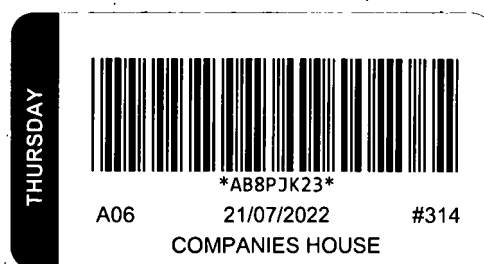


BAE Systems (Farnborough 3) Limited

Annual Report and Financial Statements

31 December 2021

Registered number: 02769240



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Directors' Report

Company registration

BAE Systems (Farnborough 3) Limited (the "Company") is a private company, limited by shares and registered in England and Wales with the registered number 02769240.

The Company is a member of the BAE Systems plc Group ("BAE Systems Group or Group") of companies.

Results and dividends

The Company's profit for the financial year is £3,707,622 (2020: £3,447,680 loss). The directors do not propose a dividend for 2021 (2020: £nil).

Business review and principal activities

As part of its involvement in certain agreements for the leasing of buildings at the Farnborough Aerospace Centre, Farnborough, Hampshire, the Company will continue to receive rental income which it will use to pay amounts due to the ultimate landlord of the properties. During the year, the Company terminated its lease agreement at its Park Centre investment property. This resulted in an additional termination fee income of £4.2m and a reduction in its depreciation charge of around £2.7m.

Going concern

The financial statements have been prepared on the going concern basis, notwithstanding net current liabilities of £8,604,411, which the directors believe to be appropriate for the following reasons. The Company is dependent for its working capital on funds provided to it by BAE Systems plc, the Company's ultimate parent. BAE Systems plc has indicated in writing that, for at least 12 months from the date of approval of these financial statements, it will continue to make available funds as are needed by the Company to meet its liabilities as they fall due and in particular will not seek repayment of amounts currently made available.

The Company intends to continue to prepare its financial statements in accordance with FRS 101 and on a going concern basis (see note 2.1).

Credit risk and liquidity

The applicable financial risk management policies and exposure to financial risks including price, credit, liquidity and cash flow risks are discussed in detail within the BAE Systems plc Group accounts (available at: www.baesystems.com/investors).

Small companies exemption

Pursuant to Section 414(B) of the Companies Act 2006, the Company has taken advantage of the exemption from presenting a Strategic Report.

Directors and their interests

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

D S Parkes
A-L Holding

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

Directors' Report (continued)

Disclosure of information to auditor

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

Auditor

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

Approved by the Board and signed on its behalf by:



D S Parkes
Director

Date: 20 June 2022

Registered office:
BAE Systems (Farnborough 3) Limited
Warwick House
PO Box 87
Farnborough Aerospace Centre
Farnborough
Hampshire
GU14 6YU

Directors' Responsibilities Statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 ("FRS 101") Reduced Disclosure Framework.

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

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

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

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

Independent Auditor's Report to the Members of BAE Systems (Farnborough 3) Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of BAE Systems (Farnborough 3) Limited (the "Company"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Income Statement;
- the Statement of Comprehensive Income;
- the Balance Sheet;
- the Statement of Changes in Equity;
- the Statement of Accounting Policies; and
- the related notes 1 to 14.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Independent Auditor's Report to the Members of BAE Systems (Farnborough 3) Limited (continued)

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

We have nothing to report in this regard.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Extent to which the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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

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

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act 2006 and the Corporation Tax Act 2010; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

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

Independent Auditor's Report to the Members of BAE Systems (Farnborough 3) Limited (continued)

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

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' Report has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' Report.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit;
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the directors' report and from the requirement to prepare a strategic report.

We have nothing to report in respect of these matters.

Independent Auditor's Report to the Members of BAE Systems (Farnborough 3) Limited (continued)

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Peter McDermott FCA (Senior Statutory Auditor)

for and on behalf of Deloitte LLP
1 New Street Square
London
EC4A 3HQ

Date: 20 June 2022

Income Statement
for the year ended 31 December 2021

	Note	2021 £	2020 £
Revenue	3	16,207,477	12,039,485
Operating costs	4	(12,206,899)	(14,914,052)
Operating profit/(loss)		4,000,578	(2,874,567)
Financial costs	5	(292,956)	(573,113)
Profit/(loss) before tax		3,707,622	(3,447,680)
Tax expense	7	-	-
Profit/(loss) for the year		3,707,622	(3,447,680)

Statement of Comprehensive Income
for the year ended 31 December 2021

	Note	2021 £	2020 £
Profit/(loss) for the year		3,707,622	(3,447,680)
Other comprehensive income:			
Items that may be reclassified to Income Statement:			
Amounts credited to hedging reserve	13	672,330	667,878
Tax on items that may be reclassified to the Income Statement	7	(127,742)	(120,757)
Total other comprehensive income for the year (net of tax)		544,588	547,121
Total comprehensive income/(loss) for the year		4,252,210	(2,900,559)

The notes on pages 12 to 26 form part of these financial statements.

The results for 2021 and 2020 arise from continuing activities.

Balance Sheet
as at 31 December 2021

	Note	2021 £	2020 £
Non-current assets			
Investment property	8	18,234,631	30,478,726
Other financial assets	11	2,508,762	4,696,005
Other receivables	10	2	2
		<u>20,743,395</u>	<u>35,174,733</u>
Current assets			
Other financial assets	11	2,524,949	2,368,890
Total assets		<u>23,268,344</u>	<u>37,543,623</u>
Non-current liabilities			
Lease liabilities	12	(11,528,507)	(22,323,191)
Other financial liabilities	11	(74,342)	-
Deferred tax liabilities	9	(192,137)	(64,395)
		<u>(11,794,986)</u>	<u>(22,387,586)</u>
Current liabilities			
Lease liabilities	12	(11,065,210)	(19,064,249)
Other financial liabilities	11	(64,150)	-
		<u>(11,129,360)</u>	<u>(19,064,249)</u>
Total liabilities		<u>(22,924,346)</u>	<u>(41,451,835)</u>
Net assets/(liabilities)		<u>343,998</u>	<u>(3,908,212)</u>
Capital and reserves			
Issued share capital	13	2	2
Other reserves	13	819,113	274,525
Retained deficit		(475,117)	(4,182,739)
Total equity		<u>343,998</u>	<u>(3,908,212)</u>

Balance Sheet (continued)
as at 31 December 2021

Approved by the Board on 20 June 2022 and signed on its behalf by:



D S Parkes
Director

Registered number: 02769240

The notes on pages 12 to 26 form part of these financial statements.

Statement of Changes in Equity
for the year ended 31 December 2021

	Issued share capital £	Other reserves £	Retained deficit £	Total equity £
At 1 January 2020	2	(272,596)	(735,059)	(1,007,653)
Loss for the year	-	-	(3,447,680)	(3,447,680)
Other comprehensive loss	-	667,878	-	667,878
Taxation in respect of items of other comprehensive income	-	(120,757)	-	(120,757)
At 31 December 2020	2	274,525	(4,182,739)	(3,908,212)
Profit for the year	-	-	3,707,622	3,707,622
Other comprehensive income	-	672,330	-	672,330
Taxation in respect of items of other comprehensive income	-	(127,742)	-	(127,742)
At 31 December 2021	2	819,113	(475,117)	343,998

The notes on pages 12 to 26 form part of these financial statements.

Notes to the Financial Statements

1. General information

BAE Systems (Farnborough 3) Limited is a private company, limited by shares, and registered in England and Wales and incorporated in the United Kingdom. Its ultimate controlling party is disclosed in note 14. The address of the Company's registered office is shown on page 2.

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

Foreign operations are included in accordance with the policies set out in note 2.2.

2. Accounting policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with FRS 101. The Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS"), but makes amendments where necessary in order to comply with the Companies Act 2006, and has set out below where advantage of the FRS 101 disclosure exemptions has been taken:

- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1 Presentation of Financial Statements; and
 - paragraphs 76 and 79(d) of IAS 40 Investment Property.
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

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

Notes to the Financial Statements

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of relevant financial assets and financial liabilities (including derivative instruments).

These financial statements have been prepared using the going concern basis of accounting.

Critical accounting policies

Certain of the Company's significant accounting policies are considered by the directors to be critical because of the level of complexity, judgement or estimation involved in their application and their impact on the financial statements. The critical accounting policies are listed below:

Critical accounting policy	Description
Financial instruments	<p>Derivative financial instruments and hedging activities:</p> <p>The Company has derivative financial instruments and hedging activities. It is exposed to the volatility in currency exchange rates. It does not hold derivative financial instruments for trading purposes.</p> <p>Cash flow Hedges:</p> <p>Where a derivative financial instrument is designated as a hedge of the exposure to variability in cash flows relating to a highly probable forecast transaction (income or expense), or recognised asset or liability, the effective portion of any change in the fair value of the instrument is recognised in other comprehensive income and presented in the hedging reserve in equity.</p>

Judgements made in applying accounting policies

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

Sources of estimation uncertainty

The application of the Company's accounting policies requires the use of estimates. In the event that these estimates prove to be incorrect, there may be an adjustment to the carrying amounts of assets and liabilities within the next financial year.

There are none recognised in the financial statements.

Notes to the Financial Statements

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

Changes in accounting policies

The following standards, interpretations and amendments to existing standards became effective on 1 January 2021 and have not had a material impact on the Company:

- Amendments to IFRS 9, IAS 39, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform (Phase 2); and
- Amendments to IFRS 4 Insurance Contracts: deferral of IFRS9.

The following amendments to existing standards have been issued and became effective in the year as a response to the COVID-19 pandemic, but did not have a material impact on the Company:

- Amendment to IFRS 16 Leases: Covid-19-Related Rent Concessions beyond June 2021, effective from 1 April 2021 and adopted by the UK Secretary of State for Business, Energy and Industrial Strategy on 21 May 2021.

Significant accounting policies

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

2.2 Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at the Balance Sheet date. These exchange differences are recognised in the Income Statement.

2.3 Leases

The Company as lessee

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

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

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

Right-of-use assets that are held for the purpose of earning rental income are presented as investment property. See note 2.4 for further details.

Notes to the Financial Statements

2. Accounting policies (continued)

2.3 Leases (continued)

The carrying amounts of the Company's right-of-use assets are reviewed at each Balance Sheet date to determine whether there is any indication of impairment in line with IFRS 16 Leases.

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

The Company as lessor

Leases in which the Company is lessor are classified as finance leases or operating leases. If the lease transfers substantially all of the risks and rewards of ownership to the lessee, the lease is classified as a finance lease. All other leases are classified as operating leases.

Lease income under operating leases is recognised in the Income Statement on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as a receivable discounted at the interest rate implicit in the lease. Finance lease income is recognised in the Income Statement over the lease term to produce a constant periodic rate of interest on the receivable. The Company has finance lease income from internal BAE Systems business units and external customers.

2.4 Investment property

Cost

Land and buildings that are leased to BAE Systems plc Group or non-BAE Systems plc Group entities are classified as investment property. The Company measures investment property at its cost less accumulated depreciation and impairment losses.

Depreciation

Depreciation is calculated on a straight-line basis, to write off the cost over the shorter of the lease term or the estimated useful life of the asset.

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

Impairment

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

2.5 Financial instruments

Derivative financial instruments and hedging activities

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

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

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, such instruments are stated at fair value at the Balance Sheet date. The fair values are estimated by discounting expected future cash flows.

Notes to the Financial Statements

2. Accounting policies (continued)

2.5 Financial instruments (continued)

Fair value through profit or loss

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

Cash flow hedges

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

Notes to the Financial Statements

2. Accounting policies (continued)

2.6 Tax

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

Current tax

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

Deferred tax

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

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

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

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

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

Notes to the Financial Statements

3. Revenue

Revenue by reporting segment

	2021 £	2020 £
United Kingdom	16,207,477	12,039,485
	<u>16,207,477</u>	<u>12,039,485</u>

Revenue by category:

	2021 £	2020 £
Rental income	16,207,477	12,039,485
	<u>16,207,477</u>	<u>12,039,485</u>

4. Operating Costs

	2021 £	2020 £
Depreciation, amortisation and impairment	12,206,899	14,914,052
	<u>12,206,899</u>	<u>14,914,052</u>

The remuneration of the auditor for the year ended 31 December 2021 for auditing of the financial statements was £7k (2020: £3k) and £nil (2020: £nil) in respect of non-audit work. This was borne by BAE Systems Properties Limited and not recharged to the Company.

5. Financial costs

	2021 £	2020 £
Foreign exchange (gains)	(18,999)	(35,321)
Interest expense on lease liabilities (note 12)	311,955	608,434
	<u>292,956</u>	<u>573,113</u>

Notes to the Financial Statements

6. Employees

The Company has no employees (2020: nil).

None of the directors received any emoluments from the Company during the year. All directors who served during the year were employed by BAE Systems plc and were remunerated through that company. The directors did not provide any material qualifying services to the Company.

7. Tax

The Company has not provided for current tax for the year as any taxable profits will be covered by the surrender of losses from fellow group companies, in respect of which no payment will be made.

Reconciliation of tax result

The following reconciles the expected tax (expense)/income, using the UK corporation tax rate, to the reported tax result:

	2021 £	2020 £
Profit/(loss) before tax	3,707,622	(3,447,680)
UK corporation tax rate	19.00%	19.00%
Expected tax (expense)/income on profit/(loss)	(704,448)	655,059
Losses received from/(surrendered to) fellow group companies	704,448	(655,059)
Tax result	-	-

Notes to the Financial Statements

7. Tax (continued)

Tax recognised in other comprehensive income

	2021			2020		
	Before tax	Tax benefit/ (expense)	Net of tax	Before tax	Tax benefit/ (expense)	Net of tax
	£	£	£	£	£	£
Items that may be reclassified to the Income Statement: Amounts (charged)/credited to hedging reserve	672,330	(127,742)	544,588	667,878	(120,757)	547,121
	<u>672,330</u>	<u>(127,742)</u>	<u>544,588</u>	<u>667,878</u>	<u>(120,757)</u>	<u>547,121</u>

	2021			2020		
	Other reserves	Retained earnings	Total	Other reserves	Retained earnings	Total
	£	£	£	£	£	£
Deferred tax						
Financial instruments	412,239	-	412,239	640,573	-	640,573
Lease liabilities	(539,981)	-	(539,981)	(767,469)	-	(767,469)
Tax rate adjustment ¹	-	-	-	6,139	-	6,139
Tax on other comprehensive income	<u>(127,742)</u>	<u>-</u>	<u>(127,742)</u>	<u>(120,757)</u>	<u>-</u>	<u>(120,757)</u>

¹The Government announced in 2021 that from 1 April 2023 the UK corporation tax rate would increase from 19% to 25%. Deferred tax has been calculated at the tax rates, enacted at each Balance Sheet date, expected to apply to the temporary differences when they reverse.

Notes to the Financial Statements

8. Investment property

	Investment property £
Cost	
At 1 January 2021	57,154,443
Revaluations	(37,196)
At 31 December 2021	<u>57,117,247</u>
Depreciation and impairment	
At 1 January 2021	26,675,717
Depreciation charge for the year	12,206,899
At 31 December 2021	<u>38,882,616</u>
Net book value	
At 31 December 2021	<u>18,234,631</u>
At 31 December 2020	<u>30,478,726</u>
Fair Value	
At 31 December 2021	<u>18,234,631</u>
At 31 December 2020	<u>30,478,726</u>

The Company measures investment property at its cost less accumulated depreciation as outlined on page 15. The initial cost and any revaluations are measured as the present value of future lease payments, discounted using the interest rate implicit in each lease. These are reviewed annually by the Company and as such the management consider the fair value to be equivalent to the net book value.

Notes to the Financial Statements

9. Deferred taxation

Deferred tax assets/(liabilities)

	Deferred tax assets		Deferred tax liabilities		Net balance at 31 December	
	2021	2020	2021	2020	2021	2020
	£	£	£	£	£	£
Financial instruments	-	-	(930,091)	(1,342,330)	(930,091)	(1,342,330)
Lease liabilities	737,954	1,277,935	-	-	737,954	1,277,935
Deferred tax assets/(liabilities)	737,954	1,277,935	(930,091)	(1,342,330)	(192,137)	(64,395)
Set off of tax	(737,954)	(1,277,935)	737,954	1,277,935	-	-
Net deferred tax assets/(liabilities)	-	-	(192,137)	(64,395)	(192,137)	(64,395)

Movement in temporary differences during the year

	At 1 January 2021 £	Recognised in equity £	At 31 December 2021 £
Financial instruments	(1,342,330)	412,239	(930,091)
Lease liabilities	1,277,935	(539,981)	737,954
	(64,395)	(127,742)	(192,137)

	At 1 January 2020 £	Recognised in equity £	At 31 December 2020 £
Financial instruments	(1,788,095)	445,765	(1,342,330)
Lease liabilities	1,844,457	(566,522)	1,277,935
	56,362	(120,757)	(64,395)

Notes to the Financial Statements

10. Trade and other receivables

	2021 £	2020 £
Due after more than one year		
Amounts owed by BAE Systems plc	2	2

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

11. Financial instruments

	2021 £	2020 £
Financial assets		
Non-current		
Cash flow hedges – foreign exchange contracts	2,508,762	4,696,005
Current		
Cash flow hedges – foreign exchange contracts	2,524,949	2,368,890
Financial liabilities		
Non-current		
Cash flow hedges – foreign exchange contracts	(74,342)	-
Current		
Cash flow hedges – foreign exchange contracts	(64,150)	-

Notes to the Financial Statements

12. Leases

The Company leases land and buildings under non-cancellable lease arrangements. The leases have varying terms, including escalation clauses, renewal rights and purchase options. None of these terms represent unusual arrangements or create material onerous or beneficial rights or obligations.

Right-of-use assets

	31 December 2021	31 December 2020
	Total £	Total £
Depreciation expense for the year	12,206,899	14,914,052
Net book value	18,234,631	30,478,726

Lease liabilities

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

	2021 £	2020 £
Payments due:		
Within one year	11,443,802	19,068,289
Between one and five years	11,443,802	22,679,962
	<u>22,887,604</u>	<u>41,748,251</u>
Reconciliation to Balance Sheet:		
Undiscounted lease liability	22,887,604	41,748,251
Impact of discounting	(293,887)	(360,811)
Total discounted lease liability	<u>22,593,717</u>	<u>41,387,440</u>

The total cash outflow for leases recognised on the Balance Sheet in the year ended 31 December 2021, amounted to £16,207,476 (2020: £12,039,485).

Notes to the Financial Statements

12. Leases (continued)

Amounts recognised in the Income Statement

	2021 £	2020 £
Included in operating costs:		
Depreciation on right-of-use assets	12,206,899	14,914,052
	<u>12,206,899</u>	<u>14,914,052</u>
Included in other income:		
Operating lease income from investment property	16,207,477	12,039,485
	<u>16,207,477</u>	<u>12,039,485</u>
Included in net finance costs:		
Interest expense on lease liabilities	311,955	608,434
	<u>311,955</u>	<u>608,434</u>

Operating leases

The Company is party to operating leases in which it is the lessor, primarily relating to investment property. Under the terms of the lease agreements, no contingent rents are receivable. The leases have varying terms including escalation clauses. None of these terms represent unusual arrangements or create material onerous or beneficial rights or obligations.

A maturity analysis of the future undiscounted lease receipts from operating leases in which the Company is lessor is presented in the table below.

	2021 £	2020 £
Receipts due:		
Within one year	747,981	747,981
Between one and two years	571,232	747,981
Between two and three years	-	571,232
	<u>1,319,213</u>	<u>2,067,194</u>

Notes to the Financial Statements

13. Share capital and other reserves

Share capital

	£1 Ordinary shares	Nominal value £
Issued and fully paid	2	2
At 1 January 2020, 31 December 2020 and 31 December 2021		

Other reserves

	Total £
At 1 January 2020	(272,596)
Amounts credited to hedging reserve	667,878
Tax on other comprehensive income	(120,757)
At 31 December 2020	274,525
Amounts credited to hedging reserve	672,330
Tax on other comprehensive income	(127,742)
At 31 December 2021	819,113

Hedging reserve

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

14. Controlling parties

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

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

6 Carlton Gardens
London
SW1Y 5AD

Website: www.baesystems.com