

# **BAE Systems (Farnborough 1) Limited**

## **Annual Report and Financial Statements**

**31 December 2017**

Registered Number: 02690233

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## Directors' Report

The Directors' Report has been prepared in accordance with the special provisions relating to small companies Part 15 of the Companies Act 2006.

### Company registration

BAE Systems (Farnborough 1) Limited (the "Company") is a private company, limited by shares and registered in England and Wales with the registered number 02690233.

### Results and dividends

The Company's result for the financial year is £nil (2016: £nil).

The directors do not propose a dividend for 2017 (2016: £nil).

### Looking forward

The leases of the buildings at Farnborough Aerospace Centre, Farnborough, Hampshire came to an end in March 2017. The Company has not entered into any new leases, and is therefore expected to remain dormant for the foreseeable future.

### Going concern

At the time of approving these financial statements, the directors have no plans to liquidate the Company. However, the completion of the leases within this entity represented a material curtailment of the scale of its operations, and the Company's financial statements have therefore been prepared on a basis other than that of a going concern. The effect of this is explained in note 1.

### Directors and their interests

The directors who served during the year and at the date of this 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.


### 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 he/she ought to have taken to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### Auditor

Following an audit retender which concluded in 2017, Deloitte LLP was selected as the auditor for the BAE Systems Group. Accordingly it is intended that Deloitte LLP will be appointed to replace KPMG LLP as auditor for the year ending 31 December 2018.

On behalf of the Board



D S Parkes  
Director

14 May 2018

Registered office:  
Warwick House  
PO Box 87  
Farnborough Aerospace Centre  
Farnborough  
Hampshire  
GU14 6YU  
England  
United Kingdom

## Statement of Directors' Responsibilities in respect of and Directors' Report and the Financial Statements

The directors are responsible for preparing the Directors' 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 they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including 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 estimates that are reasonable and prudent;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business. (As explained in the Directors' Report and in note 1 to the financial statements, the directors do not believe that it is appropriate to prepare these financials statements on a going concern basis).

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 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

## **Independent Auditor's Report to the Members of BAE Systems (Farnborough 1) Limited**

### **Opinion**

We have audited the financial statements of BAE Systems (Farnborough 1) Limited ("the company") for the year ended 31 December 2017 which comprise the Income Statement, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its result for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### **Emphasis of matter - non-going concern basis of preparation**

We draw attention to the disclosure made in note 1 to the financial statements which explains that the financial statements are not now prepared on the going concern basis for the reason set out in that note. Our opinion is not modified in respect of this matter.

### **Directors' report**

The directors are responsible for the directors' report. Our opinion on the financial statements does not cover that report and we do not express an audit opinion thereon.

Our responsibility is to read the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the directors' report;
- in our opinion the information given in that report for the financial year is consistent with the financial statements; and
- in our opinion that report has been prepared in accordance with the Companies Act 2006.

### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report to you 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; or
- the directors were not entitled to take advantage of the small companies exemption in preparing the directors' report and take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

### **Directors' responsibilities**

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities**

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

**Independent Auditor's Report to the Members of BAE Systems (Farnborough 1) Limited**  
(continued)

**The purpose of our audit work and to whom we owe our responsibilities**

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.



Richard Evans (Senior Statutory Auditor)  
for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
1 St Peter's Square, Manchester, M2 3AE

12 June 2018

## Income Statement

for the year ended 31 December 2017

	Notes	2017 £	2016 £
Revenue	2	2,049,944	9,760,352
Operating costs	3	(2,049,944)	(9,760,352)
<b>Result for the year</b>		-	-

## Statement of Comprehensive Income

for the year ended 31 December 2017

	Notes	2017 £	2016 £
<b>Result for the year</b>		-	-
<b>Other comprehensive expense</b>			
<b>Items that may be reclassified to the Income Statement:</b>			
Amounts charged to hedging reserve		(495,108)	(520,040)
Tax on items that may be reclassified to the Income Statement	5	95,309	87,418
<b>Total other comprehensive expense for the year (net of tax)</b>		<b>(399,799)</b>	<b>(432,622)</b>
<b>Total comprehensive expense for the year</b>		<b>(399,799)</b>	<b>(432,622)</b>

The notes on pages 9 to 14 form part of the financial statements.

The results for 2017 and 2016 arise from discontinued activities.

## Balance Sheet

as at 31 December 2017

	Notes	2017 £	2016 £
<b>Current assets</b>			
Other financial assets	7	-	495,108
Trade and other receivables	8	2	397,846
		2	892,954
<b>Total assets</b>		2	892,954
<b>Non-current liabilities</b>			
Deferred tax liabilities	9	-	(95,309)
		-	(95,309)
<b>Current liabilities</b>			
Trade and other payables	10	-	(397,844)
		-	(397,844)
<b>Total liabilities</b>		-	(493,153)
<b>Net assets</b>		2	399,801
<b>Capital and reserves</b>			
Issued share capital	11	2	2
Hedging reserve	11	-	399,799
<b>Total equity</b>		2	399,801

Approved by the Board on 14 May 2018 and signed on its behalf by:

  
D S Parkes  
Director

Registered number: 02690233

## Statement of Changes in Equity

for the year ended 31 December 2017

	Notes	Issued share capital £	Other reserves £	Retained earnings £	Total equity £
At 1 January 2016		2	832,421	-	832,423
Total other comprehensive income for the year		-	(432,622)	-	(432,622)
At 31 December 2016	11	2	399,799	-	399,801
Total other comprehensive income for the year		-	(399,799)	-	(399,799)
<b>At 31 December 2017</b>	<b>11</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>2</b>



## Notes to the Financial Statements

### 1 Accounting policies

#### Basis of preparation

These financial statements were prepared in accordance with FRS 101 Reduced Disclosure Framework issued in September 2015. The amendments to FRS 101 (2015/16 cycle) issued in July 2016 and FRS 101 (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 to 99 of IFRS 13, Fair Value Measurement;
- 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; and
- the requirements of paragraphs 30 and 31 of IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.

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

The following paragraphs summarise the main accounting policies of the Company and have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

#### Going Concern

At the time of approving these financial statements, the directors have no plans to liquidate the Company. However, the completion of the leases within this entity represented a material curtailment of the scale of its operations, and the Company's financial statements have therefore been prepared on a basis other than that of a going concern. The recognition and measurement requirements of UK-adopted IFRS have continued to be applied, with the decision to prepare the financial statements on a basis other than that of a going concern having had no material impact compared with if they had been prepared on a going concern basis. No adjustments were necessary to the amounts at which the remaining assets and liabilities are included in these financial statements. 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).

#### Revenue and profit recognition

Revenue represents income derived from the rental of properties by the Company.

##### *Services rendered*

Revenue is measured at the fair value of the consideration received or receivable, net of returns, rebates and other similar allowances.

Revenue and profits on intercompany trading are determined on an arm's length basis.

#### Leases

##### *Lease income*

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

##### *Lease costs*

Lease payments made under operating leases, including any incentives granted, are recognised in the Income Statement on a straight-line basis over the lease term.

#### 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.

## Notes to the Financial Statements (continued)

### 1 Accounting policies (continued)

#### 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.

#### Foreign Currencies

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Balance Sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction. Non-monetary assets and liabilities denominated in foreign currency are stated at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the Income Statement except for differences arising on the retranslation of qualifying cash flow hedges, which are recognised in other comprehensive income.

### 2 Segmental analysis

#### Revenue by reporting segment

	2017	2016
	£	£
Property	2,049,944	9,760,352

#### Revenue by customer location

	2017	2016
	£	£
United Kingdom	2,049,944	9,760,352

#### Revenue by category

	2017	2016
	£	£
Rental income	2,049,944	9,760,352

## Notes to the Financial Statements (continued)

### 3 Operating costs

	2017 £	2016 £
Other operating charges	2,049,944	9,760,352
<b>Operating costs</b>	<b>2,049,944</b>	<b>9,760,352</b>
Included within the above analysis are the following expenses:		
Lease and sublease expense	2,049,944	9,760,352

The remuneration of the auditor for the year ended 31 December 2017 for statutory audit work was £3,000 (2016: £3,000) and £nil (2016: £nil) for non-audit work. This was borne by BAE Systems Properties Limited.

### 4 Employees

The Company had no employees during the year (2016: 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.

### 5 Tax

Tax	2017 £	2016 £
<b>Tax result</b>	<b>-</b>	<b>-</b>

#### Reconciliation of tax result

A tax reconciliation has not been included as the expected tax expense is equal to the accounting profit multiplied by the UK corporation tax rate of 19.25% (2016: 20%).

#### Tax recognised in other comprehensive income

	2017			2016		
	Before tax	Tax benefit	Net of tax	Before tax	Tax benefit	Net of tax
	£	£	£	£	£	£
<b>Items that may be reclassified to the income statement:</b>						
Amounts (charged)/credited to hedging reserve	(495,108)	95,309	(399,799)	(520,040)	87,418	(432,622)

	2017			2016		
	Other reserves	Retained earnings	Total	Other reserves	Retained earnings	Total
	£	£	£	£	£	£
<b>Deferred tax</b>						
Financial instruments	95,309	-	95,309	93,607	-	93,607
Tax rate adjustment <sup>1</sup>	-	-	-	(6,189)	-	(6,189)
<b>Tax on other comprehensive income</b>	<b>95,309</b>	<b>-</b>	<b>95,309</b>	<b>87,418</b>	<b>-</b>	<b>87,418</b>

<sup>1</sup>The UK corporation tax rate was reduced from 20% to 19% with effect from 1 April 2017, and will be reduced to 17% with effect from 1 April 2020. In line with these changes the deferred tax liabilities have been calculated at the tax rates that are expected to apply to temporary differences when they reverse, based on the laws enacted or substantially enacted by the reporting date.

## Notes to the Financial Statements *(continued)*

### 6 Property

#### Operating lease commitments

Until March 2017 the Company leased various offices under non-cancellable operating lease agreements. The leases had varying terms including renewal rights and break options. None of these terms represented unusual arrangements or created material onerous or beneficial rights or obligations.

The future aggregate minimum lease payments under non-cancellable operating leases and associated future minimum sublease income are as follows:

	2017 £	2016 £
Payments due:		
Not later than one year	-	1,652,100
	-	1,652,100
Total of future minimum sublease income under non-cancellable subleases	-	1,652,100

### 7 Other financial assets and liabilities

	2017		2016	
	Assets £	Liabilities £	Assets £	Liabilities £
<b>Current</b>				
Cash flow hedges – foreign exchange contracts	-	-	495,108	-

The net contractual cash flows on derivative financial instruments at the reporting date are £nil (2016: £nil).

### 8 Trade and other receivables

	2017 £	2016 £
<b>Current</b>		
Amounts owed by ultimate parent company	2	2
Prepayments and accrued income	-	397,844
	2	397,846

## Notes to the Financial Statements (continued)

### 9 Deferred tax

#### Non-current deferred tax liabilities

	Deferred tax liabilities	
	2017	2016
	£	£
Financial instruments	-	(95,309)

#### Movement in temporary differences during the year

	At 1 January 2016 £	Recognised in equity £	At 31 December 2017 £
Financial instruments	(95,309)	95,309	-

	At 1 January 2016 £	Recognised in equity £	At 31 December 2016 £
Financial instruments	(182,727)	87,418	(95,309)

### 10 Trade and other payables

	2017 £	2016 £
Current		
Accruals and deferred income	-	397,844

### 11 Share capital and other reserves

#### Share capital

	£1 Ordinary shares	Nominal value £
Issued and fully paid		
At 1 January and 31 December 2017	2	2

#### Other reserves

	Hedging reserve £
At 1 January 2016	832,421
Amounts charged to hedging reserve	(520,040)
Tax on other comprehensive income	87,418
At 31 December 2016	399,799
Amounts charged to hedging reserve	(495,108)
Tax on other comprehensive income	95,309
At 31 December 2017	-

#### Hedging reserve

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

## Notes to the Financial Statements *(continued)*

### 12 Controlling parties

The immediate parent company is BAE Systems (Holdings) Limited and the ultimate parent company is BAE Systems plc, which is the only parent company preparing group financial statements. Both companies are incorporated in Great Britain and registered in England and Wales.

The consolidated Annual Report of BAE Systems plc is available to the public and may be obtained from:

6 Carlton Gardens  
London  
SW1Y 5AD

Website: [www.baesystems.com](http://www.baesystems.com)