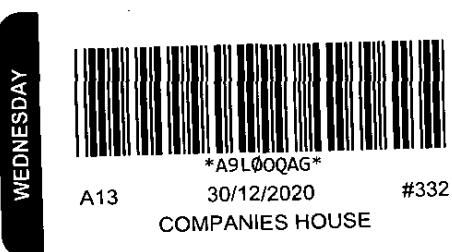


Registration number: 08330792

# Vertical Aerospace Ltd

Annual Report and Financial Statements

for the Year Ended 31 December 2019



## **Vertical Aerospace Ltd**

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## **Vertical Aerospace Ltd**

### **Company Information**

<b>Directors</b>	Stephen Fitzpatrick Vincent Casey
<b>Registered office</b>	140-142 Kensington Church Street London W8 4BN
<b>Auditors</b>	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 2 Glass Wharf Bristol BS2 0FR

## **Vertical Aerospace Ltd**

### **Directors' Report for the Year Ended 31 December 2019**

The directors present their report and the audited financial statements for the year ended 31 December 2019.

#### **Directors' of the company**

The directors, who held office during the year and up to the date of signing the financial statements were as follows:

Stephen Fitzpatrick

Vincent Casey

#### **Strategic Report Exemption**

The company is claiming the small company exemption from preparing the Strategic Report in accordance with the Companies Act 2006.

#### **Principal activity**

The principal activity of the company is the design and manufacture eVTOL aircraft.

#### **Dividends**

The directors do not propose a dividend for the year (2018: no dividend proposed).

#### **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.

#### **Employee involvement**

The Company is actively encouraging employee involvement throughout the organisation. The Company holds regular company wide briefings where the latest information is shared. Employee performance and development is reviewed on a quarterly basis and ensured it is in line with the overall company's objectives. The Company's employee forum and social committee is chaired by its employees for its employees.

#### **Future developments**

The Company's financial performance continues in line with expectations for 2019.

#### **Research and development**

The company spent £5,153,000 on research and development in the current year (2018: £1,837,000)

#### **Financial risk management**

Financial risk management objectives and policies have been established as discussed in note 22 "Financial risk management and impairment of financial assets".

## **Vertical Aerospace Ltd**

### **Directors' Report for the Year Ended 31 December 2019 (continued)**

#### **Going concern**

The company has made a loss for the year ending 31 December 2019 and has net liabilities.

The financial statements have been prepared on a going concern basis as the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future as a result of continued support of Imagination Industries Ltd. The directors have additionally received confirmation that Imagination Industries Ltd intend to support the company for at least one year after these financial statements were signed.

The ability of Imagination Industries Ltd to provide this support has been considered within the Imagination Industries Ltd financial statements, available on request from the registered office showing in note 1, where the Imagination Industries Ltd directors concluded that the Group has sufficient liquidity to continue as a going concern.

#### **Directors' liabilities**

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 year 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.

#### **Statement of Directors' Responsibilities**

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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union 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 also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for 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.

## **Vertical Aerospace Ltd**

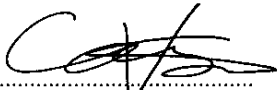
### **Directors' Report for the Year Ended 31 December 2019 (continued)**

#### **Directors' confirmations**

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 22 December 2020 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'Vincent Casey', written over a dotted line.

Vincent Casey  
Director

## **Vertical Aerospace Ltd**

### **Independent Auditors' Report to the Members of Vertical Aerospace Ltd**

#### **Opinion**

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

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; 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 Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2019; the Income Statement, the Statement of Cash Flows, the Statement of Changes in Equity 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.

#### **Conclusions relating to going concern**

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

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

#### **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.

## **Vertical Aerospace Ltd**

### **Independent Auditors' Report to the Members of Vertical Aerospace Ltd (continued)**

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 Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

#### *Directors' Report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year ended 31 December 2019 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 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 set out on page 3, 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.

##### **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.

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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.



## **Vertical Aerospace Ltd**

### **Independent Auditors' Report to the Members of Vertical Aerospace 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 received 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.

**KE RM**

.....  
Katharine Finn (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
2 Glass Wharf  
Bristol  
BS2 0FR

22 December 2020

# Vertical Aerospace Ltd

## Income Statement for the Year Ended 31 December 2019

	Note	2019 £ 000	2018 £ 000
Revenue		-	-
Administrative expenses		<u>(7,404)</u>	<u>(2,815)</u>
Operating loss	3	(7,404)	(2,815)
Finance costs	4	<u>(701)</u>	<u>(232)</u>
Loss before tax		<u>(8,105)</u>	<u>(3,047)</u>
Loss for the year		<u><u>(8,105)</u></u>	<u><u>(3,047)</u></u>

There are no items of other comprehensive income within the current or prior year.

The above results were derived from continuing operations.

There is no other comprehensive income other than the loss for the year.

The notes on pages 13 to 41 form an integral part of these financial statements.

# Vertical Aerospace Ltd

(Registration number: 08330792)

## Statement of Financial Position as at 31 December 2019

	Note	31 December 2019 £ 000	31 December 2018 £ 000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	2,683	853
Intangible assets	10	554	31
Investments in subsidiaries, joint ventures and associates	11	1,838	-
		<u>5,075</u>	<u>884</u>
<b>Current assets</b>			
Trade and other receivables	12	1,466	580
Cash and cash equivalents	13	925	272
		<u>2,391</u>	<u>852</u>
Total assets		<u>7,466</u>	<u>1,736</u>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	14	-	-
Accumulated losses		12,906	4,801
Total equity		<u>12,906</u>	<u>4,801</u>
<b>Non-current liabilities</b>			
Provisions	20	(83)	(77)
Lease liabilities		(947)	(498)
Other non-current financial liabilities		(524)	-
		<u>(1,554)</u>	<u>(575)</u>
<b>Current liabilities</b>			
Trade and other payables	17	(1,347)	(215)
Loans and borrowings	16	(17,252)	(5,572)
Lease liabilities		(219)	(175)
		<u>(18,818)</u>	<u>(5,962)</u>
Total liabilities		<u>(20,372)</u>	<u>(6,537)</u>
Total equity and liabilities		<u>(7,466)</u>	<u>(1,736)</u>

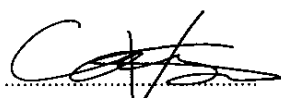
The notes on pages 13 to 41 form an integral part of these financial statements.

**Vertical Aerospace Ltd**

**(Registration number: 08330792)**

**Statement of Financial Position as at 31 December 2019 (continued)**

The financial statements on pages 8 to 41 were approved by the Board on 22 December 2020 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'Vincent Case', written over a horizontal dotted line.

Vincent Case  
Director

# Vertical Aerospace Ltd

## Statement of Changes in Equity for the Year Ended 31 December 2019

	Share capital £ 000	Accumulated losses £ 000	Total £ 000
At 1 January 2019	-	(4,801)	(4,801)
Loss for the year	-	(8,105)	(8,105)
At 31 December 2019	-	(12,906)	(12,906)
	Share capital £ 000	Accumulated losses £ 000	Total £ 000
At 1 January 2018	-	(1,754)	(1,754)
Loss for the year	-	(3,047)	(3,047)
At 31 December 2018	-	(4,801)	(4,801)

The notes on pages 13 to 41 form an integral part of these financial statements.

# Vertical Aerospace Ltd

## Statement of Cash Flows for the Year Ended 31 December 2019

	Note	2019 £ 000	2018 £ 000
<b>Cash flows from operating activities</b>			
Loss for the year		(8,105)	(3,047)
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	3	281	116
Finance costs	4	701	232
		(7,123)	(2,699)
Working capital adjustments			
Increase in trade and other receivables	12	(886)	(426)
Increase in trade and other payables	17	832	129
Net cash flow from operating activities		(7,177)	(2,996)
<b>Cash flows from investing activities</b>			
Acquisition of subsidiaries	11	(1,029)	-
Acquisitions of property plant and equipment		(1,482)	(52)
Proceeds from sale of property plant and equipment		1	-
Acquisition of intangible assets	10	(575)	(34)
Proceeds from sale of intangible assets		-	3
Net cash flows from investing activities		(3,085)	(83)
<b>Cash flows from financing activities</b>			
Interest paid		(635)	(210)
Proceeds from other borrowing draw downs		11,680	3,568
Payments to finance lease creditors		(130)	(139)
Net cash flows from financing activities		10,915	3,219
Net increase in cash and cash equivalents		653	140
Cash and cash equivalents at 1 January		272	132
Cash and cash equivalents at 31 December		925	272

The notes on pages 13 to 41 form an integral part of these financial statements.

## **Vertical Aerospace Ltd**

### **Notes to the Financial Statements for the Year Ended 31 December 2019**

#### **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:

140-142 Kensington Church Street

London

W8 4BN

United Kingdom

These financial statements were authorised for issue by the Board on 22 December 2020.

#### **2 Accounting policies**

##### **Statement of compliance**

The company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations adopted by the EU (adopted IFRS's).

##### **Summary of significant accounting policies and key accounting estimates**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

##### **Basis of preparation**

The financial statements have been prepared in accordance with International Financial Reporting Standards and IFRS Interpretations Committee (IFRS IC) as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies.

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in 'Pounds Sterling' (£), which is the Company's functional and the Company's presentation currency.

## **Vertical Aerospace Ltd**

### **Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

##### **Going concern**

The company has made a loss for the year ending 31 December 2019 and has net liabilities.

The financial statements have been prepared on a going concern basis as the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future as a result of continued support of Imagination Industries Ltd. The directors have additionally received confirmation that Imagination Industries Ltd intend to support the company for at least one year after these financial statements were signed.

The ability of Imagination Industries Ltd to provide this support has been considered within the Imagination Industries Ltd financial statements, available on request from the registered office showing in note 1, where the Imagination Industries Ltd directors concluded that the Group has sufficient liquidity to continue as a going concern.

##### **Exemption from preparing group accounts**

The financial statements contain information about Vertical Aerospace Ltd as an individual company and do not contain consolidated financial information as the parent of a group.

The company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its parent, Imagination Industries Ltd, a company incorporated in United Kingdom.

##### **Changes in accounting policy**

None of the standards, interpretations and amendments effective for the first time from 1 January 2019 have had a material effect on the financial statements.

##### **New standards, interpretations and amendments not yet effective**

None of the standards, interpretations and amendments which are effective for periods beginning after 1 January 2019 and which have not been adopted early, are expected to have a material effect on the financial statements.



## Vertical Aerospace Ltd

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 2 Accounting policies (continued)

##### Finance income and costs policy

Financing expense comprises interest payable on loans and is recognised in profit or loss using the effective interest method. Financing income comprises interest receivable on funds invested and on loans to group undertakings.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

##### Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates.

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

##### Tax

The tax expense for the period comprises current tax and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of 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.

##### Property, plant and equipment

Property, plant and equipment is stated in the statement of financial position 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

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

Asset class	Depreciation method and rate
Leasehold improvements	Period of lease
Computer equipment	3 years straight line
Leasehold property	Period of lease

## Vertical Aerospace Ltd

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 2 Accounting policies (continued)

##### Intangible assets

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

Computer software licences acquired for use within the Company are capitalised as an intangible asset on the basis of the costs incurred to acquire and bring to use the specific software.

##### Amortisation

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

Asset class	Amortisation method and rate
IT software	3 years straight line

##### Investments

Investments in securities are classified on initial recognition as available-for-sale and are carried at fair value, except where their fair value cannot be measured reliably, in which case they are carried at cost, less any impairment.

Unrealised holding gains and losses other than impairments are recognised in other comprehensive income. On maturity or disposal, net gains and losses previously deferred in accumulated other comprehensive income are recognised in income.

Interest income on debt securities, where applicable, is recognised in income using the effective interest method. Dividends on equity securities are recognised in income when receivable.

##### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

## **Vertical Aerospace Ltd**

### **Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

##### **Trade receivables**

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), 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 when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables.

##### **Trade payables**

Trade 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 payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

##### **Borrowings**

All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised 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.

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

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.

##### **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 group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the directors' 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.

## Vertical Aerospace Ltd

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 2 Accounting policies (continued)

##### 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 (eg direct 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.

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 [presented separately as non-operating /included in finance cost] 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.

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.

## Vertical Aerospace Ltd

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 2 Accounting policies (continued)

##### *Lease modifications*

If a lease is modified, the modified contract is evaluated to determine whether it is or contains a lease. If a lease continues to exist, the lease modification will result in either a separate lease or a change in the accounting for the existing lease.

The modification is accounted for as a separate lease if both:

- (a) The modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- (b) The consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

If both of these conditions are met, the lease modification results in two separate leases, the unmodified original lease and a separate lease. The company then accounts for these in line with the accounting policy for new leases.

If either of the conditions are not met, the modified lease is not accounted for as a separate lease and the consideration is allocated to the contract and the lease liability is re-measured using the lease term of the modified lease and the discount rate as determined at the effective date of the modification.

For a modification that fully or partially decreases the scope of the lease (e.g., reduces the square footage of leased space), IFRS 16 requires a lessee to decrease the carrying amount of the right-of-use asset to reflect partial or full termination of the lease. Any difference between those adjustments is recognised in profit or loss at the effective date of the modification.

For all other lease modifications which are not accounted for as a separate lease, IFRS 16 requires the lessee to recognise the amount of the re-measurement of the lease liability as an adjustment to the corresponding right-of-use asset without affecting profit or loss.

##### *Short term and low value leases*

The company has made an accounting policy election, by class of underlying asset, not to recognise 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 recognise 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.

## **Vertical Aerospace Ltd**

### **Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

##### **Defined contribution pension obligation**

A defined contribution plan is a pension plan under which fixed contributions are paid into a separate entity and 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 and prior periods.

For defined contribution plans contributions are paid publicly or privately administered pension insurance plans on a mandatory or contractual basis. The contributions are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as an asset.

##### **Share based payments**

Vertical Aerospace Ltd operates an equity-settled, share based compensation plan, under which the entity receives services from employees as consideration for equity instruments (shares) of Vertical Aerospace Ltd. 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 recognised 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 recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, Vertical Aerospace Ltd revises its estimates of the number of shares that are expected to vest based on the non-market vesting conditions. They recognise the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

## **Vertical Aerospace Ltd**

### **Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

##### **Financial instruments**

###### **Initial recognition**

Financial assets and financial liabilities comprise all assets and liabilities reflected in the statement of financial position, although excluding property, plant and equipment, investment properties, intangible assets, deferred tax assets, prepayments, deferred tax liabilities and employee benefits plan.

The company recognises 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 are initially recognised at fair value. Financial liabilities are initially recognised at fair value, representing the proceeds received net of premiums, discounts and transaction costs that are directly attributable to the financial liability.

All regular way purchases and sales of financial assets and financial liabilities classified as fair value through profit or loss ("FVTPL") are recognised on the trade date, i.e. the date on which the company commits to purchase or sell the financial assets or financial liabilities. All regular way purchases and sales of other financial assets and financial liabilities are recognised on the settlement date, i.e. the date on which the asset or liability is received from or delivered to the counterparty. Regular way purchases or sales are purchases or sales of financial assets that require delivery within the time frame generally established by regulation or convention in the market place.

Subsequent to initial measurement, financial assets and financial liabilities are measured at either amortised cost or fair value.

###### **Classification and measurement**

Financial instruments are classified at inception into one of the following categories, which then determine the subsequent measurement methodology:

Financial assets are classified into one of the following three categories:

- financial assets at amortised cost;
- financial assets at fair value through other comprehensive income (FVTOCI); or
- financial assets at fair value through the profit or loss (FVTPL).

Financial liabilities are classified into one of the following two categories:

- financial liabilities at amortised cost; or
- financial liabilities at fair value through the profit or loss (FVTPL).

The classification and the basis for measurement are subject to the company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as detailed below:

## Vertical Aerospace Ltd

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 2 Accounting policies (continued)

##### Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If either of the above two criteria is not met, the financial assets are classified and measured at fair value through the profit or loss (FVTPL).

If a financial asset meets the amortised cost criteria, the company may choose to designate the financial asset at FVTPL. Such an election is irrevocable and applicable only if the FVTPL classification significantly reduces a measurement or recognition inconsistency.

##### Financial assets at fair value through other comprehensive income (FVTOCI)

A financial asset is measured at FVTOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investments that is not held for trading, the company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

If an equity investment is designated as FVTOCI, all gains and losses, except for dividend income, are recognised in other comprehensive income and are not subsequently included in the statement of income.

##### Financial assets at fair value through the profit or loss (FVTPL)

Financial assets not otherwise classified above are classified and measured as FVTPL.

##### Financial liabilities at amortised cost

All financial liabilities, other than those classified as financial liabilities at FVTPL, are measured at amortised cost using the effective interest rate method.

##### Financial liabilities at fair value through the profit or loss

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



## Vertical Aerospace Ltd

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 2 Accounting policies (continued)

##### Derecognition

###### *Financial assets*

The company derecognises a financial asset when;

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

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

Any cumulative gain or loss recognised in OCI in respect of equity investment securities designated as FVTOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the company is recognised as a separate asset or liability.

The company enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised.

When the company derecognises transferred financial assets in their entirety, but has continuing involvement in them then the entity should disclose for each type of continuing involvement at the reporting date:

(a) The carrying amount of the assets and liabilities that are recognised in the entity's statement of financial position and represent the entity's continuing involvement in the derecognised financial assets, and the line items in which those assets and liabilities are recognised.

(b) The fair value of the assets and liabilities that represent the entity's continuing involvement in the derecognised financial assets;

(c) The amount that best represents the entity's maximum exposure to loss from its continuing involvement in the derecognised financial assets, and how the maximum exposure to loss is determined

(d) The undiscounted cash outflows that would or may be required to repurchase the derecognised financial assets or other amounts payable to the transferee for the transferred assets

###### *Financial liabilities*

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

## **Vertical Aerospace Ltd**

### **Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

##### **Modification of financial assets and financial liabilities**

###### *Financial assets*

If the terms of a financial asset are modified, the company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to the cash flows from the original financial asset are deemed to expire. In this case the original financial asset is derecognised and a new financial asset is recognised at either amortised cost or fair value.

If the cash flows are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of income.

###### *Financial liabilities*

If the terms of a financial liabilities are modified, the company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual obligations from the cash flows from the original financial liabilities are deemed to expire. In this case the original financial liabilities are derecognised and new financial liabilities are recognised at either amortised cost or fair value.

If the cash flows are not substantially different, then the modification does not result in derecognition of the financial liabilities. In this case, the company recalculates the gross carrying amount of the financial liabilities and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of income.

## Vertical Aerospace Ltd

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 2 Accounting policies (continued)

##### Impairment of financial assets

###### *Measurement of Expected Credit Losses*

The company recognises loss allowances for expected credit losses (ECL) on financial instruments that are not measured at FVPTL, namely:

- Financial assets that are debt instruments
- Accounts and other receivables
- Financial guarantee contracts issued; and
- Loan commitments issued.

The company classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below:

Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the company recognises an allowance based on the 12-month ECL.

Stage 2: for financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the company recognises an allowance for the lifetime ECL.

Stage 3: for credit-impaired financial instruments, the company recognises the lifetime ECL.

The company measures loss allowances at an amount equal to the lifetime ECL, except for the following, for which they are measured as a 12-month ECL:

- debt securities that are determined to have a low credit risk (equivalent to investment grade rating) at the reporting date; and
- other financial instruments on which the credit risk has not increased significantly since their initial recognition.

The company considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

A 12-month ECL is the portion of the ECL that results from default events on a financial instrument that are probable within 12 months from the reporting date.

Provisions for credit-impairment are recognised in the statement of income and are reflected in accumulated provision balances against each relevant financial instruments balance.

## **Vertical Aerospace Ltd**

### **Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

Evidence that the financial asset is credit-impaired include the following;

- Significant financial difficulties of the borrower or issuer;
- A breach of contract such as default or past due event;
- The restructuring of the loan or advance by the company on terms that the company would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for the security because of financial difficulties; or
- There is other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the company, or economic conditions that correlate with defaults in the company.

For trade receivables, the company applies the simplified approach, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2018 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The company has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

#### **Accounting estimates and assumptions**

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of certain financial assets, liabilities, income and expenses.

The use of estimates and assumptions is principally limited to the determination of provisions for impairment and the valuation of financial instruments as explained in more detail below:

#### **Provisions for impairment**

In determining impairment of financial assets, judgement is required in the estimation of the amount and timing of future cash flows as well as an assessment of whether the credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

## Vertical Aerospace Ltd

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 2 Accounting policies (continued)

##### Fair value of financial assets and liabilities

Where the fair value of financial assets and liabilities cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is derived from observable markets where available, but where this is not feasible, a degree of judgement is required in determining assumptions used in the models. Changes in assumptions used in the models could affect the reported fair value of financial assets and liabilities.

#### 3 Operating loss

Arrived at after charging/(crediting)

	2019 £ 000	2018 £ 000
Depreciation expense	229	104
Amortisation expense	52	12
Foreign exchange losses	(6)	-
Operating lease expense - property	<u>-</u>	<u>34</u>

#### 4 Finance costs

	2019 £ 000	2018 £ 000
<b>Finance Costs</b>		
Interest on obligations under finance leases	46	20
FV movement on provision	20	2
Intercompany interest expense	<u>635</u>	<u>210</u>
Total finance costs	<u>701</u>	<u>232</u>

## Vertical Aerospace Ltd

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 5 Staff costs

The aggregate payroll costs were as follows:

	<b>2019</b>	<b>2018</b>
	<b>£ 000</b>	<b>£ 000</b>
Wages and salaries	3,201	1,554
Social security costs	336	155
Other pension costs	100	31
	<u>3,637</u>	<u>1,740</u>

The monthly average number of persons employed by the company (including directors) during the year, analysed by category was as follows:

	<b>2019</b>	<b>2018</b>
	<b>No.</b>	<b>No.</b>
Administration and support	<u>47</u>	<u>24</u>

#### 6 Directors' remuneration

The Directors' remuneration and salary cost for 2019 is recognised in OVO Group Ltd.

The Directors' compensation is paid by OVO Group Ltd, which makes no recharge to the entity. The Directors are additionally Directors of the parent entity and a number of fellow subsidiaries, and it is not possible to make a reasonable apportionment of their compensation in respect of each of the subsidiaries. Accordingly, the total compensation of the Directors are included in the aggregate of key management personnel compensation disclosed in the consolidated financial statements of OVO Group Ltd.

#### 7 Auditors' remuneration

Fees for the audit of £12,000 (2018: £18,585) and taxation services of £Nil (2018: £Nil) are borne by Imagination Industries Incubator Limited.

## Vertical Aerospace Ltd

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 8 Income tax receipt/(expense)

The tax on loss before tax for the year is higher than the standard rate of corporation tax in the UK (2018 - higher than the standard rate of corporation tax in the UK) of 19% (2018 - 19%).

The differences are reconciled below:

	2019 £ 000	2018 £ 000
Loss before tax from continued operations	<u>(8,105)</u>	<u>(3,047)</u>
Corporation tax at standard rate	(1,540)	(579)
Decrease from tax losses for which no deferred tax asset was recognised	-	19
Amount surrendered to group relief	<u>1,540</u>	<u>560</u>
Total tax charge/(credit) from continued operations	<u>-</u>	<u>-</u>

The main rate of UK corporation tax for the years to 31 March 2018, 31 March 2019 and 31 March 2020 was 19%.

At Budget 2020, the government announced that the Corporation Tax main rate (for all profits except ring fence profits) for the years starting 1 April 2020 and 2021 would remain at 19%.

## Vertical Aerospace Ltd

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 9 Property, plant and equipment

	Right of use assets £ 000	Leasehold improvements £ 000	Computer equipment £ 000	Total £ 000
<b>Cost or valuation</b>				
At 1 January 2018	-	25	30	55
Additions	867	29	23	919
Disposals	-	(29)	-	(29)
At 31 December 2018	867	25	53	945
At 1 January 2019	867	25	53	945
Additions	578	1,311	171	2,060
Disposals	-	-	(1)	(1)
At 31 December 2019	1,445	1,336	223	3,004
<b>Accumulated Depreciation</b>				
At 1 January 2018	-	10	7	17
Charge for year	72	20	12	104
Eliminated on disposal	-	(29)	-	(29)
At 31 December 2018	72	1	19	92
At 1 January 2019	72	1	19	92
Charge for the year	171	24	34	229
At 31 December 2019	243	25	53	321
<b>Carrying amount</b>				
At 31 December 2019	1,202	1,311	170	2,683
At 31 December 2018	795	24	34	853
At 1 January 2018	-	15	23	38

The Right-of-use assets and have been accounted for under IFRS 16 and further details are disclosed in note 15 Leases.



## Vertical Aerospace Ltd

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 10 Intangible assets

	Software costs £ 000
<b>Cost or valuation</b>	
At 1 January 2018	25
Additions	34
Disposals	<u>(3)</u>
At 31 December 2018	<u>56</u>
At 1 January 2019	56
Additions	<u>575</u>
At 31 December 2019	<u>631</u>
<b>Accumulated Amortisation</b>	
At 1 January 2018	13
Amortisation charge	<u>12</u>
At 31 December 2018	<u>25</u>
At 1 January 2019	25
Amortisation charge	<u>52</u>
At 31 December 2019	<u>77</u>
<b>Carrying amount</b>	
At 31 December 2019	<u>554</u>
At 31 December 2018	<u>31</u>
At 1 January 2018	<u>12</u>

The amortisation charge of £52,000 (2018: £12,000) is recognised in administrative expenses.

There was no indication of impairment of the software during the year. The carrying amounts of the software was reviewed at the reporting date and management determined that there were no indicators of impairment.

## Vertical Aerospace Ltd

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 11 Investments

Subsidiaries	£ 000
<b>Cost or valuation</b>	
At 31 December 2018	-
Additions	1,838
At 31 December 2019	1,838
<b>Carrying amount</b>	
At 31 December 2019	1,838
At 31 December 2018	-

On 29 July 2020, the Company acquired 100% of the share capital of Vertical Advanced Engineering Ltd for a cash consideration of £1,029,000 and deferred consideration of £900,000. The fair value of the deferred consideration at 31 December 2019 was £824,000 and is shown in Other payables and Other non-current financial liabilities on the Statement of Financial Position.

Details of the subsidiaries as at 31 December 2019 are as follows:

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest and voting rights held	
			2019	2018
Vertical Engineering Ltd	Advanced Engineering services	design 140 - 142 Kensington Church Street, London, W8 4BN UK	100%	0%

## Vertical Aerospace Ltd

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 12 Trade and other receivables

	31 December 2019 £ 000	31 December 2018 £ 000
Prepayments	328	109
Other receivables	1,138	471
	<u>1,466</u>	<u>580</u>

The fair value of those trade and other receivables classified as financial instrument loans and receivables are disclosed in note 21 "Financial instruments".

The company's exposure to credit and market risks, including impairments and allowances for credit losses, relating to trade and other receivables is disclosed in note 22 "Financial risk management and impairment of financial assets".

#### 13 Cash and cash equivalents

	31 December 2019 £ 000	31 December 2018 £ 000
Cash at bank	925	272

#### 14 Share capital

##### Allotted, called up and fully paid shares

	31 December 2019		31 December 2018	
	No.	£	No.	£
A ordinary shares of £0.0001 each	100,000	10.00	100,000	10.00
B1 ordinary shares of £0.0001 each	12,935	1.29	10,779	1.08
Deferred shares of £0.0001 each	4,986	0.50	2,357	0.24
	<u>117,921</u>	<u>11.79</u>	<u>113,136</u>	<u>11.31</u>

## Vertical Aerospace Ltd

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 14 Share capital (continued)

##### New shares allotted

During the year 4,785 B1 ordinary shares having an aggregate nominal value of £0.47 were allotted for an aggregate consideration of £0.47.

Deferred shares resulted from conversion from B1 Ordinary shares.

The B1 shares have been issued as part of Employee Share Schemes as discussed in note 19.

#### 15 Leases

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

	31 December 2019	31 December 2018
	£000	£000
Lease Liability - Current	219	175
Lease Liability - Non-current	947	498
Total Lease Liability	<u>1,166</u>	<u>673</u>

##### Lease liabilities maturity analysis

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

	31 December 2019	31 December 2018
	£ 000	£ 000
Less than one year	175	175
2 years	175	175
3 years	175	175
4 years	47	175
5 years	<u>-</u>	<u>47</u>
Total lease liabilities (undiscounted)	<u>572</u>	<u>747</u>

##### Total cash outflows related to leases

## Vertical Aerospace Ltd

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 15 Leases (continued)

Total cash outflows related to leases are presented in the table below:

	31 December 2019 £ 000	31 December 2018 £ 000
<b>Payment</b>		
Low value leases	2	2
Short term leases	-	32
Total cash outflow	<u>2</u>	<u>34</u>

In 2018, the Company entered into a 5 year lease agreement for a property.

The cost, depreciation charge and carrying value for the right-of-use asset is disclosed in note 9 "Property, plant and equipment".

The interest expense on lease liabilities is disclosed in note 4 "Finance Costs".

#### 16 Loans and borrowings

	31 December 2019 £ 000	31 December 2018 £ 000
<b>Current loans and borrowings</b>		
Other borrowings	<u>17,252</u>	<u>5,572</u>

The loans and borrowings classified as financial instruments are disclosed in note 21 "Financial instruments".

The company's exposure to market and liquidity risk; including maturity analysis, in respect of loans and borrowings is disclosed in note 22 "Financial risk management and impairment of financial assets".

The loans and borrowings incurred an interest charge which is disclosed in note 23 "Related party transactions".

## Vertical Aerospace Ltd

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 17 Trade and other payables

	31 December 2019 £ 000	31 December 2018 £ 000
Trade payables	695	71
Accrued expenses	344	95
Social security and other taxes	-	49
Other payables	308	-
	<u>1,347</u>	<u>215</u>

The company's exposure to market and liquidity risks, including maturity analysis, related to trade and other payables is disclosed in the financial risk review note.

#### 18 Pension and other schemes

##### Defined contribution pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £100,000 (2018: £31,000).

## Vertical Aerospace Ltd

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 19 Share-based payments

##### Vertical Aerospace Employee Share Scheme

##### Scheme details and movements

In 2018, Vertical Aerospace Ltd established a new employee share plan. Under the terms of the scheme, Vertical Aerospace Ltd awarded its own employees class B1 ordinary shares in Vertical Aerospace Ltd.

B1 shares are free shares awarded to employees. The vesting period ranged from immediate to 4 years.

The scheme is equity settled. The shares awarded had a fair value of £Nil on the grant date. No expense has been charged to the income statement.

##### Reconciliation in movements and awards

	2019 Number	2018 Number
Outstanding, start of year	10,779	-
Granted during the year	4,785	13,136
Forfeited during the year	(2,629)	(2,357)
Outstanding, end of year	<u>12,935</u>	<u>10,779</u>

#### 20 Provisions

	Dilapidations provisions £ 000
At 1 January 2019	77
Increase (decrease) due to passage of time or unwinding of discount	<u>6</u>
At 31 December 2019	<u>83</u>
Non-current liabilities	<u>83</u>

## Vertical Aerospace Ltd

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 21 Financial instruments

##### Financial assets

##### Loans and receivables

	Carrying value		Fair value	
	31 December 2019 £ 000	31 December 2018 £ 000	31 December 2019 £ 000	31 December 2018 £ 000
Cash and cash equivalents	925	272	925	272
Trade and other receivables	570	355	570	355
	<u>1,495</u>	<u>627</u>	<u>1,495</u>	<u>627</u>

##### *Valuation methods and assumptions*

##### Loans and receivables:

The fair value of loans and receivable is based on the expectation of recovery of balances. There have been no historic defaults over the other receivables balance, therefore the full balance is expected to be received.

##### Financial liabilities

##### *Financial liabilities at amortised cost*

	Carrying value		Fair value	
	31 December 2019 £ 000	31 December 2018 £ 000	31 December 2019 £ 000	31 December 2018 £ 000
Trade and other payables	1,347	167	1,347	167
Amounts owed to group	17,252	5,572	17,252	5,572
	<u>18,599</u>	<u>5,739</u>	<u>18,599</u>	<u>5,739</u>

##### *Valuation methods and assumptions*

##### Financial liabilities at amortised cost

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.



## **Vertical Aerospace Ltd**

### **Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)**

#### **22 Financial risk management and impairment of financial assets**

The Company's activities expose it to the following financial risks: credit risk and liquidity risk.

Risk management is carried out by the Risk management committee, under policies approved by the Directors and their Group management team.

##### **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 security deposits and prepayments to suppliers and distributors and deposits with the Group'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 £570,000 (2018: £355,000) being the total of the carrying amount of financial assets excluding equity investments and cash, which include trade receivables and accrued income. 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 2019 and 31 December 2018 was determined as £nil for both trade receivables and contract assets.

##### **Liquidity risk**

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

The Imagination Industries Group management team 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.

## Vertical Aerospace Ltd

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 22 Financial risk management and impairment of financial assets (continued)

##### Maturity analysis

	Within 1 year	Between 2 and 5 years	Total
	£ 000	£ 000	£ 000
<b>2019</b>			
Trade and other payables	1,003	1,471	2,474
Other borrowings	17,252	-	17,252
	<u>18,255</u>	<u>1,471</u>	<u>19,726</u>
	Within 1 year	Between 2 and 5 years	Total
	£ 000	£ 000	£ 000
<b>2018</b>			
Trade and other payables	391	498	889
Other borrowings	5,572	-	5,572
	<u>5,963</u>	<u>498</u>	<u>6,461</u>

##### Capital risk management

##### Capital management

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

The Company has no borrowings from third parties; should debt be introduced into the capital structure in the future then gearing would be managed and monitored.

#### 23 Related party transactions

##### Key management personnel

##### Summary of transactions with key management

The Directors of the Company are remunerated through Ovo Group Ltd. No recharge from Ovo Group Ltd has been made in the current year (2018: £nil).

##### Summary of transactions with parent entities

During the year the Company received loan funds from Imagination Industries Ltd (immediate parent) of £11,003,000 (2018: £3,398,000). The loan incurred an interest charge at 7% (2018: 7%) of £635,000 (2018: £210,000). As at 31 December 2019, the total balance owed to Imagination Industries Ltd was £17,082,000 (2018: £5,445,000).

## **Vertical Aerospace Ltd**

### **Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)**

#### **23 Related party transactions (continued)**

##### **Summary of transactions with subsidiaries**

During the year the Company received loan funds from Vertical Advanced Engineering Ltd of £270,000 (2018: £nil). No interest was charged (2018: £nil). During the year, £101,000 was repaid (2018: £nil). As at 31 December 2019, the total balance owed to Vertical Advanced Engineering Ltd was £169,000 (2018: £nil).

During the year, Vertical Advanced Engineering Ltd charged the Company engineering design services of £72,000 (2018: £nil) for which no balance remained at 31 December 2019.

##### **Summary of transactions with other related parties**

During the year, Imagination Industries Incubator Ltd charged the Company management fees of £156,000 (2018: £42,000). As at 31 December 2019, the total balance outstanding was £nil (2018: £19,000).

#### **24 Parent and ultimate parent undertaking**

The company's immediate parent is Imagination Industries Ltd.

The ultimate parent is Imagination Industries Ltd. These financial statements are available upon request from the address shown in note 1.

The ultimate controlling party is Stephen Fitzpatrick.

##### **Relationship between entity and parents**

The parent of the largest group in which these financial statements are consolidated is Imagination Industries Ltd, incorporated in England and Wales.

#### **25 Non adjusting events after the financial year**

##### **COVID-19**

On 23 March 2020 the UK Government introduced measures to curb the the COVID-19 pandemic. No adjustments have been made to these accounts as a result of this. Given the cloud-based nature of the company's IT infrastructure, employees were able to work from home with limited disruption.

##### **Sale of trade and assets**

On 1 July 2020, the Company sold the trade and assets of its eVTOL research and development business to Vertical Aerospace Group Ltd, a company wholly owned by Stephen Fitzpatrick. The Company continues to operate its consultancy business through its subsidiary, Vertical Advanced Engineering Ltd.