Vertical Aerospace Group Ltd

Registered number: 12590994

Annual Report and Financial Statements

For the year ended 31 December 2023

Contents

Company Information

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

Stephen Fitzpatrick
Michael Cervenka
Vincent Casey (resigned 3 August 2023)

Company Secretary
Sanjay Verma

Registered Office

Unit 1 Camwal Court
Chapel Street
Bristol
BS2 0UW
United Kingdom

Independent Auditors

PricewaterhouseCoopers LLP
2 Glass Wharf
Bristol
BS2 0FR

Strategic Report for the year ended 31 December 2023

The Directors of Vertical Aerospace Group Ltd (the 'Company') present their Strategic Report for the year ended 31 December 2023.

Principal Activities

The principal activity of the Company is the development and commercialisation of electric Vertical Take-off and Landing ("eVTOL") technologies.

The Company is a wholly owned subsidiary of Vertical Aerospace Ltd, a Cayman Islands incorporated company listed on the New York Stock Exchange, of which Stephen Fitzpatrick is the controlling party.

Business Review

The purpose of the Company is to revolutionize the way we travel, in a more sustainable world. The Company is a global aerospace and technology company that is pioneering electric aviation, focused on designing, manufacturing and selling a zero operating emission eVTOL aircraft for use in the Advanced Air Mobility ("AAM") market, using the most cutting-edge technology from the aerospace, automotive and energy industries.

The VX4 aircraft is being designed around existing certifiable technology, as well as certain novel technology such as the batteries and powertrain, by the Company's experienced team that has previously certified and supported the development of over 30 aircraft and propulsion systems around the world. The Company is currently one of the only eVTOL designers and original equipment manufacturers ("OEM") actively pursuing certification from the CAA or the EASA with a winged vehicle. The Company aims to have our aircraft certified to the same safety standards as commercial airlines, rather than the significantly lower standards to which similarly sized helicopters are currently certified. EASA also confirmed that it will concurrently validate the CAA certification for the VX4, which means the certification and validation process will run simultaneously in both jurisdictions. Both regulators are using Special Conditions (SC)-VTOL basis for certification of new eVTOL aircraft. By achieving certification of the VX4 eVTOL aircraft from the CAA and EASA, the Company will be able to leverage the work done with its home regulator to have the certification validated by other regulators where the Company intends to operate, including the FAA. In addition, we also formally commenced certification efforts in Japan, following the Japan Civil Aviation Bureau's acceptance of the VX4's validaiton program.

In March 2023, the CAA issued an eVTOL Design Organisation Approval ("DOA") to the Company. UK and European aerospace companies cannot hold a type certificate without being granted a DOA. The DOA authorises the Company to conduct design activities and issue design approvals within the DOA's scope of approval.

The Company is developing a sophisticated eVTOL ecosystem that allows it to focus on providing a high-quality experience. The Company's in-house expertise covers design, certification, assembly and manufacture, pilot experience, end-user experience and base platform performance. The Company aims to sell globally certified eVTOL aircraft to a variety of customers, including commercial airlines, aircraft leasing companies, business aviation, existing helicopter operators as well as new operators in the AAM market, providing both OEM sales and aftermarket services to its customers.

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

Review of the year ending 31 December 2023

During the year the Company spent £65,373 thousand (2022: £49,129 thousand) on research and development, resulting in a loss for the year of £76,706 thousand (2022: £99,880 thousand). The Company conducts extensive research and development to reduce technical risks associated with manufacturing its aircraft. The testing of this aircraft helps the Company to evaluate candidate system architectures and components for the certified production aircraft. Additionally, the Company is performing research and development on battery systems and other electric powertrain components in order to maximize the performance of its aircraft.

The Company has invested and will continue to invest in certain proprietary features of its aircraft, including its battery system and propeller design. The Company's proprietary battery system utilizes small-format cylindrical cells to provide a high performance, low-cost, highly reliable and sustainable supply chain. In 2023, the Company developed its first full battery pack in-house at the Vertical Energy Centre. The Company's advanced propeller system uses four tilting propellers at the front of the aircraft and four stowable propellers at the rear to enable high efficiency in all phases of flight.

The Company believes that its strategic partnerships create a sophisticated eVTOL ecosystem that allows it to focus on creating value for customers throughout the process. The Company has sought out partnerships with industry leaders across critical components required to successfully design, develop and operate its aircraft. The Company has established strong collaborations and relationships with Rolls-Royce, Honeywell, Microsoft, Syensqo, GKN Aerospace, Leonardo, Molicel, Hanwha and CAE on the industrial side to develop components and support the manufacture its aircraft.

The Company is the recipient of ATI grants from the U.K. Government relating to the U.K.'s announced investment in hydrogen and all-electric flight technologies. Such grant are being drawn down in installments over the duration of the project. These grants are being used by the Company to develop a prototype propulsion battery system for aerospace applications and to develop its next generation propellers, including as part of the Company's eVTOL aircraft.

The Company does not generate revenue and therefore it considers its spend on research and development and total cash outflow as the key performance indicators ('KPIs') on its path to commercialisation. The KPIs are presented below:

	2023 £'000	2022 £'000
Research and development expense	65,373	49,129
Net cash outflows excluding financing activities	76,828	106,272

Future Developments

On 22 February 2024, Vertical Aerospace Ltd entered into an with Imagination Aero Investments Limited, a company wholly owned by Stephen Fitzpatrick, pursuant to which Imagination Aero Investments Limited agreed to purchase, and Vertical Aerospace Ltd agreed to issue and sell up to $50 million of newly issued ordinary shares and warrants.

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

UK Streamlined Energy and Carbon Reporting

The Company's mission to create a vertical take-off and landing aircraft, with zero operating emissions. With transport as a laggard in society's drive to decarbonise, this will contribute towards the lowering of carbon emissions by society by reducing the reliance on short-haul flights and other modes of transport.

In accordance with the UK Streamlined Energy and Carbon Reporting ("SECR") framework requirements, the below provides a summary of greenhouse gas ("GHG") and energy data for the Company:

	Description	**Unit**	**2023**
Scope 1	Emissions from owned vehicles and liquid fuels	tCO_2e	83
Scope 2	Electricity emissions	tCO_2e	134
Direct and indirect consumption		*kWh*	*977,420*
Scope 3	Business travel, water and waste	tCO_2e	576
Total		**tCO_2e**	**793**

As at 31 December 2023 the Company had 306 employees. Therefore, during the year end 2023, the Company emitted 2.6 tonnes of CO_2 per employee.

The Company use the Greenhouse Gases Protocol Corporate Accounting and Reporting Standard, and the latest published conversion factors from the Department for Energy Security & Net Zero using verifiable data where reasonably practicable. Where this was not reasonably practicable, an estimate has been derived through calculations based on other verifiable data.

During the year, the Company switched electricity provider to a supplier with a higher proportion of electricity from renewable sources. The company's waste management partner also ensures complete diversion from landfill, significantly reducing CO_2 output from waste. As part of ongoing enhancement of its facilities, the Company adopted low energy lighting infrastructure and absence detection technology.

Risks and Uncertainties

The Company has a limited operating history in the eVTOL aircraft industry and has not yet manufactured any non-prototype aircraft or sold any eVTOL aircraft to customers. The Company may not be able to produce or launch aircraft in the volumes or timelines projected. The Company's aircraft may not perform at the level it expects on projected timelines and may have potential defects, such as higher than expected noise profile, lower payload than initially estimated, shorter range and/or shorter useful lives than anticipated. The markets for the Company's offerings are still in relatively early stages of growth, and such markets may not continue to grow, may grow more slowly than we expect or may fail to grow as large as expected. Accidents or incidents could occur involving eVTOL aircraft developed by the Company or its competitors. The Company's eVTOL aircraft may not be certified by transportation authorities in a timely manner, or at all. Such risks could could adversely affect the Company's prospects, business, financial condition and results of operations.

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

The Company has incurred net losses since inception and to date have not generated any revenue from the design, development, manufacturing, engineering and sale or distribution of electric aircraft. Commensurate with being in the development phase of its journey to the commercialization of the VX4, the Company has invested heavily in research to support the development of its aircraft. The Group will need to raise additional capital to fund its and the Company's future operations and remain as a going concern, before it uses all of its existing resources. There can be no assurance that the Group will be able to obtain additional funding on acceptable terms and thus have sufficient funds to meet Group funding requirements. As a result, the timely completion of financing is important for the Company's ability to continue as a going concern when it has exhausted its existing resources.

Post balance sheet events

On 22 February 2024, Vertical Aerospace Ltd entered into an with Imagination Aero Investments Limited, a company wholly owned by Stephen Fitzpatrick, pursuant to which Imagination Aero Investments Limited agreed to purchase, and Vertical Aerospace Ltd agreed to issue and sell up to $50 million of newly issued ordinary shares and warrants.

Section 172 Statement

The Directors of the Company confirm that that they have discharged their duties as a director in a way which is considered, in good faith, to promote the success of the Company with regard to the matters set out in Section 172 ("s172") of the Companies Act 2006.

The Directors acknowledge their responsibilities to take into consideration the interests of all stakeholders in their decision making process and to promote the success of the Company in accordance with s172, including the impact of its activities on its employees, shareholder, customers, suppliers, the community, the environment and on the Company's reputation.

In doing so, they gave regard to:

- The likely long-term consequences of any decision;
- The interest of the Company's employees;
- The need to foster the Company's business relationships with suppliers, customers and others;
- The impact of the Company's operations on the community and environment;
- The Company's desire to maintain a reputation for high standards of business conduct; and
- The need to act fairly between all members of the Company.

Section 172 Statement (continued)

Without talented and committed employees, the Company could not delivery on its ambitions, aspiring to pioneer zero operating emissions aviation. The Directors acknowledge that when the Company's people thrive, they are more motivated and serve as better partners to the business. The Directors fulfil their s172 duties considering the views of their people stakeholders by engaging regularly with its people by issuing employee surveys to provide all employees at all levels the change to share views with line managers, colleagues and leadership and hosting a number of employee forums and company wide town halls.

The Directors also acknowledge the importance of giving due consideration to all stakeholders is a continuous and ongoing process which includes the following examples:

- The Directors fully understand the commitment to act responsibly towards the Company shareholder and act in accordance with the standards set by them.
- The Directors continue to promote the success of the Company through the development and commercialisation of eVTOL technologies as further addressed in the Company's Strategic Report.
- The Company has a values and code of ethics policy that sets out the principles underpinning the approach to ensuring fairness, honesty and integrity in the workplace across all levels of the organisation.
- The Directors understand that the quality and experience of their employees are fundamental to the success of the Company. The Directors consider the training and development of its workforce to be key and therefore promotes a commitment to training both internally and externally.
- The Company is committed to the health, safety and wellbeing of its workforce, offering comprehensive health insurance and life cover and contributions to a defined contribution pension scheme.
- The Company is fully committed to working responsibly and has whistleblowing procedures in place to ensure that employees can raise any concerns they may have.
- The Company maintains is committed to promoting responsible and sustainable procurement via the core values of respect of human rights, labour, environment, and anti-corruption practices. The Company is determined to ensure the highest possible standards of corporate responsibility and sustainability throughout all of its operations, centred on our supply chain activities and demonstrates so through maintaining a Supplier Code of Conduct.

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

Stephen Fitzpatrick
Director

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2023.

Directors

The Directors who held office during the year and up to the date of this report were:

- Stephen Fitzpatrick
- Michael Cervenka
- Vincent Casey (resigned 3 August 2023)

Results and Dividends

During the year the Company spent £65,373 thousand (2022: £49,129 thousand) on research and development, resulting in a loss for the year of £76,706 thousand (2022: £99,880 thousand).

The Directors do not recommend the payment of a dividend (2022: £nil).

Financial Risk

The Company's financial risk management operations are carried out within parameters defined and agreed by the Board. The Company's financial risk management objectives and policies are disclosed within Note 21.

Directors' interests and indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout last financial period and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

Employee participation

The Company is dedicated to creating a culture and environment for its employees to be able to thrive. The Company facilitates an employee engagement survey - Vertical Voice. Its goal is to create a platform for employees to do their best work and experience the career of a lifetime. The Vertical Way articulates the values and behaviours that the Company stands for as an organisation - the beliefs that unite, principles that are followed; and goals that motivate.

The environment

The Company manufacturing operations are hazardous at times. The Company plans to design its facilities and manufacturing processes to be efficient, safe and sustainable in order to minimise our carbon footprint and encourage us to be global leaders in creating environmentally friendly manufacturing practices and aircraft.

Health and Safety

The Company ensures that appropriate training is provided in relation to health and safety, which includes specific training in response to hazards. This is reinforced by appropriate policies and procedures. Safety is a core Company value, and the foundation that the Company mission is built upon.

Directors' Report (continued)

Employment of disabled persons

One of the Company's core values is treating people fairly therefore giving equal opportunities to all employees including applicants. The Company ensures all employees get the same chances for training, development and career progression depending on their performance, including any disabled employees.

Political and charitable donations

During the year the Company donated £27 thousand to charity (2022: £54 thousand). The Company did not make any political donations (2022: £nil).

Independent Auditors

PricewaterhouseCoopers LLP served as auditors for the year ended 31 December 2023 and the period ended 31 December 2022. PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and will be proposed by the board of directors.

Going concern

The Company is currently in the research and development phase of its journey to commercialisation of eVTOL technology. It is not generating any revenue, is in a net liabilities position, has a net loss and a net cash outflow. The Company is a subsidiary of Vertical Aerospace Ltd which is listed on the New York Stock Exchange. The Company relies upon the continued support of its parent company and the Directors have received confirmation that Vertical Aerospace Ltd will support the Company for at least 12 months from the date of approval of these financial statements. As of 31 December 2023, the Group had £48.7 million of cash and cash equivalents on hand.

On 22 February 2024, Vertical Aerospace Ltd entered into an with Imagination Aero Investments Limited, a company wholly owned by Stephen Fitzpatrick, pursuant to which Imagination Aero Investments Limited agreed to purchase, and Vertical Aerospace Ltd agreed to issue and sell up to $50 million of newly issued ordinary shares and warrants.

Within the next 12 months following the date of approval of these financial statements, the Company expects its net cash outflows from operating activities to be approximately £70 million (after taking into account expected R&D tax receipts and grants of approximately £28 million), which will be used primarily to fund the creation and testing of the prototype aircraft and to support the certification process.

The aforementioned investment extends our projected cash runway into the second quarter of 2025, providing the platform for further funding rounds. The Group will need to raise additional capital to fund it's and the Company's future operations and remain as a going concern, before the Group and the Company uses all of their existing resources. Accordingly, the financial support from the parent company that the Company needs may not be forthcoming if the Group is unable to obtain additional financing. There can be no assurance that the Group will be able to obtain additional funding on acceptable terms and thus have sufficient funds to meet the Group, and the Comapny's funding requirements. The timely completion of financing by the Group is therefore important for the Company's ability to continue as a going concern when it has exhausted its existing resources.

The dependency on the Group being able to raise additional capital indicates that a material uncertainty exists that may cast significant doubt on the Company' ability to continue as a going concern and therefore the Company may be unable to realise the assets and discharge the liabilities in the normal course of business. These financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the continuity of operations, realisation of assets and the satisfaction of liabilities in the ordinary course of business and do not include any adjustments that would result if the Company were unable to continue as a going concern.

Share based payments

The Company operates a tax advantaged Enterprise Management Incentive ("EMI") scheme, as well as alternative scheme referred to as the "2021 Incentive Plan". This scheme was modified during the year ended 31 December 2023. See Note 5 for more detail.

The impact of both the of the EMI scheme and the 2021 Incentive Aware Plan, including its modification, is reflected in the financial statements.

Disclosure of information to auditors

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

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

Stephen Fitzpatrick

Director

Vertical Aerospace Group Ltd

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with UK-adopted international accounting standards.

Under company law, 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 the financial statements, the directors are required to:

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

The directors are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also 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.

The financial statements on pages 17 to 51 were approved by the Board of Directors on 14 March 2024 and signed on its behalf by:

Stephen Fitzpatrick
Director

Vertical Aerospace Group Ltd

Independent auditors' report to the members of Vertical Aerospace Group Ltd

Report on the audit of the financial statements

Opinion

In our opinion, Vertical Aerospace Group Ltd's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2023 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and the Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2023; the income statement, statement of changes in equity and statement of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

In forming our opinion on the financial statements, *which is not modified*, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the company's ability to continue as a going concern. The Company is dependent on funding provided by its parent company, Vertical Aerospace Ltd. Although the Directors have received a letter confirming that such funding will continue, there remains a need for the parent company to raise additional capital to enable funding the future operations of the Company beyond 12 months from the financial statements and remain a going concern. The financial support from the parent company may not be forthcoming if such additional financing cannot be obtained. These conditions, along with the other matters explained in note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

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

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

Independent auditors' report to the members of Vertical Aerospace Group Ltd (continued)

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Independent auditors' report to the members of Vertical Aerospace Group Ltd (continued)

Auditors' 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 auditors' 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.

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.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to misappropriation of cash. Audit procedures performed by the engagement team included:

- Review of board meeting minutes and inquiries of management for any known or suspected instances of non-compliance with laws and regulations and fraud;
- Challenging assumptions and judgements made by management in their significant accounting estimates and obtaining corroborative evidence to support their reasonableness;
- Identifying and testing journal entries based on our risk assessment and evaluating whether there was evidence of misappropriation of cash that represents a risk of material misstatement due to fraud; and
- Incorporating an element of unpredictability into the audit procedures performed.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, 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.

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 auditors' report.

Independent auditors' report to the members of Vertical Aerospace Group Ltd (continued)

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Colin Bates (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
14 March 2024

Income Statement
for the year ended 31 December 2023

	Note	2023 £'000	2022 £'000
Research and development expenses	5	(65,373)	(49,129)
Administrative expenses	5	(32,070)	(30,226)
Shared based payment expense	5	(8,816)	(22,370)
Other operating income	3	4,326	5,911
Loss before interest and taxation		**(101,933)**	**(95,814)**
Finance income		2,858	-
Finance costs		(292)	(4,066)
Net finance income/(costs)	4	2,566	(4,066)
Loss before taxation		**(99,367)**	**(99,880)**
Income tax credit	8	22,661	-
Loss for the financial year		**(76,706)**	**(99,880)**

All amounts above are derived from continuing activities.

There are no recognised gains or losses other than those shown above and therefore no separate statement of other comprehensive income is presented (2022: £Nil).

The notes on pages 21 to 51 form part of these financial statements.

Vertical Aerospace Group Ltd

Balance Sheet Registration number: 12590994

as at 31 December 2023

	Note	**2023 £'000**	2022 £'000
Assets			
Non-current assets			
Property, plant and equipment	9	3,821	2,690
Right of use assets	10	2,453	3,121
Intangible assets	11	1,018	2,048
		7,292	7,859
Current assets			
Trade and other receivables	12	26,133	18,789
Cash at bank		490	630
		26,623	19,419
Total assets		**33,915**	**27,278**
Liabilities			
Current liabilities			
Trade and other payables	13	205,620	130,328
Short term lease liabilities	14	643	516
Loans and borrowings	15	-	-
		206,263	130,844
Net current liabilities		**179,640**	**111,425**
Non-current liabilities			
Long term creditors	13	3,922	4,153
Long term lease liabilities	14	1,977	2,645
Provisions	16	256	365
		6,155	7,163
Total liabilities		**212,418**	**138,007**
Net liabilities		**178,503**	**110,729**
Equity and reserves			
Share capital	17	-	-
Other reserves	17	33,567	24,635
Share premium		50,739	50,739
Accumulated losses		(262,809)	(186,103)
Total equity		**(178,503)**	**(110,729)**

The notes on pages 21 to 51 form part of these financial statements.

The financial statements of Vertical Aerospace Group Ltd, registered number 12590994, were approved by the board of directors and authorised for issue on 14 March 2024 and were signed on its behalf by:

Stephen Fitzpatrick
Director

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

	Note	Share capital £'000	Share premium £'000	Other reserves £'000	Accumulated losses £'000	Total £'000
At 1 January 2022		**-**	**50,739**	**2,276**	**(85,970)**	**(32,955)**
Loss for the year		-	-	-	(99,880)	(99,880)
Share based payment transaction	17	-	-	22,359	(253)	22,106
At 31 December 2022		**-**	**50,739**	**24,635**	**(186,103)**	**(110,729)**
Loss for the year		-	-	-	(76,706)	(76,706)
Share based payment transactions	17	-	-	8,932	-	8,932
At 31 December 2023		**-**	**50,739**	**33,567**	**(262,809)**	**(178,503)**

The notes on pages 21 to 51 form part of these financial statements.

Vertical Aerospace Group Ltd

Statement of Cash Flows

for the year ended 31 December 2023

	Note	2023 £'000	2022 £'000
Cash flows from operating activities			
Loss for the year		(76,706)	(99,880)
Adjustments to cash flows from non-cash items:			
Depreciation and amortisation	5, 9, 11	2,056	1,772
Depreciation on right of use assets	10	658	411
Finance (income) / costs		(2,566)	3,567
Share based payment transactions	5	8,816	22,370
Income tax credit	8	(22,661)	-
		(90,403)	(71,760)
Working capital adjustments			
Increase in trade and other receivables		3,998	(6,120)
Decrease / (increase) in trade and other payables		512	(26,387)
Income taxes received		11,319	-
Net cash used in operating activities		(74,574)	(104,267)
Cash flows from investing activities			
Acquisitions of property plant and equipment	9	(2,102)	(1,434)
Acquisition of intangible assets	11	(159)	(571)
Interest received on deposits		7	-
Net cash used in investing activities		(2,254)	(2,005)
Cash flows from financing activities			
Proceeds from borrowing draw downs	15	-	-
Repayment of borrowings	15	-	-
Proceeds from Related Parties Borrowings		77,357	102,416
Payments to lease creditors	14	(669)	(484)
Net cash flows generated from financing activities		76,688	101,932
Net decrease in cash at bank		**(140)**	(4,340)
Cash at bank as at 1 January		630	4,970
Cash at bank as at 31 December		490	630

The notes on pages 21 to 51 form part of these financial statements.

Notes to the Financial Statements
for the year ended 31 December 2023

1 General information

The company is a private company limited by share capital, incorporated and domiciled in the UK.

The address of its registered office is:
Unit 1 Camwal Court
Bristol
BS2 0UW
United Kingdom

These financial statements were authorised for issue by the Board on 14 March 2024.

Principal Activities

The principal activity of the Company is the development and commercialization of vertical take-off and landing electrically powered aircraft ("eVTOL").

Statement of compliance

The financial statements of the Company have been prepared in accordance with UK-adopted International Financial Reporting Standards ("IFRS") and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

The Company's financial statements are presented in Pounds Sterling and all values are expressed in Pounds Sterling, the Company's functional currency, to the nearest £1,000 unless otherwise stated.

2 Accounting policies

Basis of accounting

The financial statements have been prepared in accordance with the Companies Act 2006 and, under the historical cost accounting convention. All accounting policies have been applied consistently, other than where new policies have been adopted.

Basis of preparation

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies.

Going concern

Management has prepared a cash flow forecast for the Company and has considered the ability for the Company to continue as a going concern for the foreseeable future, being at least 12 months after approving these financial statements.

2 Accounting policies (continued)

Going concern (continued)

Management has prepared a cash flow forecast for the Company and has considered the ability for the Company to continue as a going concern for the foreseeable future, being at least 12 months after approving these financial statements.

The Company is currently in the research and development phase of its journey to commercialisation of eVTOL technology. Commensurate with being in the development phase, the Company has invested heavily in research to support the development of its aircraft. The Company is not currently generating revenue and has incurred net losses and net cash outflows from operating activities since inception. The Company is a subsidiary of Vertical Aerospace Ltd which is listed on the New York Stock Exchange. The Company relies upon the continued support of its parent company and the Directors have received confirmation that Vertical Aerospace Ltd will support the Company for at least 12 months from the date of approval of these financial statements.

Within the next 12 months following the date of approval of these financial statements, management expects its net cash outflow from operations to be approximately £70 million (after taking into account expected R&D tax receipts and grants of approximately £28 million), which will be used primarily to fund the creation and testing of the prototype aircraft, and to support the certification process.

On 22 February 2024, Vertical Aerospace Ltd and Imagination Aero Investments Limited ('Imagination Aero'), a company indirectly owned by Stephen Fitzpatrick, entered into the SF investment agreement, pursuant to which Imagination Aero agreed to purchase, and the Vertical Aerospace Ltd agreed to issue and sell to Imagination Aero, up to $50 million of (i) newly issued ordinary shares and (ii) SF 50,000,000 Warrants, in each case at purchase prices specified in the investment Agreement. On 13 March 2024, Vertical Aerospace Ltd received $25 million in gross proceeds and, in the third quarter of 2024 will, subject to the terms of the agreement, receive up to an additional $25 million.

As of 31 December 2023, the parent company and its subsidiaries together (the 'Group') had £48.7 million of cash and cash equivalents. The Group will need to raise additional capital to fund the Company's future operations and for the Company to remain as a going concern, before the Group uses all of its existing resources. Accordingly, the financial support from the parent company that the Company needs may not be forthcoming if the Group is unable to obtain additional financing.

The inability to obtain future funding could impact the Company's financial condition and ability to pursue its business strategies, including being required to delay, reduce or eliminate some of its research and development programs, or being unable to continue operations or unable to continue as a going concern. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. Notwithstanding, the financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the continuity of operations, realisation of assets and the satisfaction of liabilities in the ordinary course of business and do not include any adjustments that would result if the Company were unable to continue as a going concern.

Financial instruments

Financial instruments are contracts that give rise to a financial asset for one entity and to a financial liability or equity instrument for another entity. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the settlement date.The company recognizes financial assets and financial liabilities in the statement of financial position when, and only when, the company becomes party to the contractual provisions of the financial instrument. Financial assets and financial liabilities are offset, and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Notes to the Financial Statements (continued)
for the year ended 31 December 2023

2 Accounting policies (continued)

Financial instruments (continued)

Financial assets

The Company's financial assets include cash at bank and other financial assets. Financial assets are initially measured at fair value plus, in the case of a financial asset not measured at fair value through profit or loss, transaction costs. Trade receivables are measured at their transaction price.

For all financial assets, the Company has the objective to hold financial assets in order to collect the contractual cash flows. The contractual terms of all the Company's financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the outstanding amount. All financial assets are therefore measured at amortized cost.

Impairment of financial assets — expected credit losses ("ECL")

All financial assets measured at amortized cost are required to be impaired at initial recognition in the amount of their expected credit loss ("ECL"), based on the difference between the contractual and expected cash flows. The simplification available for financial instruments with a low credit risk ("low credit risk exemption") is applied as of the reporting date. Factors that can contribute to a low credit risk assessment are debtor specific rating information and related outlooks. The requirement for classification with a low credit risk is regarded to be fulfilled for counterparties that have at least an investment grade rating; in this case there is no need to monitor credit risks for financial instruments with a low credit risk.

Financial liabilities

The Company's financial liabilities include lease liabilities, trade and other payables, and other financial liabilities. Financial liabilities are classified as measured at amortized cost or fair value through profit or loss ("FVTPL"). All financial liabilities are recognized initially at fair value less, in the case of a financial liability not at fair value through profit or loss, directly attributable transaction costs.

All financial liabilities that the Company has are subsequently measured at amortized cost, and therefore does not account for any financial liabiities as FVTPL.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability.

Taxation

The tax expense for the period comprises current tax and deferred tax. Tax is recognized in profit or loss, except that a change attributable to an item of income or expense recognized as other comprehensive income is also recognized directly in other comprehensive income. The current income tax charge is calculated based on tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Notes to the Financial Statements (continued)
for the year ended 31 December 2023

2 Accounting policies (continued)

Taxation (continued)
Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses. Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority.

Trade and other receivables
Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade receivables is established using an expected credit loss model as per the Company's accounting policy for the impairment of financial assets. Other receivables represent amounts due from parties who are not customers and are measured at amortized cost.

Government grants
Government grants are recognised as Other operating income and are recognised in the period when the expense to which the grant relates is incurred. Grants are only recognised when there is a signed grant offer letter or equivalent from the government body and there is reasonable assurance that the Company will be able to satisfy all conditions of the grant.

Benefit from Research and Development Tax Relief
As a company that carries out extensive research and development activities, the Company benefits from the UK research and development tax relief regime. Qualifying expenditures largely comprise of R&D staff employment costs, R&D components, consumables, parts, tooling and outsourced contracting support for R&D activities and utilities costs.

HM Revenue & Customs administers two such tax relief schemes: one aimed at small and medium-sized enterprises (SME); and the R&D expenditure credit scheme (RDEC), aimed at large companies and other companies that aren't eligible for the SME relief.

SME relief is recorded either as a reduction in its income tax liability or as a credit, whilst credits the Company receives under RDEC scheme claim are classed as taxable income.

2 Accounting policies (continued)

Financing income and costs
Financing expense comprises interest payable on loans and is recognised on the income statement using the effective interest method.

Interest income and interest payable is recognised on the income statement as it accrues, using the effective interest method.

Foreign currency transactions and balances
Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end rates, are recognised in profit or loss. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

Property, plant and equipment
Property, plant and equipment is stated on the balance sheet at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation is charged so as to write off the cost of assets, other than those under construction, over their estimated useful lives as follows:

Leasehold improvements	Straight line over the term of lease
Office equipment	3 years straight line
Plant and machinery	5 years straight line
Vehicles	10 years straight line

Intangible assets
Intangible assets are carried at cost, less accumulated amortisation and impairment. Computer software licences acquired for use are capitalised on the basis of the direct costs incurred to acquire the specific software and to bring it into use. IT software is amortised over 3 years straight line.

Impairment (non-financial assets)
All assets are reviewed for impairment when there is an indicator of impairment. In addition, goodwill is reviewed for impairment at least annually. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Trade and other payables
Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade and other payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

2 Accounting policies (continued)

Share based payments – Enterprise Management Incentive and 2021 Incentive Plan

The Group operates an equity-settled, share based compensation plan, under which the entity receives services from employees as consideration for equity instruments (share options or shares) of the parent. The fair value of the employee services received in exchange for the grant of the shares is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the shares granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions.

Non-market performance and service conditions are included in assumptions about the number of shares that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. In addition, in some circumstances employees may provide services in advance of the grant date and therefore, the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Company revises its estimates of the number of shares that are expected to vest based on the non market vesting conditions. The Company recognizes the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

See note 5 for further details.

Other non-current share-based payments were made during the prior year as detailed within the significant accounting policy for the capital reorganization. Further information is included with the critical accounting judgements and key sources of estimation uncertainty.

Borrowings

All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortized cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the income statement over the period of the relevant borrowing.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Notes to the Financial Statements (continued)
for the year ended 31 December 2023

2 Accounting policies (continued)

Provisions
Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Leases
Definition
A lease is a contract, or part of a contract, that conveys the right to use an asset or a physically distinct part of an asset ('the underlying asset') for a period of time in exchange for consideration. Further, the contract must convey the right to the company to control the asset or a physically distinct portion thereof. A contract is deemed to convey the right to control the underlying asset, if throughout the period of use, the company has the right to:
- Obtain substantially all the economic benefits from the use of the underlying asset, and;
- Direct the use of the underlying asset (for example, directing how and for what purpose the asset is used).

Initial recognition and measurement
The Company initially recognises a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term.

The lease liability is measured at the present value of the lease payments to be made over the lease term. The lease payments include fixed payments, purchase options at exercise price (where payment is reasonably certain), expected amount of residual value guarantees, termination option penalties (where payment is considered reasonably certain) and variable lease payments that depend on an index or rate.

The right of use asset is initially measured at the amount of the lease liability, adjusted for lease prepayments, lease incentives received, the Company's initial direct costs (e.g. commissions) and an estimate of restoration, removal and dismantling costs.

Subsequent measurement
After the commencement date, the company measures the lease liability by:

(a) Increasing the carrying amount to reflect interest on the lease liability;
(b) Reducing the carrying amount to reflect the lease payments made; and
(c) Re-measuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in substance fixed lease payments or on the occurrence of other specific events.

Notes to the Financial Statements (continued)

for the year ended 31 December 2023

2 Accounting policies (continued)

Leases (continued)

Interest on the lease liability in each period during the lease term is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. Interest charges are included in finance costs in the income statement, unless the costs are included in the carrying amount of another asset applying other applicable standards. Variable lease payments not included in the measurement of the lease liability, are included in operating expenses in the period in which the event or condition that triggers them arises.

Right-of-use assets

The related right-of-use asset is accounted for using the Cost model in IAS 16 and depreciated and charged in accordance with the depreciation requirements of IAS 16 Property, Plant and Equipment as disclosed in the accounting policy for Property, Plant and Equipment. Adjustments are made to the carrying value of the right of use asset where the lease liability is re-measured in accordance with the above. Right of use assets are tested for impairment in accordance with IAS 36 Impairment of assets as disclosed in the accounting policy in impairment.

Short term and low value leases

The company has made an accounting policy election, by class of underlying asset, not to recognize lease assets and lease liabilities for leases with a lease term of 12 months or less (i.e., short term leases).

The company has made an accounting policy election on a lease-by-lease basis, not to recognize lease assets on leases for which the underlying asset is of low value.

Lease payments on short term and low value leases are accounted for on a straight line bases over the term of the lease or other systematic basis if considered more appropriate. Short term and low value lease payments are included in operating expenses in the income statements.

Share Capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Defined contribution pension obligation

A defined contribution plan is a pension plan under which fixed contributions are paid into a third party entity and the Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current period.

For defined contribution plans, contributions are paid into publicly or privately administered pension insurance plans on a mandatory or contractual basis. The contributions are recognised as staff costs when they are due.

Notes to the Financial Statements (continued)
for the year ended 31 December 2023

2 Accounting policies (continued)

Critical accounting estimates and judgements
The preparation of these financial statements in conformity with IFRS requires management to make estimates and assumptionsthat affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period.

The Company's most significant estimates involve valuation of the stock-based consideration.
These estimates are based on historical data and experience, as well as various other factors that management believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Such estimates often require the selection of appropriate valuation methodologies and models and may involve significant judgment in evaluating ranges of assumptions and financial inputs. Actual results may differ from those estimates under different assumptions, financial inputs, or circumstances.

Modification of Incentive Programs
In relation to the 2021 Incentive Plan, on 19 December 2023, and in relation to Enterprise Management Initiative (EMI) option agreements, on 15 March 2022, the Group entered into option agreements with certain employees of the Company as replacement option agreements for share options previously granted over shares in.

New equity instruments were granted to eligible employees and on the respective date of award, the Company identified the new option agreements granted as replacement option agreements for the respective option agreements cancelled. As such the granting of these replacement option agreements has been accounted for in the same way as a modification of the original grant of equity instruments.
It has been concluded that these modification increased the fair value of the option agreements granted, measured immediately before and after the modification, and therefore the Company has subsequently included the incremental fair value granted in the measurement of the amount recognised for services received as consideration for the option agreements granted.

The incremental fair value granted is the difference between the fair value of the replacement option agreements and the net fair value of the cancelled option agreements, at the date the replacement equity instruments were granted.

Notes to the Financial Statements (continued)
for the year ended 31 December 2023

2 Accounting policies (continued)

Critical accounting estimates and judgements (continued)

2021 Incentive Plan

During the year ended 31 December 2022 the Board of Directors adopted the "2021 Incentive Award Plan" in order to facilitate the grant of cash and equity incentives to employees. The share options were given to employees of the Company in relation to shares in the Vertical Aerospce Ltd. Under the scheme, the participants are granted options which only vest if the employee remains in employment with the Company at the vesting date.

Options are vested after the first anniversary of the grant date with 6.25% vest quarterly until the options are fully vested. The "vesting period" is specified in IFRS 2 as the period during which all of the specified vesting conditions are to be satisfied in order for the employees to be entitled unconditionally to the equity instrument. The options expire at the end of the day before the tenth anniversary of the grant date. Management is required to use an appropriate pricing model to value the issue of equity to employees or those providing similar services. Any charge to the profit and loss account is therefore a function of the chosen pricing model, which is based on a range of assumptions.

The fair value of the equity instruments granted was derived using a Black-Scholes Model and based upon actual share price on grant date. Risk free rate has been determined based upon US Government five year gilts. Expected volatility was determined by the historical volatility of the Vertical Aerospace Ltd since the completion of the business combination. An attrition rate has been determined based upon historical experience.

Research and development tax relief

Research and development tax relief supports companies that work on innovative projects in science and technology. HM Revenue & Customs administers two such tax relief schemes: one aimed at small and medium-sized enterprises (SME); and the R&D expenditure credit scheme (RDEC), aimed at large companies and other companies that aren't eligible for the SME relief. To qualify for tax relief the work must be part of a specific project to make an advance in science or technology. This definition is based on an international standard.

The activities must directly contribute to achieving this advance in science or technology through the resolution of scientific or technological uncertainty. Certain indirect activities related to the project are also qualifying where such activities form part of a project but do not directly contribute to the resolution of the scientific or technological uncertainty. An appropriate proportion of the staffing cost can be qualifying expenditure if the employee is only partly directly and actively involved in relevant research and development activity. Management have applied judgment in determining the proportion of research and development staff costs incurred on non-qualifying activities and the extent of administrative staff costs relating to qualifying indirect activities.

2 Accounting policies (continued)

Critical accounting estimates and judgements (continued)

Capitalisation of Development Costs
The Company incurs a significant amount of research and development cost. The point in time at which the business begins capitalisation of any project is a critical judgement. The business assesses the technology readiness level of its research and development projects, along with the commercialisation potential to assess whether a particular development project should be capitalised or not. Costs for internally generated research and development are capitalised only if:

- the product or process is technically feasible;
- adequate resources are available to successfully complete the development;
- the benefits from the assets are demonstrated;
- the costs attributable to the projects are reliably measured;
- the Company intends to produce and market or use the developed product or process and can demonstrate its market relevance.

Management has concluded that for the current and comparative period, none of the projects met the requirements for capitalisation. Whilst management recognises a market for the use of eVTOLs, the market is not yet established or proven. Additionally, the Company is developing new technologies and there are still uncertainties about the successful completion of this development.

If costs relating to a research and development project are not capitalised, they are expensed as incurred and presented in Research and development costs in the Income statement.

Adoption of new and revised accounting standards
The following new and revised standards and interpretations have been adopted for the first time, as they became effective for this financial year:

The following amendments are effective for the period beginning 1 January 2023:
- IFRS 17, Insurance Contracts
- Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8
- Amendment to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction
- Amendment to IAS 12 – international tax reform

They have been applied since 1 January 2023 and have not had a significant impact on the results or financial position of the Company.

Notes to the Financial Statements (continued)
for the year ended 31 December 2023

2 Accounting policies (continued)

New standards and interpretations not yet adopted.
There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Company has decided not to adopt early.

The following amendments are effective for periods beginning after 1 January 2023:

- Amendment to IFRS 16 – Leases on sale and leaseback
- Amendment to IAS 1 – Non-current liabilities with covenants
- Amendment to IAS 7 and IFRS 7 - Supplier finance
- Amendments to IAS 21 - Lack of Exchangeability

The Company does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the Company.

Notes to the Financial Statements (continued)
for the year ended 31 December 2023

3 Other operating income

	2023 **£'000**	2022 £'000
Government grants	2,956	1,415
R&D tax relief	1,370	4,496
	4,326	5,911

Government grants relate to amounts receivable from the Aerospace Technology Institute (ATI) relating to the research and development of eVTOL technologies. The grant is made to fund research and development expenditure and is recognized in profit or loss in the period to which the expense it is intended to fund relates.

The Company receives R&D tax relief relating to the UK R&D expenditure credit (RDEC), which is reported within Other operating income. The Company also receives UK small and medium-sized enterprise (SME) R&D tax relief, which is reported within Income tax credit - see note 8 for further details.

4 Finance (Income)/Costs

	2023 **£'000**	2022 £'000
Foreign exchange (gain)/loss	(2,858)	3,810
Interest expense on leases	201	143
Other	91	113
	(2,566)	4,066

5 Expenses by nature

Included within administrative expenses and research and development expenses are the following expenses.

	2023	2022
	£'000	£'000
Research and development staff costs	23,830	17,580
Research and development consultancy	16,193	18,004
Research and development components, parts and tooling	25,350	13,545
Total research and development expenses	**65,373**	**49,129**
Administrative Staff costs (excluding share based payment expenses)	9,616	8,014
Share based payment expense	8,816	22,370
Consultancy costs	1,914	2,479
Legal and financial advisory transaction costs	2,282	2,949
HR advisory and recruitment costs	968	2,089
Marketing costs	688	1,728
IT hardware and software costs	6,314	4,348
Related party administrative expenses	83	83
Insurance expenses	2,110	2,698
Premises expenses	1,870	1,614
Depreciation expense	892	577
Depreciation expense on right of use assets	658	411
Amortisation	1,164	1,195
Other administrative expenses	3,511	2,042
Total administrative expenses	**40,886**	**52,597**
Total administrative and research and development expenses	**106,259**	**101,726**

Staff costs relates primarily to salary and salary related expenses, including social security and pension contributions. Staff costs exclude share-based payments.

Share based payment expense

Enterprise Management Incentive and 2021 Incentive Plan
The Group operates an Enterprise Management Incentive ("EMI") scheme, being a tax advantaged share scheme that can be operated by qualifying companies. During the prior year this scheme was modified to reflect the revised capital structure of the Group as a result of the business combination consumated in 2021. As part of this modification, during the prior year all option holders exchanged their options held in the Company for newly issued options in Vertical Aerospace Ltd. Also, during the prior year the Group adopted the "2021 Incentive Award Plan" in order to facilitate the grant of cash and equity incentives to employees. During the current year, the CSOP options granted as part of the adoption of this plan were modified by the Group through the issuance of replacement awards that modified the participants respective exercise price.

Notes to the Financial Statements (continued)
for the year ended 31 December 2023

5 Expenses by nature (continued)

EMI Scheme
The movements in the number of EMI share options issued by the parent company during the year were as follows:

	2023 Number	2022 Number
Outstanding, start of year	21,011,084	19,670
Granted during the year	-	-
Grant arising due to scheme modification	-	23,213,933
Forfeited during the year	(1,621,848)	(1,576,948)
Exercised during the year	(7,686,919)	(645,571)
Outstanding, end of year	11,702,317	21,011,084

The EMI share options were all granted prior to 31 December 2021, after which no new grants were made.

The movements in the weighted average exercise price of share options issued by the parent comapny during the year were as follows:

	2023 £	2022 £
Outstanding, start of year	0.19	308.06
Granted during the year	-	-
Granted due to scheme modification	-	0.23
Forfeited during the year	0.24	0.83
Exercised during the year	0.10	-
Outstanding, end of year	0.25	0.19

Details of share options outstanding by the parent company at the end of the year are as follows:

	2023	2022
Weighted average exercise price (£)	0.25	0.19
Number of share options outstanding	11,702,317	21,011,084
Expected weighted average remaining vesting period (years)	1.78	2.14

The number of options which were exercisable at 31 December 2023 was 4,956,810 (2022: 11,317,247) with exercise prices ranging from £0.03 to £1.10.

Notes to the Financial Statements (continued)
for the year ended 31 December 2023

5 Expenses by nature (continued)

EMI Scheme (Continued)

The option pricing model used was a Black Scholes and the main inputs are set out in the table below:

	2022
Average share price at date of grant (£)	5.07
Expected volatility (%)	50.00
Vesting period in years	2.75
Risk-free interest rate (%)	1.25

Given the lack of share price history, volatility has been estimated with reference to other industry competitors, on a listed stock market, with a premium attached for various uncertainties.

During the year, a charge of £732 thousand was recognised for equity settled share-based payment transactions (2022: £7,858 thousand).

2021 Incentive Scheme

Commencing 1 October 2022, employees in the Company were granted options in relation to shares issued by Vertical Aerospace Ltd. Under the scheme, participants are granted options which only vest if the employee remains in employment with the company at the vesting date. Such options typically vest from the first anniversary of the grant date, with 6.25% vesting quarterly until the options are fully vested. The options expire at the end of the day before the tenth anniversary of the grant date. The fair value of the equity instruments granted was derived using a Black-Scholes Model and based upon actual share price on grant date. The following inputs were used:

	2023	2022
Average share price at date of grant (£)	0.95	7.77
Expected volatility (%)	89.58	84.30
Dividend Yield (%)	-	-
Risk-free interest rate (%)	4.78	4.09

Expected volatility was determined by the historical volatility of the parent Company since the business combination.

The total expense recognised by the Company during the year in respect of the 2021 Incentive Plan is £8,084 thousand (2022: £14,248 thousand).

The movements in the number of employee parent company share options during the year were as follows:

	2023 Number	2022 Number
Outstanding, start of year	4,355,669	-
Granted during the year	7,370,598	5,012,495
Forfeited during the year	(715,773)	(656,826)
Exercised during the year	(1,024,523)	-
Outstanding, end of year	**9,985,971**	4,355,669

Notes to the Financial Statements (continued)
for the year ended 31 December 2023

5 Expenses by nature (continued)

2021 Incentive Scheme (Continued)

The number of options outstanding as at the end of the year costs of 8,821,470 nil cost options, 1,145,983 Company Share Option Plan (CSOP) options and 18,518 cost stock options.

The movements in the weighted average exercise price of parent company CSOP options during the year were as follows:

	2023	2022
	£	£
Outstanding, start of year	6.63	-
Granted during the year	0.98	6.63
Forfeited during the year	6.42	6.63
Outstanding, end of year	**0.98**	6.63

During the year the CSOP options granted during the prior year were modified by the Group through the issuance of replacement awards that reduced the participants respective exercise price from £6.63 to £0.98. No additional awards were awarded to scheme participants and no changes to the vesting conditions were made. The Company has accounted for the incremental fair value of these replacement awards, determined using a Black-Scholes Model, in addition to the grant-date fair value of the original award. The main inputs are set out in the table below.

	2023
Average share price at date of grant (£)	0.62
Expected volatility (%)	90.00
Dividend Yield (%)	-
Vesting period in years	2.63
Risk-free interest rate (%)	4.80

Expected volatility was determined by the historical volatility of the parent Company since the business combination. *The incremental fair value expense recognised by the company as a result of the modification is £119 thousand.*

Details of parent company share options outstanding at the end of the year were as follows:

	2023	**2022**
Weighted average exercise price (£)	0.12	1.44
Number of share options outstanding	9,985,971	4,355,669
Expected weighted average remaining vesting period (years)	3.30	3.20

Notes to the Financial Statements (continued)
for the year ended 31 December 2023

6 Auditors' Remuneration

	2023 **£'000**	2022 £'000
Audit of the financial statements	30	35
	30	35

In addition to the above, the company incurred £487 thousand towards the Group audit of Vertical Aerospace Ltd (2022: £462 thousand) and audit related services of £282 thousand (2022: £320 thousand).

7 Staff costs

	2023 **£'000**	2022 £'000
Wages and salaries	29,119	19,536
Social security costs	2,974	2,635
Pension costs, defined contribution scheme	2,231	1,070
Employee share-based payment expenses (note 5)	8,816	22,370
Bonuses and other employee expense	141	2,353
Total payroll costs	**43,281**	47,964

The monthly average number of persons employed by the Company (including Directors) during the year is shown below:

	Number	Number
Administration and support	89	62
Research and development	217	226
Total persons employed	**306**	288

Notes to the Financial Statements (continued)
for the year ended 31 December 2023

8 Income tax expense

The tax on loss before tax for the year is lower than the standard rate of corporation tax in the UK. The differences are reconciled below:

	2023 **£'000**	2022 £'000
Loss before tax	(99,367)	(99,880)
Corporation tax at standard rate	18,880	18,977
Decrease in tax benefit from effect of expenses not deductible in determining taxable loss	(892)	(418)
Decrease in tax benefit from tax losses for which no deferred tax asset was recognised	(17,988)	(18,559)
Research and development tax credit	22,661	-
Total tax credit	**22,661**	-

From 1 April 2023 there is no longer a single corporation tax rate in the UK for non-ring fence profits. At the Spring Budget 2021, the UK Government announced that the corporation tax main rate for non-ring fence profits would increase to 25% for profits above £250 thousand. A small profits rate of 19% was also announced for companies with profits of £50 thousand or less.

Companies with profits between £50 thousand and £250 thousand will pay tax at the main rate, reduced by a marginal relief. This provides a gradual increase in the effective corporation tax rate.

Unused potential tax losses for which no deferred tax asset has been recognised as at 31 December 2023 were estimated as £116 million (2022: £92 million).

Notes to the Financial Statements (continued)
for the year ended 31 December 2023

9 Property, plant and equipment

	Plant & Machinery £'000	Leasehold improvement £'000	Assets under construction £ 000	Office equipment £'000	Vehicles £ 000	Total £'000
Cost						
At 1 January 2022	-	1,530	-	1,069	-	2,599
Additions	25	1,199	-	212	-	1,436
Disposals	-	(13)	-	(68)	-	(81)
At 31 December 2022	25	2,716	-	1,213	-	3,954
Additions	442	653	612	275	120	2,102
Disposals	(2)	(22)	-	(351)	-	(375)
At 31 December 2023	**465**	**3,347**	**612**	**1,137**	**120**	**5,681**
Accumulated depreciation						
At 1 January 2022	-	374	-	391	-	765
Charge for the year	1	240	-	334	-	575
Disposals	-	(13)	-	(63)	-	(76)
At 31 December 2022	1	601	-	662	-	1,264
Charge for the year	68	468	-	346	10	892
Disposals	-	(10)	-	(286)	-	(296)
At 31 December 2023	**69**	**1,059**	**-**	**722**	**10**	**1,860**
Net book value						
At 31 December 2023	**396**	**2,288**	**612**	**415**	**110**	**3,821**
At 31 December 2022	24	2,115	-	551	-	2,690

All property, plant and equipment is attributable to the UK and leasehold improvements represent improvements to leased property in Bristol, UK.

Notes to the Financial Statements (continued)
for the year ended 31 December 2023

10 Right of use assets

	Leasehold Property
Cost	**£'000**
At 1 January 2022	2,529
Additions	1,562
At 31 December 2022	4,091
Additions	183
At 31 December 2023	**4,274**
Accumulated depreciation	
At 1 January 2022	560
Charge for the year	410
At 31 December 2022	970
Charge for the year	658
Impairment	193
At 31 December 2023	**1,821**
Net book value	
At 31 December 2023	**2,453**
At 31 December 2022	3,121

The Company leases various offices & hangars for aircraft. All property leased is in Bristol, UK and in Kemble, UK.

Right-of-use assets are measured at cost comprising the following:
- the amount of the initial measurement of lease liability.
- any lease payments made at or before the commencement date less any lease incentives received.
- any initial direct costs.
- restoration costs.

Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise IT equipment and small items of office furniture. See note 14 for the accounting of the Lease Liability.

Notes to the Financial Statements (continued)
for the year ended 31 December 2023

11 Intangible assets

	Software Licences
Cost	**£'000**
At 1 January 2022	3,480
Additions	571
Disposals	(135)
At 31 December 2022	3,916
Additions	159
Disposals	(210)
At 31 December 2023	**3,865**
Accumulated amortisation	
At 1 January 2022	745
Charge for the year	1,195
Disposals	(72)
At 31 December 2022	1,868
Charge for the year	1,164
Disposals	(185)
At 31 December 2023	**2,847**
Net book value	
At 31 December 2023	**1,018**
At 31 December 2022	2,048

12 Trade and other receivables

	2023 **£'000**	2022 £'000
R&D tax relief receivable	16,416	7,212
Government grants and VAT receivable	4,060	3,693
Prepayments	5,062	7,168
Other receivables	595	716
Total trade and other receivables	**26,133**	18,789

Included within R&D tax relief receivable is £15,838 thousand for R&D tax relief claimed under the HMRC SME Scheme (2022: £nil) and £578k claimed under the HMRC RDEC scheme (2022: £7,212 thousand). Prepayments includes £439 thousand in relation to insurances (2022: £1,327 thousand).

The fair value of trade and other receivables classified as financial instruments are disclosed in note 20 Financial instruments. Expected credit losses were not significant in 2023 or 2022. The Group's exposure to credit and market risks, including impairments and allowances for credit losses, relating to trade and other receivables is disclosed in note 21 Financial risk management and impairment of financial assets.

Notes to the Financial Statements (continued)
for the year ended 31 December 2022

13 Trade and other payables

	2023 £'000	2022 £'000
Trade payables	1,269	1,917
Accruals and other payables	11,845	10,421
Amounts due to related parties	191,522	116,973
Social security and other taxes	982	807
Outstanding defined contribution pension costs	2	210
Total Trade and other payables	**205,620**	130,328

Long term payables of £3,922 thousand represent deferred consideration relating to the business combination transaction (2022: £4,153 thousand).

Amounts due to related parties include balances owed to other group entities, namely Vertical Aerospace Ltd ("VAL") and Vertical Aerospace France SAS ("VAF"). As at 31 December 2023, £191,517 thousand was payable to VAL (2022: £116,932 thousand) and £5 thousand was payable to VAF (2022: £41 thousand). All intercompany creditor balances are repayable on demand and bears no interest.

14 Leases

The balance sheet shows the following amounts relating to lease liabilities:

	2023 £'000	2022 £'000
Long term lease liabilities	1,977	2,645
Current lease liabilities	643	516
Total lease liabilities	**2,620**	3,161

Lease liabilities maturity analysis

A maturity analysis of lease liabilities based on undiscounted gross cash flow is reported in the table below:

	2023 £'000	2022 £'000
Less than one year	760	668
Within 2 - 5 years	1,916	2,371
More than 5 years	496	895
Total lease liabilities (undiscounted)	**3,172**	3,934

Total cash outflows related to leases

	2023 £'000	2022 £'000
Right of use assets	669	484
Low value leases	-	-
Short term leases	224	189
Total cash outflow	**893**	675

Notes to the Financial Statements (continued)
for the year ended 31 December 2023

14 Leases (continued)

A reconciliation of the lease creditors is shown below:

	£'000
As at 1 January 2022	1,942
Additions	1,560
Interest element of payments to finance lease creditors	(142)
Principle element of payments to finance lease creditors	(342)
Interest expense on leases	143
As at 31 December 2022	3,161
Additions	182
Reversal of lease liability	(193)
Interest element of payments to finance lease creditors	(199)
Principle element of payments to finance lease creditors	(530)
Interest expense on leases	199
As at 31 December 2023	**2,620**

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. The lease payments are discounted using the interest rate implicit in the lease. When the rate implicit in the leases is not evident, the entities' incremental borrowing rates have been used. The incremental rate referred to by IFRS 16 indicates the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The weighted average incremental borrowing rate used on the date of initial application of the leases is 7.00%, which refers to the interest charge on a recent debt arrangement.

During the prior year, the Company entered into an additional property lease in Bristol, UK. The Company's immediate parent, Vertical Aerospace Ltd has entered into a Rent Guarantee arrangement on behalf of the company in relation to aggregate rental payments totalling £1.7 million.

Notes to the Financial Statements (continued)
for the year ended 31 December 2023

15 Loans from related parties

	2023 **£'000**	2022 £'000
As at 1 January	-	-
Amounts borrowed	-	-
Amounts repaid	-	-
Interest Accrued	-	-
Conversion into equity	-	-
As at 31 December	**-**	-

16 Provisions

	Tax & national insurance £'000	**Dilapidations £'000**	**Total £'000**
As at 1 January 2022	-	95	95
Additions	264	-	264
Unwinding of discount	-	6	6
As at 31 December, 2022	264	101	365
Additions	76	-	76
Reversals	(192)	-	(192)
Unwinding of discount	-	7	7
As at 31 December 2023	148	108	**256**

The dilapidation provision was recognized as a result of the obligation to return the leased property in Bristol, UK to its original condition at the end of the lease which currently expires in 2028. The provision is recognized at amortized cost with discount unwind being recognized each year. The provision is expected to be utilized at the end of the lease period.

Notes to the Financial Statements (continued)
for the year ended 31 December 2023

17 Called up share capital

	2023 Number	**2023 £**	2022 Number	2022 £
Class A ordinary of £0.00001 each	133,856	1.34	133,856	1.34
Allotted, called up and fully paid:	**133,856**	**1.34**	133,856	1.34

Nature and purpose of other reserves
The share-based payments reserve is used to recognise the grant date fair value of options issued to employees but not exercised.

Other Reserves	**2023 £'000**	2022 £'000
As at 1 January	24,635	2,276
Transfer of reserves	-	253
EMI Share Scheme	732	7,858
2021 Incentive Share Scheme	8,200	14,248
As at 31 December	**33,567**	24,635

Notes to the Financial Statements (continued)
for the year ended 31 December 2022

18 Pensions

The Company operates a defined contribution pension scheme. A charge for the year of £2,231 thousand (2022: £1,070 thousand) represents contributions payable by the Company.

Contributions totalling £2 thousand (2022: £210 thousand) are payable to the scheme and included in trade and other payables.

19 Related Party Transactions

Key management personnel are the members of the Board and executive officers.

Key management personnel	**2023 £'000**	2022 £'000
Short-term employee benefits	462	787
Post-employment benefits	14	12
Share based payments	1,035	144
Termination Benefits	-	368
	1,511	1,311

One member of key management personnel participates in the Company defined contribution scheme (2022: 1)

Directors	**2023 £'000**	2022 £'000
Aggregate emoluments	334	787
Company contributions to money purchase pension scheme	14	12
Gains upon exercise of share options	1,788	1,351
	2,136	**2,150**

The emoluments of the highest paid Director included wages and salaries of £288 thousand (2022: £310 thousand) in addition to termination benefits of £nil thousand (2022: £378 thousand).

During the year, Imagination Industries Ltd, provided and charged the Company with services totalling £83 thousand (2022: £83 thousand) of which £nil was outstanding as at 31 December 2023 (2022: £14 thousand).

Notes to the Financial Statements (continued)
for the year ended 31 December 2023

20 Financial instruments

Financial assets at amortised cost:

	Carrying value		Fair value	
	31 December 2023 £000	31 December 2022 £000	**31 December 2023 £000**	31 December 2022 £000
Cash at bank	490	630	490	630
Trade and other receivables	595	716	595	716
	1,085	1,346	**1,085**	1,346

The fair value of financial assets is based on the expectation of recovery of balances. All balances are expected to be received in full. Trade and other receivables is classified as level 2 in the fair value hierarchy. Cash at bank is classified as level 1 in the fair value hierarchy.

Financial liabilities at amortised cost:

	Carrying value		Fair value	
	31 December 2023 £000	31 December 2022 £000	**31 December 2023 £000**	31 December 2022 £000
Trade and other payables	208,558	133,465	208,558	133,465
Lease liabilities	2,620	3,161	2,620	3,161
	211,178	137,642	**211,178**	137,642

All balances have been classified as level 2 in the fair value hierarchy.

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material. Due to their short maturities, the fair value of the trade and other payables approximates to their book value.

The total interest expense for financial liabilities not held at fair value through profit or loss is £201 thousand (2022: £143 thousand).

Notes to the Financial Statements (continued)
for the year ended 31 December 2023

21 Financial risk management and impairment of financial assets
The Company's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk.

Credit risk and impairment

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from prepayments to suppliers and distributors and deposits with the Company's bank.

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the balance sheet date was £595 thousand (2022: £715 thousand) being the total of the carrying amount of financial assets. All the receivables are with parties in the UK.

The allowance account of trade receivables is used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written off against the trade receivables directly. The Company provides for impairment losses based on estimated irrecoverable amounts determined by reference to specific circumstances and the experience of management of debtor default in the industry.

On that basis, the loss allowance as at 31 December 2023 was determined as £nil for trade receivables (2022: £nil).

Market risk
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's financial position. The Company's principal exposure to market risk is exposure to foreign exchange rate fluctuations. There are currently no currency forwards, options or swaps to hedge this exposure.

Foreign exchange risk
The Company is exposed to foreign exchange risk arising from exposure to foreign currencies in the ordinary course of business, primarily USD. The Company holds its cash in GBP and USD however the majority of the Company's costs are in GBP. The Company has access to Intercompany Borrowing in the respective currencies that supply agreements are denominated it, primarily GBP and USD. As such the Company operates a natural hedge. The Company also has supply contracts denominated in EUR. In 2023, the Company material exposure to foreign exchange risk relates to the aforementioned intercompany borrowing. Had the US/GBP exchange rate increased by 10%, the intercompany borrowing position would have increased by £21 million and had the exchange US/GBP exchange rate decreased by 10%, the intercompany borrowing position would have decreased by £17 million. In 2023, the Company did not consider foreign exchange rate risk to have a material impact on the financial statements and therefore no sensitivity analysis is presented.

Notes to the Financial Statements (continued)
for the year ended 31 December 2023

21 Financial risk management and impairment of financial assets (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company's management uses short and long-term cash flow forecasts to manage liquidity risk. Forecasts are supplemented by sensitivity analysis which is used to assess funding adequacy for at least a 12 month period.

The Company manages its cash resources to ensure it has sufficient funds to meet all expected demands as they fall due.

A maturity analysis of financial liabilities based on contractual undiscounted gross cash flow is reported below:

Maturity analysis

	Within 1 year	Between 2 and 5 years	After more than 5 years	Total
2023	**£000**	**£000**	**£000**	**£000**
Trade and other payables	205,620	3,922	-	209,542
Lease liabilities	760	1,916	496	3,172
	206,380	**5,838**	**496**	**212,714**

	Within 1 year	Between 2 and 5 years	After more than 5 years	Total
2022	**£000**	**£000**	**£000**	**£000**
Trade and other payables	130,328	4,153	-	134,481
Lease liabilities	668	2,371	895	3,161
	130,844	**6,024**	**774**	**137,642**

Capital management

The Company's objective when managing capital is to ensure the Company continues as a going concern; and grows in a sustainable manner.

Given the ongoing development of eVTOL aircraft with minimal revenues, the Company relies on funding raised from the Business Combination transaction and other equity investors. Cash flow forecasting is performed on a regular basis which includes rolling forecasts of the Company's liquidity requirements to ensure that the Company has sufficient cash to meet operational needs.

22 Ultimate controlling party

The Company's immediate parent undertaking is Vertical Aerospace Ltd, which is incorporated in the Cayman Islands and listed on the New York Stock Exchange, whose accounts are publicly available on its website www.investor.vertical-aerospace.com

The address of of Vertical Aerospace Ltd. principal executive offices is:
Unit 1 Camwal Court, Chapel Street
Bristol BS2 0UW
United Kingdom

The Company's ultimate controlling party is Stephen Fitzpatrick.

23 Events after the reporting date

On 22 February 2024, Vertical Aerospace Ltd entered into an with Imagination Aero Investments Limited, a company wholly owned by Stephen Fitzpatrick, pursuant to which Imagination Aero Investments Limited agreed to purchase, and Vertical Aerospace Ltd agreed to issue and sell up to $50 million of newly issued ordinary shares and warrants.