BAE Systems (Farnborough 3) Limited

Annual Report and Financial Statements

31 December 2019

Registered number :02769240

Contents

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.

Results and dividends
The Company's loss for the financial year is £1,625,045 (2018 £nil). The directors do not propose a dividend for 2019 (2018 £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.

Looking forward
The terms of the UK's relationship with the EU after the end of the Transition Period on 31 December 2020 are currently uncertain, rendering it difficult for the Company to prepare in detail for the changes in the regulatory environment that are likely to apply beyond the Transition Period. However, near-term impacts for the Company are likely to be limited.

The future potential impact of the COVID-19 pandemic on the Company is not yet known but may be significant. While the Company cannot currently quantify what the effects might be, it continues to monitor the pandemic and its impact, to ensure appropriate actions can be taken to mitigate risks to the Company.

Going concern
The ultimate parent company, 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. While there remains significant uncertainty as to the future impact of the COVID-19 pandemic, the Company and its ultimate parent entity BAE Systems plc continue to conduct ongoing risk assessments of the potential impact of the pandemic on its business operations and liquidity. The impact on the Company to date is set out in Note 15. Having undertaken these assessments, the directors consider that the Company will be able to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

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.

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 report, unless otherwise stated, 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 12/06/2020

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

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 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:
- the Income Statement;
- the Statement of Comprehensive Income;
- the Balance Sheet;
- the Statement of Changes in Equity; and
- the related notes 1 to 16.

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
We are required by ISAs (UK) to report in respect of the following matters where:
- the directors' use of the going concern basis of accounting in 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.

We have nothing to report in respect of these matters.

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

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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in respect of these matters.

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.

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;
- we have not received all the information and explanations we require for our audit; or
- 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.

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: 12 June 2020

Income Statement
for the year ended 31 December 2019

	Note	2019 £	2018 £
Revenue	3	**11,921,086**	9,961,335
Operating costs	4	**(12,651,651)**	(9,961,335)
Financial costs	5	**(894,480)**	-
(Loss)/result before tax		**(1,625,045)**	-
Tax expense	7	**-**	-
(Loss)/result for the financial year		**(1,625,045)**	-

Statement of Comprehensive Income
for the year ended 31 December 2019

	Note	2019 £	2018 £
(Loss)/result for the financial year		**(1,625,045)**	-
Other comprehensive income:			
Items that may be reclassified to Income Statement:			
Amounts (charged)/credited to hedging reserve	13	**(933,587)**	2,863,469
Tax on items that may be reclassified to the Income Statement	7	**162,580**	(471,641)
Total other comprehensive (expense)/ income for the year (net of tax)		**(771,007)**	2,391,828
Total comprehensive (expense)/ income for the year		**(2,396,052)**	2,391,828

The notes on pages 10 to 26 form part of these financial statements.

The results for 2019 and 2018 arise from continuing activities.

Balance Sheet
as at 31 December 2019

	Note	2019 £	2018 £
Non-current assets			
Investment property	8	**40,029,207**	-
Other financial assets	11	**7,652,489**	11,233,712
Deferred tax assets	9	**56,362**	-
		47,738,058	11,233,712
Current assets			
Trade, other and contract receivables	10	**2**	2
Other financial assets	11	**2,783,842**	3,369,647
Total assets		**50,521,902**	14,603,361
Non-current liabilities			
Lease liabilities	12	**(38,067,132)**	-
Deferred tax liabilities	9	**-**	(2,565,432)
		(38,067,132)	(2,565,432)
Current liabilities			
Lease liabilities	12	**(14,352,409)**	-
Total liabilities		**(52,419,541)**	(2,565,432)
Net (liabilities)/assets		**(1,897,639)**	12,037,929
Equity			
Issued share capital	13	**2**	2
Other reserves	13	**(272,596)**	12,037,927
Retained (deficit)/earnings		**(1,625,045)**	-
Total equity		**(1,897,639)**	12,037,929

Approved by the Board on 12 June 2020 **and signed on its behalf by**

D S Parkes
Director

Registered number: 02769240

Statement of Changes in Equity
for the year ended 31 December 2019

	Issued share capital	Other reserves	Retained deficit	Total equity
	£	£	£	£
At 1 January 2018	2	9,646,099	-	9,646,101
Other comprehensive income	-	2,863,469	-	2,863,469
Taxation in respect of items of other comprehensive income	-	(471,641)	-	(471,641)
At 31 December 2018	2	12,037,927	-	12,037,929
Loss for the year	-	-	(1,625,045)	(1,625,045)
Other comprehensive loss	-	(933,587)	-	(933,587)
Taxation in respect of items of other comprehensive income	-	162,580	-	162,580
Transition adjustment upon adoption of IFRS 16 Leases	-	(11,539,516)	-	(11,539,516)
At 31 December 2019	**2**	**(272,596)**	**(1,625,045)**	**(1,897,639)**

The notes on pages 10 to 26 form part of these financial statements.

1. General information

BAE Systems (Farnborough 3) Limited (the "Company") is a private company, limited by shares, and registered in England and Wales and incorporated in the United Kingdom. Its ultimate controlling party is BAE Systems plc. 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 Companies Act 2006, are presented in pounds sterling and, unless otherwise stated, rounded to the nearest pound.

2. Accounting policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with Financial Reporting Standard 101 (FRS 101) "Reduced Disclosure Framework" issued in September 2015. The amendments to FRS101 (2015/16 cycle) issued in July 2016 and FRS101 (2016/17 cycle) issued in July 2017 have no impact on the Company.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards ('IFRS') as adopted by the EU ('EU-adopted IFRS') 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 requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases. The requirements of paragraph 58 of IFRS 16, provided that the disclosure of details in indebtedness relating to amounts payable after 5 years required by company law is presented separately for lease liabilities and other liabilities, and in total;
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1; 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;

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

- 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 and on a going concern basis.

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).

Critical accounting estimates and judgements
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 judgements	Description
Financial instruments	**Derivative financial instruments and hedging activities** 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. **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.
Investment property valuation	*The carrying value of the Company's investment* properties are reviewed at each Balance Sheet date to determine whether there is any indication of impairment as required by IAS 36 Impairment of Assets.

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 set out above, that have had a significant effect on the amounts recognised in the financial statements.

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

Key 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.

Changes in accounting policies
IFRS 16 Leases became effective on 1 January 2019. The impact of adoption is set out in note 12.

Several other standards, interpretations and amendments to existing standards became effective on 1 January 2019, none of which had a material impact on the Company.

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.

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.

Notes to the Financial Statements

2. Accounting policies (continued)

2.3 Leases (continued)

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.

Comparative amounts for the year ended 31 December 2018 have not been restated on adoption of IFRS 16 Leases and are presented in accordance with IAS 17 Leases, whereby lease payments made under operating leases are recognised in the Income Statement on a straight-line basis over the lease term. See note 12 for further details.

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 Trade and other receivables

Trade and other receivables are stated at amortised.

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

Notes to the Financial Statements

2. Accounting policies (continued)

2.6 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.

The Company has applied the IFRS 9 general hedge accounting requirements from the date of initial application on 1 January 2018.

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.

2.7 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.

2. Accounting policies (continued)

2.7 Tax (continued)

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.

3. Revenue

	2019	2018
	£	£
Revenue by reporting segment		
United Kingdom	**11,921,086**	9,961,335
	11,921,086	9,961,335

	2019	2018
	£	£
Revenue by category		
Rental Income	**11,921,086**	9,961,335
	11,921,086	9,961,335

Notes to the Financial Statements

4. Operating Costs

	2019 £	2018 £
Lease and sublease expense (under IAS 17)	-	9,961,335
Depreciation, amortisation and impairment	12,651,651	-
	12,651,651	9,961,335

The remuneration of the auditor for the year ended 31 December 2019 for auditing of the financial statements was £3k (2018 £3k) and £nil (2018 £nil) in respect of non-audit work. This was borne by BAE Systems Properties Limited and not recharged to the Company.

5. Financial costs

	2019 £	2018 £
Foreign exchange losses	54,319	-
Interest expense on lease liabilities (note 12)	840,161	-
	894,480	-

6. Employees

The Company has no employees (2018 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

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

Reconciliation of tax result

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

	2019	2018
	£	£
(Loss) before tax	**(1,625,045)**	-
UK corporation tax rate	**19.00%**	**19.00%**
Expected tax income on (loss)	**308,759**	-
Losses (surrendered to) fellow group companies	**(308,759)**	-
Tax result	**-**	-

Tax recognised in other comprehensive income

	2019			2018		
	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	**(933,587)**	**162,580**	**(771,007)**	2,863,469	(471,641)	2,391,828
	(933,587)	**162,580**	**(771,007)**	2,863,469	(471,641)	2,391,828

Notes to the Financial Statements

7. Tax (continued)

	2019			2018		
	Other reserves £	**Retained earnings £**	**Total £**	Other reserves £	Retained earnings £	Total £
Deferred tax						
Financial instruments	**777,337**	**-**	**777,337**	(471,641)	-	(471,641)
Lease liabilities	**(614,757)**	**-**	**(614,757)**	-	-	-
Tax on other comprehensive income	**162,580**	**-**	**162,580**	(471,641)	-	(471,641)

Notes to the Financial Statements

8. Investment property

	Investment property £
Cost	
At 1 January 2019 (as previously stated)	-
Recognised on transition to IFRS 16	57,282,330
At 1 January 2019 (as restated)	57,282,330
Revaluations	(4,601,472)
At 31 December 2019	**52,680,858**
Depreciation and impairment	
At 1 January 2019	-
Depreciation charge for the year	12,651,651
At 31 December 2019	**12,651,651**
Net book value	
At 31 December 2019	**40,029,207**
At 31 December 2018	-
Fair Value	
At 31 December 2019	**40,029,027**
At 31 December 2018	-

The fair values above are based on and reflect current market values as prepared by in-house professionals who have the appropriate professional qualifications and recent experience of valuing properties in the location and of the type being valued.

Notes to the Financial Statements

9. Deferred taxation

Deferred tax assets/(liabilities)

	Deferred tax assets		Deferred tax liabilities		Net balance at 31 December	
	2019	2018	**2019**	2018	**2019**	2018
	£	£	**£**	£	**£**	£
Financial instruments	**-**	-	**(1,788,095)**	(2,565,432)	**(1,788,095)**	(2,565,432)
Lease liabilities	**1,844,457**	-	**-**	-	**1,844,457**	-
Deferred tax assets/(liabilities)	**1,844,457**	-	**(1,788,095)**	(2,565,432)	**56,362**	(2,565,432)
Set off of tax	**(1,788,095)**	-	**1,788,095**	-	**-**	-
Net deferred tax assets/(liabilities)	**56,362**	-	**-**	(2,565,432)	**56,362**	(2,565,432)

Movement in temporary differences during the year

	As at 1 January 2019 £	Recognised in equity £	**As at 31 December 2019 £**
Financial instruments	(2,565,432)	777,337	**(1,788,095)**
Lease liabilities	-	1,844,457	**1,844,457**
	(2,565,432)	2,621,794	**56,362**

	As at 1 January 2018 £	Recognised in equity £	As at 31 December 2018 £
Financial instruments	(2,093,791)	(471,641)	(2,565,432)
	(2,093,791)	(471,641)	(2,565,432)

9. Deferred taxation (continued)

The deferred tax asset has been prepared applying a closing tax rate of 17.13%, which is based on the rates expected to apply when the deferred assets and liabilities are released or settled. However, in the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. As the proposal to keep the rate at 19% had not been substantively enacted at the Balance Sheet date, its effects are not included in these financial statements and the rate of 17.13% is used.

10. Trade, other and contract receivables

	2019	2018
	£	£
Current		
Amounts owed by BAE Systems plc	**2**	2
	2	2

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

11. Financial instruments

	2019	2018
	£	£
Financial assets		
Non-current		
Cash flow hedges – foreign exchange contracts	**7,652,489**	11,233,712
Current		
Cash flow hedges – foreign exchange contracts	**2,783,842**	3,369,647

12. Leases

IFRS 16 Leases became effective on 1 January 2019. The impact of adoption is set out in note 14.

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.

	31 December 2019
	Total
	£
Depreciation expense for the year	**12,651,651**
Net book value	**40,029,207**

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.

	2019
	£
Payments due:	
Within one year	**14,706,548**
Between one and five years	**44,119,645**
	58,826,193

The total cash outflow for leases in the year ended 31 December 2019, including short-term leases and low-value leases, amounted to £11,921,086.

12. Leases (continued)

Amounts recognised in the Income Statement

	2019
	£
Included in operating costs:	
Depreciation on right-of-use assets	12,651,651
	12,651,651
Included in revenue:	
Operating lease income from investment property	11,921,086
	11,921,086
Included in net finance costs:	
Interest expense on lease liabilities	840,161
	840,161

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 and renewal rights. 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.

	2019
	£
Receipts due:	
Within one year	747,981
Between one and two years	747,981
Between two and three years	747,981
Between three and four years	573,794
	2,817,737

Notes to the Financial Statements

13. Share capital and other reserves

Share capital

Issued and fully paid	£1 Ordinary shares	Nominal value £
At 1 January 2018, 31 December 2018 and 31 December 2019	2	2

Other reserves

	Total £
At 1 January 2018	**9,646,099**
Amounts credited to hedging reserve	**2,863,469**
Tax on other comprehensive income	**(471,641)**
At 31 December 2018	**12,037,927**
Transition adjustment upon adoption of IFRS 16 Leases	**(13,998,730)**
Tax on transition adjustment	**2,459,214**
Amounts charged to hedging reserve	**(933,587)**
Tax on other comprehensive income	**162,580**
At 31 December 2019	**(272,596)**

14. Change in accounting policies

IFRS 16 Leases became effective on 1 January 2019 and replaced IAS 17 Leases, and related interpretations. It results in almost all leases being recognised on the Balance Sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, a right-of-use asset and a financial liability for future lease payments have been recognised. The only exceptions are short-term leases, low-value leases and leases of intangible assets.

Right-of-use assets that are held for the purpose of earning rental income are presented as investment property.

The Company has applied the modified retrospective transition approach and has not restated comparative amounts for the year ended 31 December 2018. The Company has elected to measure right-of-use assets at the amount of the lease liability on adoption (adjusted for any lease prepayments or accrued lease expenses, onerous lease provisions, and leased assets which have subsequently been subleased).

14. Change in accounting policies (continued)

The Company has elected to adopt the following practical expedients on transition:

- where an onerous lease provision is in existence, to utilise this provision to reduce the right-of-use asset value rather than undertaking an impairment review;
- to use hindsight in determining the lease term; and
- to exclude initial direct costs from the measurement of the right-of-use asset.

Accounting policy
The accounting policy in respect of leases applied from 1 January 2019 is set out in note 2.3. Comparative amounts for the year ended 31 December 2018 have not been restated and are presented in accordance with IAS 17 Leases, whereby lease payments made under operating leases are recognised in the Income Statement on a straight-line basis over the lease term.

Reconciliation between operating lease commitments and lease liability
The following table explains the difference between the operating lease commitments disclosed applying IAS 17 at 31 December 2018 and the lease liability recognised on adoption of IFRS 16 at 1 January 2019.

	£
Total minimum lease payments reported at 31 December 2018 under IAS 17	**59,464,531**
Impact of discounting lease liability under IFRS 16	**(2,182,201)**
Lease liability recognised on transition to IFRS 16 at 1 January 2019	**57,282,330**

The weighted average incremental borrowing rate applied to lease liabilities was 1.90%.

15. Events after the reporting period

The outbreak of the COVID-19 coronavirus was confirmed to be a global pandemic by the World Health Organisation on 11 March 2020 and only after that date did major governments, such as the UK, start taking significant mitigating steps. As such the Company considers this to be a non-adjusting post balance sheet event. The full impact of the COVID-19 pandemic on medium- and long-term economic activity is not yet known, although is likely to be significant. The Company continues to monitor the impact on its business, however while the uncertainty continues, the Company is not able to quantify the possible financial effect of the pandemic. Some asset and liability carrying values may be impacted, particularly where they are reliant on management's use of estimates and judgements when applying accounting policies. Potential areas of the Company's financial statements which could be materially impacted may include, but are not limited to:

- Recognition of revenue and associated margin recognised as costs are incurred and as risks are mitigated or retired;
- Investment property; and
- Potential credit losses on receivables; the valuation of other financial assets and liabilities.

16. Controlling parties

The immediate parent company is BAE Systems (Holdings) Limited and the ultimate controlling party is BAE Systems plc, which is both the smallest and largest parent company preparing 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