price and total expected costs, after making recognised allowances for technical and other risks. Revenue and associated margin are therefore recognised progressively as costs are incurred, and as risks have been mitigated or retired. The Company has determined that this method faithfully depicts the Company's performance in transferring control of the goods and services to the customer.

customer simultaneously receives and consumes the benefits provided by the Company's performance as it performs (typically services or support contracts) or the Company's performance does not create an asset with an alternative use to the Company and it has an enforceable right to payment for performance completed to date (typically development or production contracts).

2.2 Revenue and profit recognition (continued)

2. Accounting policies (continued)

Notes to the Financial Statements

Notes to the Financial Statements

2. Accounting policies (continued)

2.2 Revenue and profit recognition (continued)

Costs to obtain a contract

The Company expenses pre-contract bidding costs which are incurred regardless of whether a contract is awarded. The Company does not typically incur costs to obtain contracts that it would not have incurred had the contracts not been awarded, such as sales commission.

Costs to fulfil a contract

Contract fulfillment costs in respect of over-time contracts are expensed as incurred. Contract fulfillment costs in respect of point in time contracts are accounted for under IAS 2 Inventories.

2.3 Government grants

Government grants received on capital expenditure are initially recognised within deferred income on the Company's Balance Sheet and are subsequently recognised in profit or loss on a systematic basis over the useful life of the related capital expenditure.

Grants for revenue expenditure are presented as part of the profit or loss in the periods in which the expenditure is recognised.

2.4 Leases

The Company as lessee

All leases in which the Company is lessee (except as noted below) are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between repayment of the lease liability and finance cost. The finance cost is charged to the Income Statement over the lease term to produce a constant periodic rate of interest on the lease liability. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The lease liability is initially measured as the present value of future lease payments, discounted using the interest rate implicit in the lease. Where this rate is not determinable, the Company's incremental borrowing rate is used, which is the interest rate the Company would have to pay to borrow the amount necessary to obtain an asset of similar value, in a similar economic environment with similar terms and conditions.

The right-of-use asset is initially measured at cost, comprising the initial value of the lease liability, any lease payments made (net of any incentives received from the lessor) before the commencement of the lease, any initial direct costs and any restoration costs.

The carrying amounts of the Company's right-of-use assets are reviewed at each Balance Sheet date to determine whether there is any indication of impairment.

Payments in respect of short-term leases, low-value leases and leases of intangible assets are charged to the Income Statement on a straight-line basis over the lease term.

Notes to the Financial Statements

2. Accounting policies (continued)

2.5 Research and development

The Company undertakes research and development activities either on its own behalf or on behalf of customers.

Company-funded expenditure on research, and on development activities not meeting the conditions for capitalisation, is written off as incurred and charged to the Income Statement.

Where the research and development activity is performed on behalf of customers, the revenue arising is recognised in the Income Statement in accordance with the Company's revenue recognition policy.

2.6 Finance costs

Finance costs are charged to the Income Statement over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.7 Intangible assets

Intangible assets are carried at cost or valuation, less accumulated amortisation and impairment losses.

Software

This includes:

Computer software licences acquired for use within the Company which are capitalised as an intangible asset on the basis of the costs incurred to acquire and bring to use the specific software; and Software development costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs associated beyond one year, which are recognised as intangible assets. Company-funded expenditure with enhancing or maintaining computer software programs for sale is recognised as an expense as incurred.

Amortisation

Amortisation on intangible assets, is charged to the Income Statement on a straight-line basis over their estimated useful lives. Amortisation is not charged on assets in the course of construction.

The estimated useful lives are as follows:

Software - 2 to 5 years

2.8 Property, plant and equipment

Cost

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour, testing costs and an appropriate proportion of production overheads. The cost of demonstration assets is written off as incurred.

Assets held for leasing out under operating leases are included in property, plant and equipment at cost less accumulated depreciation and impairment losses.

Notes to the Financial Statements

2. Accounting policies (continued)

2.8 Property, plant and equipment (continued)

Depreciation

Depreciation is provided, normally on a straight-line basis, to write off the cost of property, plant and equipment over their estimated useful lives to any estimated residual value, using the following rates:

Leasehold improvements	- up to 5 years, or the lease term if shorter
Computer equipment	- 3 years
Office equipment	- 5 years
Lab equipment	- 3 years

No depreciation is provided on freehold land and assets in the course of construction.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each Balance Sheet date.

2.9 Impairment

The carrying amounts of the Company's intangible assets, property, plant and equipment and right-of-use assets, are reviewed at each Balance Sheet date to determine whether there is any indication of impairment as required by IAS 36 Impairment of Assets. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

The recoverable amount is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using an appropriate pre-tax discount rate.

Impairment losses are recognised in the Income Statement.

An impairment loss in respect of intangible assets, property, plant and equipment and right-of-use assets is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised or if there has been a change in the estimate used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.10 Inventories

Inventories are stated at the lower of cost, including all relevant overhead expenditure, and net realisable value.

Notes to the Financial Statements

2. Accounting policies (continued)

2.11 Trade and other receivables

Trade and other receivables are stated at amortised cost including a provision for expected credit losses. The Company measures the provision at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors.

The Company writes off a trade receivable when there is objective evidence that the debtor is in significant financial difficulty and there is no realistic prospect of recovery, for example, when a debtor enters bankruptcy or financial reorganisation.

2.12 Cash and cash equivalents

Cash and cash equivalents is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours and which are subject to an insignificant risk of change in value.

2.13 Trade, contract and other payables

Trade and other payables are stated at amortised cost.

Contract liabilities represent the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer.

2.14 Provisions

A provision is recognised in the Balance Sheet when the Company has a present 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 the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax discount rate.

Onerous contracts

Other provisions include provisions for onerous contracts, which are recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

2.15 Financial instruments

Derivative financial instruments and hedging activities

The international nature of the Company's business means that it is exposed to volatility in currency exchange rates. In order to protect itself against currency fluctuations, the Company's policy is to hedge all material firm transactional exposures.

In accordance with its treasury policy, the Company does not hold derivative financial instruments for trading purposes.

The Company aims to achieve hedge accounting treatment for all derivatives that hedge material foreign currency exposures.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, such instruments are stated at fair value at the Balance Sheet date. Fair values are estimated by discounting expected future cash flows based on reputable third party forecast data, and then adjusting for credit risk, including the Company's own credit risk, and market risk.

Notes to the Financial Statements

2. Accounting policies (continued)

2.15 Financial instruments (continued)

Fair value through profit or loss

Gains and losses on derivative financial instruments that are not designated as cash flow hedges are recognised in the Income Statement for the period.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the exposure to variability in cash flows relating to a highly probable forecast transaction (income or expense), or recognised asset or liability, the effective portion of any change in the fair value of the instrument is recognised in other comprehensive income and presented in the hedging reserve in equity. Amounts recognised in equity are reclassified from the hedging reserve into the cost of the underlying transaction and recognised in the Income Statement when the underlying transaction affects profit or loss. The ineffective portion of any change in the fair value of the instrument is recognised in the Income Statement immediately. The Company treats the foreign currency basis element of the designated foreign exchange derivative hedging instrument as a cost of hedging and as such it is excluded from the hedge designation.

2.16 Pensions

Defined contribution pension schemes

A defined contribution pension scheme is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

Obligations for contributions are recognised as an expense in the Income Statement as incurred.

2.17 Tax

Tax expense comprises current and deferred tax. Current and deferred tax is recognised in the Income Statement except to the extent that it relates to a business combination or items recognised directly in equity or in other comprehensive income.

Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred tax is not recognised for temporary differences:

on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
related to investments in subsidiaries and equity accounted investments to the extent that it is probable that they will not reverse in the foreseeable future; and
arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Notes to the Financial Statements

2. Accounting policies (continued)

2.17 Tax (continued)

Deferred Tax (continued)

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to corporate income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

3. Revenue

Revenue by class of business is as follows:

	Year ended 31 December 2023 £	16 months to 31 December 2022 £
Long term contracts	100,205	285,419
Long term intercompany	7,453,168	6,026,509
	<u>7,553,373</u>	<u>6,311,928</u>

Revenue by customer location:

	Year ended 31 December 2023 £	16 months to 31 December 2022 £
United Kingdom	7,503,439	6,132,026
Europe	-	84,957
USA	30,877	57,265
Rest of world	19,057	37,680
	<u>7,553,373</u>	<u>6,311,928</u>

Notes to the Financial Statements

4. Operating costs

	Year ended 31 December 2023 £	16 months to 31 December 2022 £
Raw materials, subcontracts and other bought-in items used	4,750,026	4,557,063
Staff costs (note 7)	6,367,344	4,985,284
Depreciation of property, plant and equipment (note 11)	265,840	170,560
Depreciation of right-of-use assets (note 12)	183,071	182,739
Amortisation of intangible assets (note 10)	18,487	7,973
IT consumables	13,549	236,321
Other operating charges	2,226,094	1,018,985
	13,824,411	11,158,925
	13,824,411	11,158,925

The remuneration of the auditor for the year ended 31 December 2023 for auditing of the financial statements was £40,000 (for the 16 month period ended 31 December 2022: £40,000) and £nil (2022: £nil) in respect of non-audit work.

5. Other income

	Year ended 31 December 2023 £	16 months to 31 December 2022 £
Research and development expenditure credits	710,446	494,650
Grant income	82,704	276,010
	793,150	770,660
	793,150	770,660

Notes to the Financial Statements

6. Financial expense

	Year ended 31 December 2023 £	16 months to 31 December 2022 £
Foreign exchange losses	82,224	6,594
Interest expense on lease liabilities (note 12)	15,778	38,573
	<u>98,002</u>	<u>45,167</u>

7. Employees

The monthly average number of Company* employees was 89 (2022: 54).

	Year ended 31 December 2023 £	16 months to 31 December 2022 £
Wages and salaries	5,325,397	4,121,328
Social security costs	588,367	494,842
Cost of defined contribution pension scheme	453,580	369,114
	<u>6,367,344</u>	<u>4,985,284</u>

* There is only one category of employee

Notes to the Financial Statements

8. Directors' remuneration

The disclosures below represent an allocation of the emoluments received by the directors to reflect their qualifying services to the Company.

	Year ended 31 December 2023 £	16 months to 31 December 2022 £
Directors' remuneration	720,040	934,029
Company contributions to defined contribution pension schemes	70,192	89,464
	<u>790,232</u>	<u>1,023,493</u>

Retirement benefits are accruing to the following number of directors under:

	Year ended 31 December 2023 Number of directors	16 months to 31 December 2022 Number of directors
Defined contribution schemes	5	5

Amounts paid in respect of the highest paid director were as follows:

	Year ended 31 December 2023 £	16 months to 31 December 2022 £
Remuneration and amounts receivable under long-term incentive schemes	160,698	203,943
Company contributions to defined contribution pension schemes	15,983	20,300
	<u>176,681</u>	<u>224,243</u>

Notes to the Financial Statements

9. Tax

Tax expense

	Year ended	16 months to
	31	31
	December	December
	2023	2022
	£	£
Current tax		
UK:		
Adjustments in respect of prior years	-	(36,568)
	<u>-</u>	<u>(36,568)</u>
Deferred tax		
Origination and reversal of temporary differences	(137,691)	30,102
Adjustments in respect of prior years ¹	(55,116)	(6,676)
	<u>(192,807)</u>	<u>23,426</u>
Tax expense	<u>(192,807)</u>	<u>(13,142)</u>

¹On 31 March 2021, the Government announced that the UK corporation tax rate would be increased from 19% to 25% with effect from 1 April 2023. The deferred tax liability at each Balance Sheet date has been calculated at the tax rates, enacted at that date, expected to apply to the temporary differences when they reverse.

No provision for current tax is required. The Company has surrendered its tax losses to fellow group companies free of charge.

On 20 June 2023, Finance (No. 2) Act 2023 was substantively enacted in the UK, including legislation to implement the Organisation for Economic Co-operation and Development's Pillar Two income taxes rules. The Company, as part of the wider BAE Group is within the scope of the rules and the first period for which a Pillar Two tax return will be required for the BAE Group is the accounting period ending on 31 December 2024.

Notes to the Financial Statements

9. Tax (continued)

Reconciliation of tax expense

The following reconciles the expected tax expense, using the UK corporation tax rate, to the reported tax expense.

	Year ended 31 December 2023 £	16 months to 31 December 2022 £
Loss before tax	(5,575,890)	(4,121,504)
UK corporation tax rate	23.52%	19.00%
Expected tax income on loss	1,311,449	783,086
Expenses not tax effected	20,273	(5,845)
Property, plant and equipment	(98,665)	(1,302)
Provisions and accruals	390	3,947
Imputed interest expense	98,897	5,216
Timing differences not provided	-	(10,458)
Losses surrendered to fellow group companies	(1,470,035)	(744,542)
Adjustments in respect of prior years	(55,116)	(43,244)
Tax expense	(192,807)	(13,142)

Notes to the Financial Statements

9. Tax (continued)

Tax recognised in other comprehensive income

	2023			2022		
	Before tax £	Tax benefit/ (expense) £	Net of tax £	Before tax £	Tax benefit/ (expense) £	Net of tax £
Items that may be reclassified to the Income Statement:						
Fair value (loss)/gain arising on hedging instruments during the period	(74,690)	-	(74,690)	40,402	(10,100)	30,302
Cumulative fair value (gain)/loss on hedging instruments reclassified to the income statement	(75,000)	18,750	(56,250)	17,299	(4,325)	12,974
	<u>(149,690)</u>	<u>18,750</u>	<u>(130,940)</u>	<u>57,701</u>	<u>(14,425)</u>	<u>43,276</u>

	2023			2022		
	Other reserves £	Retained earnings £	Total £	Other reserves £	Retained earnings £	Total £
Deferred tax						
Financial instruments	18,750	-	18,750	(14,425)	-	(14,425)
Tax on other comprehensive income	<u>18,750</u>	<u>-</u>	<u>18,750</u>	<u>(14,425)</u>	<u>-</u>	<u>(14,425)</u>

¹The Government announced in 2021 that from 1 April 2023 the UK corporation tax rate would increase from 19% to 25%. The deferred tax asset at each Balance Sheet date has been calculated at the tax rates, enacted at that date, expected to apply to the temporary differences when they reverse. The resulting tax rate adjustment has been partly recorded in the Income Statement and partly in the Statement of Comprehensive Income.

Notes to the Financial Statements

10. Intangible assets

	Software £	Assets under construction* £	Total £
Cost			
At 1 January 2023	55,460	-	55,460
Additions	-	468,827	468,827
At 31 December 2023	<u>55,460</u>	<u>468,827</u>	<u>524,287</u>
Amortisation			
At 1 January 2023	7,973	-	7,973
Amortisation charge for the year	18,487	-	18,487
At 31 December 2023	<u>26,460</u>	<u>-</u>	<u>26,460</u>
Net book value			
At 31 December 2023	<u>29,000</u>	<u>468,827</u>	<u>497,827</u>
At 31 December 2022	<u>47,487</u>	<u>-</u>	<u>47,487</u>

* Assets in the course of construction relates to software under development £118,827, and the transfer of data related to satellites £350,000.

Notes to the Financial Statements

11. Property, plant and equipment

	Lab equipment £	Leasehold improvements £	Office equipment £	Computer equipment £	Total £
Cost or valuation					
At 1 January 2023	152,061	273,383	61,742	228,470	715,656
Additions	251,679	196,859	4,202	72,700	525,440
At 31 December 2023	403,740	470,242	65,944	301,170	1,241,096
Depreciation					
At 1 January 2023	59,286	65,499	17,874	93,589	236,248
Depreciation charge for the year	92,787	81,347	12,273	79,785	266,192
At 31 December 2023	152,073	146,846	30,147	173,374	502,440
Net book value					
At 31 December 2023	251,667	323,396	35,797	127,796	738,656
At 31 December 2022	92,775	207,884	43,869	134,881	479,409

Notes to the Financial Statements

12. Leases

The Company leases land and buildings under non-cancellable lease arrangements. There are no terms that represent unusual arrangements or create material onerous or beneficial rights or obligations.

	As at 31 December 2023	As at 31 December 2022
	Land and buildings £	Land and buildings £
Net book value as at 1 January	509,746	-
Additions during the year	181,716	692,485
Depreciation expense for the year	(183,071)	(182,739)
Net book value as 31 December	<u>508,391</u>	<u>509,746</u>

Lease liabilities

A maturity analysis of the future undiscounted lease payments in respect of the Company's lease liabilities is presented in the table below.

	Year ended 31 December 2023 £	16 month period to 31 December 2022 £
Payments due:		
Within one year	211,875	113,906
Between one and five years	314,646	398,729
	<u>526,521</u>	<u>512,635</u>
Impact of discounting	(22,026)	-
Total discounted lease liability	<u>504,495</u>	<u>512,635</u>

The total cash outflow for leases recognised on the Balance Sheet in the year ended 31 December 2023, amounted to £189,000 (16 month period ended 31 December 2022: £151,875).

Notes to the Financial Statements

12. Leases (continued)

Amounts recognised in the Income Statement

	Year ended 31 December 2023 £	16 month period to 31 December 2022 £
Included in operating costs:		
Depreciation on right-of-use assets	183,071	182,739
	<u> </u>	<u> </u>
Included in net finance costs:		
Interest expense on lease liabilities	15,778	38,573
	<u> </u>	<u> </u>

13. Trade and other receivables

	As at 31 December 2023 £	As at 31 December 2022 £
Non-current		
Amounts owed by BAE Systems plc subsidiaries	-	1,972,714
	<u> </u>	<u> </u>
Current		
Trade receivables	36,469	192,498
Amounts owed by BAE Systems plc subsidiaries	552,260	-
Prepayments	1,502,775	1,195,036
VAT recoverable	274,601	204,257
Other receivables	31,251	31,570
	<u> </u>	<u> </u>
	2,397,356	1,623,361
	<u> </u>	<u> </u>

Amounts owed by BAE Systems plc subsidiaries are payable on demand. No interest is applied to amounts owed and they are unsecured. Non-current assets are not expected to settle within the normal operating cycle.

The impact of discounting non-current amounts owed by BAE Systems plc subsidiaries is not material given that the amounts are repayable on demand and therefore the contractual period over which these loans could be recalled is one day after the end of the reporting period, so has not been applied.

Notes to the Financial Statements

14. Other financial assets and liabilities

	2023	2022
	£	£
Financial assets		
Current		
Cash flow hedges – foreign exchange contracts	<u>4,431</u>	<u>75,000</u>
Current		
Cash flow hedges – foreign exchange contracts	<u>(79,121)</u>	<u>-</u>

15. Deferred tax assets/liabilities

	Deferred tax assets		Deferred tax liabilities		Net balance at 31 December	
	2023	2022	2023	2022	2023	2022
	£	£	£	£	£	£
Property, plant and equipment	-	-	(227,703)	(28,316)	(227,703)	(28,316)
Provisions and accruals	26,115	19,535	-	-	26,115	19,535
Financial instruments	-	-	-	(18,750)	-	(18,750)
	<u>26,115</u>	<u>19,535</u>	<u>(227,703)</u>	<u>(47,066)</u>	<u>(201,588)</u>	<u>(27,531)</u>

Movement in temporary differences during the year

	At 31 December 2022	Recognised in income	Recognised in equity	At 31 December 2023
	£	£	£	£
Property, plant and equipment	(28,316)	(199,387)	-	(227,703)
Provisions and accruals	19,535	6,580	-	26,115
Financial instruments	(18,750)	-	18,750	-
	<u>(27,531)</u>	<u>(192,807)</u>	<u>18,750</u>	<u>(201,588)</u>

Notes to the Financial Statements

15. Deferred tax assets/liabilities (continued)

	At 31 August 2021 £	Recognised in income £	Recognised in equity £	As at 31 December 2022 £
Property, plant and equipment	(35,295)	6,979	-	(28,316)
Provisions and accruals	3,088	16,447	-	19,535
Financial instruments	-	-	(18,750)	(18,750)
	<u>(32,207)</u>	<u>23,426</u>	<u>(18,750)</u>	<u>(27,531)</u>

The deferred tax asset, which has not been recognised in the financial statements, is made up as follows:

	Year ended 31 December 2023 £	16 months to 31 December 2022 £
Unrecognised tax losses	22,011	21,640
Other	18,673	-
	<u>40,684</u>	<u>21,640</u>

The deferred tax asset has not been recognised because there is insufficient evidence of future taxable profits to support its recoverability.

16. Inventories

	As at 31 December 2023 £	As at 31 December 2022 £
Raw materials and consumables	<u>575,059</u>	<u>186,660</u>

Notes to the Financial Statements

17. Trade, contract and other payables

	As at 31 December 2023 £	As at 31 December 2022 £
Current		
Trade payables	558,239	862,121
Amounts owed to BAE Systems plc	10,881,108	6,043,185
Contract liabilities	1,438,129	1,310,968
Other taxation and social security	207,564	137,217
Accruals	370,143	245,307
Other payables	62,497	36,141
	<u>13,517,680</u>	<u>8,634,939</u>

Revenue recognised in the year includes £1,438,129 (2022: £1,822,956) that was included in the opening contract liabilities balance.

Amounts owed by BAE Systems plc are payable on demand. No interest is applied to amounts owed and they are unsecured.

Notes to the Financial Statements

18. Provisions

	Onerous contracts £
Non-current	76,007
Current	-
At 1 January 2023	<u>76,007</u>
Created	317,988
Released	(11,170)
At 31 December 2023	<u><u>382,825</u></u>
Represented by:	
Non-current	382,825
Current	-
	<u><u>382,825</u></u>

Onerous contracts

The Company has recognised a provision for one of its contracts, where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The provision is expected to last the life of the contract.

Notes to the Financial Statements

19. Share capital

Share issued and paid in full

	Value per share £	Number of shares	Nominal value £
As at 31 August 2021	0.0001	2,136,960	214
Share issued in period	0.0001	20,000,077,583	2,000,008
As at 31 December 2022		<u>20,002,214,543</u>	<u>2,000,222</u>
As at 31 December 2023		<u><u>20,002,214,543</u></u>	<u><u>2,000,222</u></u>

Other reserves

	Hedging reserve £
At 1 September 2021	-
Amounts credited to hedging reserve (net of tax)	56,250
At 31 December 2022	<u>56,250</u>
Amounts debited to hedging reserve (net of tax)	(130,940)
At 31 December 2023	<u><u>(74,690)</u></u>

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments relating to hedged transactions that have not yet occurred.

Notes to the Financial Statements

20. Post balance sheet events

There have been no significant events affecting the Company since the period end.

21. Prior year restatement

During 2022, services provided by a supplier which contributed to the progression of one of the Company's long-term contracts was not identified until 2023. The company received revenue equal to the cost of the services, and hence the prior period error had no impact to net profit (nor net assets). However as there was a 3% impact to revenue, the revenue and cost for the prior period has been restated.

The following tables summarises the impact of the prior period error on the financial statements of the Company:

Income Statement (extract)

	2022 As previously reported £	Impact of restatement £	2022 Restated £
Revenue	6,111,003	200,925	6,311,928
Operating costs	(10,958,000)	(200,925)	11,158,925
Operating loss	(4,076,337)	-	(4,076,337)
Loss before tax	(4,121,504)	-	(4,121,504)
Loss for the year	(4,134,646)	-	(4,134,646)
Total comprehensive income	(43,276)	-	(43,276)

Balance Sheet (extract)

	2022 As previously reported £	Impact of restatement £	2022 Restated £
Trade and other receivables	1,422,436	200,925	1,623,361
Trade, contract and other payables	(8,434,014)	(200,925)	(8,634,939)

Notes to the Financial Statements

22. Share-based payments

Details of the share options outstanding at the period end is as follows:

	Year ended December 2023		16 month period ended December 2022	
	Number of share options	Weighted average exercise price (pence)	Number of share options	Weighted average exercise price (pence)
Outstanding at the beginning of the period/year	-	-	77,583	0.01
Granted during the period/year	-	-	-	-
Forfeited during the period/year	-	-	-	-
Exercised during the period/year	-	-	(77,583)	0.01
Outstanding at the end of the period/year	-	-	-	-

23. Controlling parties

The immediate parent company is BAE Systems (Holdings) Limited and the ultimate controlling party is BAE Systems plc, which is both the smallest and largest parent company preparing consolidated group financial statements. Both companies are incorporated in the United Kingdom and registered in England and Wales.

The consolidated financial statements of BAE Systems plc are available to the public and may be obtained from its registered address:

6 Carlton Gardens
London
SW1Y 5AD

Website: www.baesystems.com