

BAE Systems (Farnborough 2) Limited

Annual report and financial statements

31 December 2015

Registered number: 02690234



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Directors' report

Company registration

BAE Systems (Farnborough 2) Limited is a private company, limited by shares and registered in England and Wales with the registered number 02690234.

Results and dividends

The Company's result for the financial year is £nil (2014 £nil).

The directors do not propose a dividend for 2015 (2014 £nil).

Looking forward

As part of its involvement in certain agreements for the leasing of buildings at the Farnborough Aerospace Centre, Farnborough, Hampshire, the Company receives rental income which is used to pay amounts due to the ultimate landlord of the properties.

Going concern

After making due enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

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.

Small companies exemption

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

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

The auditor, KPMG 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.

On behalf of the Board



D S Parkes

Director

24 June 2016

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

Statement of directors' responsibilities in respect of the 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;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 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 2) LIMITED

We have audited the financial statements of BAE Systems (Farnborough 2) Limited for the year ended 31 December 2015 set out on pages 6 to 14. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities 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. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its result for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year is consistent with the financial statements.

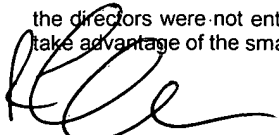
Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Directors' report:

- we have not identified material misstatements in that report; 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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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



Richard Evans (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
KPMG LLP
Edward VII Quay
Navigation Way
Ashton-on-Ribble
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PR2 2YF
United Kingdom

Income statement

for the year ended 31 December 2015

	Notes	2015 £	2014 £
Revenue		9,239,194	9,158,993
Operating costs	2	(9,239,194)	(9,158,993)
Result for the year		-	-

Statement of comprehensive income

for the year ended 31 December 2015

	2015 £	2014 ¹ £
Result for the year	-	-
Other comprehensive income		
Items that may be reclassified to the income statement:		
Amounts (charged)/credited to hedging reserve	650,810	(182,582)
Tax on items that may be reclassified to the income statement	(104,122)	36,516
Total other comprehensive income for the year (net of tax)	546,688	(146,066)
Total comprehensive income for the year	546,688	(146,066)

¹ Restated on adoption of FRS 101.

The notes on pages 8 to 14 form part of the financial statements.

The results for 2015 and 2014 arise from continuing activities.

Balance sheet

as at 31 December 2015

	Notes	2015 £	2014 ¹ £
Non-current assets			
Other financial assets	7	486,494	451,417
		486,494	451,417
Current assets			
Trade and other receivables	8	377,383	375,963
Other financial assets	7	815,493	199,760
		1,192,876	575,723
Total assets		1,679,370	1,027,140
Non-current liabilities			
Deferred tax liabilities	6	(234,358)	(130,236)
		(234,358)	(130,236)
Current liabilities			
Trade and other payables	9	(377,381)	(375,961)
		(377,381)	(375,961)
Total liabilities		(611,739)	(506,197)
Net assets		1,067,631	520,943
Capital and reserves			
Issued share capital	10	2	2
Hedging reserve	10	1,067,629	520,941
Shareholders' equity		1,067,631	520,943

¹ Restated on adoption of FRS 101.

The notes on pages 8 to 14 form part of the financial statements.

Approved by the Board on 24 June 2016 and signed on its behalf by:


D S Parkes
Director

Registered number: 02690234

Statement of changes in equity

for the year ended 31 December 2015

	Notes	Issued share capital £	Other reserves £	Retained earnings ¹ £	Total equity £
At 1 January 2014 (as previously reported)	2	-	-	-	2
Effect of transition to FRS 101	-	-	667,007	-	667,007
At 1 January 2014 (restated)	2	-	667,007	-	667,009
Total other comprehensive income for the year	-	-	(146,066)	-	(146,066)
At 31 December 2014 (restated)	2	-	520,941	-	520,943
Total other comprehensive income for the year	-	-	546,688	-	546,688
At 31 December 2015	2	-	1,067,629	-	1,067,631

¹ The non-distributable portion of retained earnings is £nil (2014: £nil).

Notes to the accounts

1 Accounting policies

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard (FRS) 101 Reduced Disclosure Framework. Amendments to FRS 101 (2013/14 Cycle) issued in July 2014, and effective for periods beginning on or after 1 January 2015, has been applied. Amendments to FRS 101 (2014/15 cycle and other minor amendments), issued in July 2015, and effective for periods beginning on or after 1 January 2016, has been early adopted and applied.

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;
- the requirements of paragraphs 30 and 31 of IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors;

In its transition to FRS 101, the Company has applied IFRS 1, whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has affected the company's reported financial performance and position is provided in note 11.

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.

The financial statements have been prepared under the historical convention, as modified by the revaluation of relevant financial assets and financial liabilities (including derivative instruments). The going concern basis has been applied in these accounts.

Going Concern

The company's principal business activities together with the factors likely to affect its future development, performance and position are set out in the Directors' report on page 3. Notes to the financial statements include details of the company's financial instruments and hedging activities; and its exposures to credit risk, liquidity risk, interest rate risk and currency risk.

The company continues to generate sufficient income. As a consequence, the directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Revenue and profit recognition

Revenue comprises the value rental income during the year, net of value added tax.

Rental income

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

Revenue from rental income is recognised in turnover on a straight-line basis over the term of the relevant lease.

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

Lease costs

Payments, including any incentives, made under operating leases are recognised in the income statement on a straight-line basis over the lease term.

Notes to the accounts (continued)

1 Accounting policies (continued)

Tax

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

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 Operating costs

	2015 £	2014 £
Other operating charges	9,239,194	9,158,993
Operating costs	9,239,194	9,158,993
Included within the above analysis are the following expenses:		
Lease and sublease expense	9,239,194	9,158,993

The remuneration of the auditors for the year ended 31 December 2015 for statutory audit work was £3,000 (2014: £3,000) this was borne by BAE Systems Properties Limited and not recharged.

3 Employees

None of the directors received any emoluments from the Company during the year. All directors who served during the year were employed by other Group companies and were remunerated through those companies. The Company had no employees during the year (2014: Nil)

Notes to the accounts (continued)

4 Taxation expense

Taxation expense	2015 £	2014 ¹ £
Taxation expense	-	-

¹ Restated on adoption of FRS 101.

Reconciliation of taxation expense

A tax reconciliation has not been included as the expected income tax expense is equal to the accounting profit multiplied by the UK corporation tax rate of 20.25% (2014: 21.50%).

Tax recognised in other comprehensive income

	2015			2014		
	Before tax (expense)/ benefit	Tax	Net of tax	Before tax (expense)/ benefit	Tax	Net of tax
	£	£	£	£	£	£
Items that may be reclassified to the income statement:						
Amounts (charged)/credited to hedging reserve	650,810	(104,122)	546,688	(182,582)	36,516	(146,066)

¹ Restated on adoption of FRS 101.

	2015			2014 ¹		
	Other reserves	Retained earnings	Total	Other reserves	Retained earnings	Total
	£	£	£	£	£	£
Deferred tax						
Financial instruments	(130,162)	-	(130,162)	36,516	-	36,516
Tax rate adjustment ²	26,040	-	26,040	-	-	-
Tax on other comprehensive income	(104,122)	-	(104,122)	36,516	-	36,516

¹ Restated on adoption of FRS 101.

² The UK Corporation tax rate was reduced from 21% to 20% with effect from 1 April 2015, and will be reduced to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. In line with this change, the rate applying to both recognised and unrecognised UK deferred tax assets and liabilities has been reduced from 20% to 18%, creating a rate adjustment in 2015, which is reflected in the statement of comprehensive income.

5 Property

Operating lease commitments

The Company leases various offices under non-cancellable operating lease agreements. The leases have varying terms including renewal rights and break options. None of these terms represent unusual arrangements or create 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:

	2015 £	2014 £
Payments due:		
Not later than one year	9,162,162	9,240,614
Later than one year and not later than five years	5,493,040	14,655,203
	14,655,202	23,895,817
Total of future minimum sublease income under non-cancellable subleases	14,655,202	23,895,817

Notes to the accounts (continued)

6 Deferred tax

Non-current deferred tax liabilities

	Deferred tax liabilities	
	2015	2014 ¹
	£	£
Financial instruments	(234,358)	(130,236)

¹ Restated on adoption of FRS 101.

Movement in temporary differences during the year

	At 1 January 2015 £	Recognised In income £	Recognised In equity £	At 31 December 2015 £
Financial instruments	(130,236)	-	(104,122)	(234,358)

	At 1 January 2014 £	Recognised In income £	Recognised In equity £	At 31 December 2014 £
Financial instruments	(166,752)	-	36,516	(130,236)

The UK Corporation tax rate was reduced from 21% to 20% with effect from 1 April 2015, and will be reduced to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. In line with this change, the rate applying to both recognised and unrecognised UK deferred tax assets and liabilities has been reduced from 20% to 18%, creating a rate adjustment in 2015, which is reflected in the statement of comprehensive income.

7 Other financial assets and liabilities

	2015		2014 ¹	
	Assets £	Liabilities £	Assets £	Liabilities £
Current				
Cash flow hedges – foreign exchange contracts	815,493	-	199,760	-
Non-current				
Cash flow hedges – foreign exchange contracts	486,494	-	451,417	-

¹ Restated on adoption of FRS 101.

8 Trade and other receivables

	2015 £	2014 £
Current		
Amounts owed by group subsidiaries	2	2
Prepayments and accrued income	377,381	375,961
	377,383	375,963

9 Trade and other payables

	2015 £	2014 £
Current		
Accruals and deferred income	377,381	375,961

Notes to the accounts (continued)

10 Share capital and other reserves

Share capital

	£1 Ordinary shares
Issued and fully paid	
At 1 January and 31 December 2015	2

Other reserves

	Hedging reserve £	Total £
At 1 January 2014 (as previously reported)	-	-
Effect of transition to FRS 101	667,007	667,007
At 1 January 2014 (restated)	667,007	667,007
Amounts charged to hedging reserve	(182,582)	(182,582)
Tax on other comprehensive income	36,516	36,516
At 31 December 2014 (restated)	520,941	520,941
Amounts credited to hedging reserve	650,810	650,810
Tax on other comprehensive income	(104,122)	(104,122)
At 31 December 2015	1,067,629	1,067,629

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.

11 Explanation of transition to FRS 101

As stated in note 1, these are the Company's first financial statements prepared in accordance with FRS 101.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December 2015, the comparative information for the year ended 31 December 2014 and the opening FRS 101 balance sheet at 1 January 2014 (the Company's date of transition).

In preparing its FRS 101 balance sheets, the Company has adjusted amounts reported in financial statements prepared in accordance with its previous basis of accounting. An explanation of how the transition to FRS 101 has affected the Company's financial performance and position is set out in the following tables.

Impact of transition to FRS 101 on the Company income statement

	Year ended 31 December 2014		
	As previously reported £	Financial instruments adjustment ² £	FRS 101 £
Revenue	9,158,993	-	9,158,993
Operating costs	(9,158,993)	-	(9,158,993)
Result for the year	-	-	-

Notes to the accounts (*continued*)

11 Explanation of transition to FRS 101 (*continued*)

Impact of transition to FRS 101 on the Company statement of comprehensive income

	Year ended 31 December 2014		
	As previously reported £	Financial instruments adjustment ² £	FRS 101 £
Result for the year	-	-	-
Other comprehensive income			
Items that may be reclassified to the income statement:			
Amounts charged to hedging reserve	-	(182,582)	(182,582)
Tax on items that may be reclassified to the income statement	-	36,516	36,516
Total other comprehensive income for the year (net of tax)	-	(146,066)	(146,066)
Total comprehensive income for the year	-	(146,066)	(146,066)

Impact of transition to FRS 101 on the Company balance sheet

	1 January 2014 (the Company's date of transition)		
	As previously reported £	Financial instruments adjustment ² £	FRS 101 £
Non-current assets			
Other financial assets	-	533,310	533,310
	-	533,310	533,310
Current assets			
Trade and other receivables	369,751	-	369,751
Other financial assets	-	300,449	300,449
	369,751	300,449	670,200
Non-current liabilities			
Deferred tax liability	-	(166,752)	(166,752)
	-	(166,752)	(166,752)
Current liabilities			
Trade and other payables	(369,749)	-	(369,749)
	(369,749)	-	(369,749)
Net assets	2	667,007	667,009
Capital and reserves			
Called up share capital	2	-	2
Hedging reserve	-	667,007	667,007
Profit and loss account	-	-	-
Shareholders' equity	2	667,007	667,009

Notes to the accounts (continued)

11 Explanation of transition to FRS 101 (continued)

	31 December 2014		
	As previously reported £	Financial instruments adjustment ² £	FRS 101 £
Non-current assets			
Other financial assets	-	451,417	451,417
	-	451,417	451,417
Current assets			
Trade and other receivables	375,963	-	375,963
Other financial assets	-	199,760	199,760
	375,963	199,760	575,723
Non-current liabilities			
Deferred tax liability	-	(130,236)	(130,236)
	-	(130,236)	(130,236)
Current liabilities			
Trade and other payables	(375,961)	-	(375,961)
	(375,961)	-	(375,961)
Net assets	2	520,941	520,943
Capital and reserves			
Called up share capital	2	-	2
Hedging reserve	-	520,941	520,941
Profit and loss account	-	-	-
Shareholders' equity	2	520,941	520,943

² If a trading transaction was covered by a forward foreign exchange contract, it had been the Company's policy to translate the transaction at the exchange rate implied in the contract. Upon transition to FRS 101, the Company translates monetary items at the closing balance sheet rate and accounts for the forward foreign exchange contracts as derivatives at fair value.

12 Ultimate parent undertaking

The immediate parent undertaking is BAE Systems (Holdings) Limited.

The ultimate parent company is BAE Systems plc, a company incorporated in Great Britain and registered in England and Wales.

The consolidated accounts of BAE Systems plc are available to the public and may be obtained from:

6 Carlton Gardens,
London,
SW1Y 5AD

Website: www.baesystems.com