

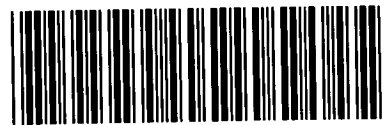
# **BAE Systems (Property Investments) Limited**

## **Annual Report and Financial Statements**

**31 December 2021**

**Registered number: 03653604**

WEDNESDAY



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**Strategic Report**  
for the year ended 31 December 2021

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**Review of business and principal activities**

BAE Systems (Property Investments) Limited (the "Company") is a member of the BAE Systems plc Group ("BAE Systems Group or Group") of companies. Its principal activity is investment in, and the leasing and management of, properties.

The Company has made a profit of £187,061k during 2021 (2020: £20,778k) and has net assets of £435,978k (2020: £248,798k), which is in line with the Company's business plan expectations. Performance in the year remains consistent with the size and complexity of the Company. During the year the Company disposed of Land and Buildings at its sites in Filton and Broughton for a consideration of £250m. This resulted in a profit on disposal of £173m. Following these disposals a significant part of the Company's activity is the ongoing long term disposal of its capital asset at Bishopton.

The Company continues the active management of part of the BAE Systems Group's UK property portfolio.

**Key performance indicators (KPIs)**

The Company is part of the BAE Systems Group and the key performance indicators used to monitor and review the business are set by the Group and discussed in more detail in the BAE Systems plc annual report 2021. The directors do not consider it necessary to provide additional key performance indicators at a company level for an understanding of the development, performance or position of the business.

**Principal risks and uncertainties**

The management of the business and execution of the Company's strategy are subject to a number of risks. The key business risks and uncertainties affecting the Company are listed below:

**Valuation of properties**

The directors actively review market conditions, the risk of decreasing fair values and the impact of such a loss. Where such losses could arise various options would be looked at, including site disposal.

**Property Dilapidations**

As the portfolio of property ages, increased maintenance charges are likely. The directors of the Company follow a five year maintenance plan to mitigate this risk.

**Land held for long term disposal**

The directors actively review market conditions, and the risk of decreasing values and the impact of such a loss. There is a risk that an Investment Property at these sites could be sold at a loss, however the directors consider this to be unlikely.

**Health and safety**

Those managing health, safety and the environment ("SHE") risks have the appropriate level of SHE competence, training and experience. A SHE governance structure and SHE resource is in place to support all areas of the business and the Company has a number of formal processes in place to identify and manage our legal and statutory obligations. Effectiveness of control measures are continually assessed through a programme of 1st, 2nd & 3rd party assurance audits and assessments; the Company is covered by the BAE Systems Shared Services ISO45001 certification.

**Strategic Report (continued)**  
for the year ended 31 December 2021

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**The outbreak of contagious diseases may have a material adverse effect on the Company's business, financial condition and results of operations.**

Many people have contracted the disease across the world and many deaths have occurred as a result of the COVID-19 pandemic. Although there has been an effective roll-out of vaccination programmes in certain countries, it is still not clear how long this pandemic will last or how enduring its long-term impact will be, or the further measures that will be taken by governments and others to seek to control this pandemic and its impact. The uncertainties surrounding the development of this pandemic make it difficult to predict the extent to which the Company may be affected.

Areas of the Company's business that could be impacted include the requirement for the Company to close sites, the inability of the Company to meet its contractual requirements on time, and the inability to adequately staff and manage the business. Any of the above could have a material adverse effect on the Company's business, financial condition and results of operations.

Since the outbreak of the COVID-19 coronavirus pandemic, the Company has taken a number of responsive measures introducing new cleaning regimes, safe working distance measures and protective equipment. The Company continues to build on the experience gained to date in dealing with the pandemic. This includes the use of safe working practices and the effective use of home working.

**Section 172(1) statement**

This statement contains an overview of how the directors have performed their duty to promote the success of the Company as set out in Section 172(1) of the UK's Companies Act 2006. That Section requires a director of a company to act in the way he considers, in good faith, would most likely promote the success of the Company for the benefit of its shareholders. In doing this, the director must have regard, amongst other matters, to:

- a) the likely consequences of any decision in the long term,
- b) the interests of the Company's employees,
- c) the need to foster the Company's business relationships with suppliers, customers and others,
- d) the impact of the Company's operations on the community and the environment,
- e) the desirability of the Company maintaining a reputation for high standards of business conduct, and
- f) the need to act fairly as between members of the Company.

**Decision making**

The Operational Framework provides a stable foundation from which to deliver our strategy, improve our Company performance and continue to develop our culture. It is an important part of our governance structure, underpinning the operational excellence that is critical to our ongoing success. The Operational Framework sets out the principles of good governance to which Group subsidiaries are required to adhere, together with Group's values, policies and processes. Decisions affecting a subsidiary are required to be taken in line with the Operational Framework, including in accordance with applicable delegations of authority.

Pursuant to the Operational Framework, BAE Systems' businesses each produce a strategic plan, a financial forecast for the current year and financial projections for the next five years. The directors of the Company contribute towards this process for the business of the Company and are also responsible for identifying and managing principal and emerging risks. In so doing the directors have regard to a variety of matters including the interests of various stakeholders, the consequences of their decisions in the long term and the long-term reputation of the Company.

**Strategic Report (continued)**  
for the year ended 31 December 2021

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**Employees**

The Company itself has no employees but is the parent of a group of companies with more than 250 employees. Through the implementation by the Company's Group of the BAE Systems Group-wide employee processes and policies referred to below, the directors of the Company are satisfied that employee engagement is a primary focus for management of the Company's Group and that regard is had to the interests of employees connecting employees to the strategy and purpose of the Company's Group and the BAE Systems Group and empowering them to contribute to improving performance and creating an environment in which everyone can fulfil their potential. The employees of the Company's Group are kept informed about what is happening across the BAE Systems Group (including the Company's Group) through the Group's intranet and through email, podcasts, newsletters, and leadership blogs and briefings.

In light of the COVID-19 pandemic, the principal focus for the directors of the Company's Group has been the health and wellbeing of its employees. They introduced a number of measures to return employees safely back to work where their role could not be carried out effectively from home. To assist home-working, they also developed guides to help employees to maintain their safety, security, wellbeing and productivity whilst working from home. The directors were pleased to see rapid deployment of various means of communication across the Company's Group. These included the enhanced roll-out of an employee app, which allowed employees to be updated directly and immediately through their personal devices and provide feedback.

These engagement activities form part of the Company's implementation of the BAE Systems Group-wide employee engagement processes and policies which are described in the Employee Engagement section (pages 11, 18, 23, 56-58 and 153) of BAE Systems plc's Annual Report 2021 (available at: [www.baesystems.com/investors](http://www.baesystems.com/investors)).

Pursuant to the Group's People Policy, Directors and employees are required to contribute to creating an engaged and inclusive work environment, where individuals are respected and where the value of a diverse workforce is recognised. Also, pursuant to the Policy, employees are to be provided with the means to give their views and feedback. Through the implementation by the Company of these processes and policies, the directors have regard to the interests of the Company's employees.

**Fostering business relationships with suppliers, customers and others**

The directors recognise that fostering business relationships with key stakeholders, such as customers and suppliers, is essential to the Company's success. The Company has close relationships with its customers, suppliers and industry partners which help us to effectively manage its properties to provide best value for the Group. In particular, in light of the COVID-19 pandemic, a priority of the directors of the Company was to support the Company's customers and suppliers.

**The community and the environment**

The directors recognise the importance of leading a company that not only generates value for shareholders but also contributes to wider society. Through the Operational Framework the Company implements the requirements of the Group's Community Investment Policy, which looks to ensure that we build and nurture mutually beneficial relationships between our business and local stakeholders including the communities in which we operate.

As a real estate manager, we recognise that our activities may have an impact on the environment – from the energy and resources we use to the waste that we generate. It is our aspiration to reduce the environmental impact of our operations, minimising our environmental footprint and, in turn, decreasing our operational costs. Through the Operational Framework the Company implements the requirements of the Group's Environmental Policy, which details our commitment to high standards of environmental management. In particular, the Company is supporting the Group's target of achieving net zero greenhouse gas emissions across the Group's operations (scope 1 and scope 2) by 2030 and its target of working towards a net zero value chain by 2050.

These activities form part of the Company's implementation of the BAE Systems Group-wide community and environment processes and policies and the Group's impacts thereon which are described in the Environment and Social sections (pages 38-47 and pages 58-63 respectively) of BAE Systems plc's Annual Report 2021

**Strategic Report (continued)**  
for the year ended 31 December 2021

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(available at: [www.baesystems.com/investors](http://www.baesystems.com/investors)).

**Maintaining a reputation for high standards of business conduct**

The Group aims to be a recognised leader in business conduct which helps us to earn and maintain stakeholder trust and sustain business success. The directors consider it fundamental to maintain a culture focused on embedding responsible business behaviours. All directors and employees of the Group are expected to act in accordance with the requirements of Group policies, including the Code of Conduct, at all times. As well as being the right thing to do, this reduces the risk of compliance failure.

Detailed information on the BAE Systems Group-wide business conduct processes and policies are described in BAE Systems plc's Annual Report 2021 (available at: [www.baesystems.com/investors](http://www.baesystems.com/investors)) and in particular the Governance and business conduct section on pages 64-66.

Approved by the Board and signed on its behalf by:



**D A Green**  
Director

Date: 20 June 2022

## **Directors' Report**

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### **Company registration**

BAE Systems (Property Investments) Limited is a private company, limited by shares and registered in England and Wales with the registered number 03653604.

### **Results and dividends**

The Company's profit for the financial year is £187,061k (2020: £20,778k profit). The directors propose a dividend of £168,759,007 (2020: £nil).

During the year the Company disposed Land and Buildings at its sites in Filton and Broughton for a consideration of £250m. This resulted in a profit on disposal of £173m. (see note 5)

The dividend proposed per share is £84,379,503.50 (2020: £nil).

### **Looking forward**

The Company continues to manage its existing properties and the long term disposal of its capital asset at Bishopton. Real estate market conditions in the UK could impact performance, particularly in light of various developing macroeconomic factors, such as inflationary pressures and increased costs of living, however the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

### **Going concern**

After making due enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue operational existence for at least 12 months from the date of approval of the financial statements. 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. 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 (available at: [www.baesystems.com/investors](http://www.baesystems.com/investors)).

### **Energy and carbon reporting exemption**

The Company has taken advantage of the exemption granted under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 as this information is disclosed on pages 38-47 in the 2021 consolidated accounts of its ultimate parent, BAE Systems plc (available at [www.baesystems.com/investors](http://www.baesystems.com/investors)).

### **Engagement with suppliers, customers and others**

Engagement with suppliers, customers and others has been considered within the Strategic Report on page 3.

**Directors' Report (continued)**

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**Directors and their interests**

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

D A Green  
A-L Holding  
D S Parkes  
M A Reason

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.

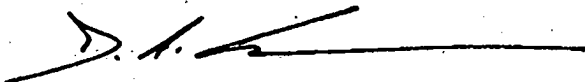
**Disclosure of information to auditor**

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 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 A Green**  
Director

Date: *20 June 2022*

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

**Directors' Responsibilities Statement**

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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;
- 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 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.

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

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### **Report on the audit of the financial statements**

#### **Opinion**

In our opinion the financial statements of BAE Systems (Property Investments) Limited (the "Company"):

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

We have audited the financial statements which comprise:

- the Income Statement;
- the Statement of Comprehensive Income;
- the Balance Sheet;
- the Statement of Changes in Equity;
- the Statement of Accounting Policies; and
- the related notes 1 to 18.

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

#### **Basis for opinion**

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

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

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

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

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

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

#### **Other information**

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

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

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

We have nothing to report in this regard.

**Responsibilities of directors**

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

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

**Auditor's responsibilities for the audit of the financial statements**

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

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

**Extent to which the audit was considered capable of detecting irregularities, including fraud**

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

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

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

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

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

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

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

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

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

**Report on other legal and regulatory requirements**

**Opinions on other matters prescribed by the Companies Act 2006**

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have 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 Strategic Report or the Directors' Report.

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

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

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

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**Use of our report**

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



Peter McDermott FCA (Senior Statutory Auditor)

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

Date: 20 June 2022

**Income Statement and Statement of Comprehensive Income**  
for the year ended 31 December 2021

	Note	2021 £000	2020 £000
Revenue	3	6,725	24,790
Operating costs	4	(8,765)	(6,844)
Other income	5	182,261	3,805
<b>Operating profit</b>		<u>180,221</u>	<u>21,751</u>
Financial expense	6	(37)	(644)
<b>Profit before tax</b>		<u>180,184</u>	<u>21,107</u>
Tax result	9	6,877	(329)
<b>Profit for the financial year</b>		<u><u>187,061</u></u>	<u><u>20,778</u></u>
<b>Total comprehensive income for the year</b>		<u><u>187,061</u></u>	<u><u>20,778</u></u>

The notes on pages 16 to 32 form part of these financial statements.

**BAE Systems (Property Investments) Limited**  
**Annual Report and Financial Statements**  
**31 December 2021**

**Balance Sheet**  
as at 31 December 2021

	Note	2021 £000	2020 £000
<b>Non-current assets</b>			
Investment property	11	34,059	111,920
Investments	10	-	-
		<u>34,059</u>	<u>111,920</u>
<b>Current assets</b>			
Trade and other receivables	13	412,690	158,456
<b>Total assets</b>		<u>446,749</u>	<u>270,376</u>
<b>Non-current liabilities</b>			
Lease liabilities	15	(1,222)	(1,282)
Provisions	16	(1,404)	(3)
Deferred tax liabilities	12	(1,033)	(7,910)
		<u>(3,659)</u>	<u>(9,195)</u>
<b>Current liabilities</b>			
Trade and other payables	14	(3,995)	(9,293)
Lease liabilities	15	(60)	(59)
Provisions	16	(3,057)	(3,031)
		<u>(7,112)</u>	<u>(12,383)</u>
<b>Total liabilities</b>		<u>(10,771)</u>	<u>(21,578)</u>
<b>Net assets</b>		<u>435,978</u>	<u>248,798</u>
<b>Capital and reserves</b>			
Issued share capital	17	-	-
Retained earnings		435,978	248,798
<b>Total equity</b>		<u>435,978</u>	<u>248,798</u>

**Balance Sheet (continued)**  
as at 31 December 2021

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



**D A Green**  
Director

Registered number: 03653604

The notes on pages 16 to 32 form part of these financial statements.

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

	<b>Issued share capital</b>	<b>Retained earnings</b>	<b>Total equity</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>At 1 January 2020</b>	-	227,894	227,894
<b>Profit for the year</b>	-	20,778	20,778
<b>Capital contribution</b>	-	126	126
<b>At 31 December 2020</b>	-	248,798	248,798
<b>Profit for the year</b>	-	187,061	187,061
<b>Capital contribution</b>	-	119	119
<b>At 31 December 2021</b>	-	435,978	435,978

The notes on pages 16 to 32 form part of these financial statements.

The non-distributable portion of retained earnings is £1,168k (2020 £1,049k).

## **Notes to the Financial Statements**

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### **1. General information**

BAE Systems (Property Investments) Limited is a private company, limited by shares, and registered in England and Wales and incorporated in the United Kingdom. Its ultimate controlling party is disclosed in note 18. The address of the Company's registered office is shown on page 6.

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

### **2. Accounting policies**

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

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

- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1 Presentation of Financial Statements;
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
  - paragraph 118(e) of IAS 38 Intangible Assets; 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 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.

## **Notes to the Financial Statements**

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

#### **2.1 Basis of preparation (continued)**

The Company is exempt under Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent, BAE Systems plc, a Company registered in England and Wales. Accordingly, these financial statements present information about the Company as an individual undertaking and not as a group.

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 policies**

There were no significant accounting policies that 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.

#### **Judgements made in applying accounting policies**

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

#### **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. Potential areas of the Company's financial statements which could be materially impacted may include, but are not limited to:

**Fair value investment property assessment.** The carrying value of the Company's investment properties (see note 11) are reviewed at each Balance Sheet date to determine whether there is any indication of impairment as required by IAS 36 Impairment of Assets. The Company considers a range of estimates and assumptions which each carry an inherent uncertainty. These include assumptions on discounted cashflows and considerations surrounding the future prospects for the UK property market which remain uncertain given various developing macroeconomic factors, such as inflationary pressures and increased costs of living, and their overall impact on the UK economy. Were inflation to increase costs by 9% in FY22 and 5% in FY23 without a corresponding increases in sales price then this would result in an impairment of £2m to the net book value of the investment property.

#### **Changes in accounting policies**

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

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

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

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

**Notes to the Financial Statements**

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**2. Accounting policies (continued)**

**2.1 Basis of preparation (continued)**

**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 Revenue and profit recognition**

Revenue represents income derived from the provision of property leasing and management services 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.

**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.

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

*The Company as lessor*

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

## Notes to the Financial Statements

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### 2. Accounting policies (continued)

#### 2.3 Leases (continued)

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 and land held for long-term disposal 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 Investments

Fixed asset investments in shares in subsidiary undertakings and in shares in participating interests are stated at cost less provision for impairment.

The carrying amounts of the Company's investments are reviewed at each Balance Sheet date to determine whether there is any indication of impairment as required by IAS 36 Impairment of Assets. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

Impairment losses are recognised in the Income Statement.

An impairment loss is only reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised or if there has been a change in the estimate used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**Notes to the Financial Statements**

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**2. Accounting policies (continued)**

**2.6 Trade and other receivables**

Trade and other receivables are stated at amortised cost.

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.

**2.7 Trade and other payables**

Trade and other payables are stated at amortised cost.

**2.8 Provisions**

A provision is recognised in the Balance Sheet when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax discount rate.

*Legal, contractual and environmental*

The Company holds provisions for expected legal, contractual and environmental costs that it expects to incur over an extended period. Management exercises judgement to determine the amount of these provisions. Provision is made for known issues based on past experience of similar items and other known factors. Each provision is considered separately and the amount provided reflects the best estimate of the most likely amount, being the single most likely amount in a range of possible outcomes.

**2.9 Tax**

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 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; and
- 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.

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.

**Notes to the Financial Statements**

**2. Accounting policies (continued)**

**2.9 Tax (continued)**

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**

	2021 £000	2020 £000
<b>Revenue by reporting segment</b>		
Property	6,725	24,790

	2021 £000	2020 £000
<b>Revenue by category</b>		
Rental income	6,725	24,790

All revenue arose within the United Kingdom.

**4. Operating costs**

	2021 £000	2020 £000
Depreciation, amortisation and impairment	5,043	3,272
Management charge from BAE Systems Properties Limited	3,315	936
Provision movement	(647)	1,139
Other operating charges	1,054	1,497
	<b>8,765</b>	<b>6,844</b>

The remuneration of the auditor for the year ended 31 December 2021 for auditing of the financial statements was £20k (2020: £11k) and £nil (2020: £nil) in respect of non-audit work. This was borne by BAE Systems Properties Limited.

**Notes to the Financial Statements**

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**5. Other income**

	2021 £000	2020 £000
Profit on disposal of land and buildings at Broughton and Filton	172,526	-
Profit on disposal of investment property	9,854	3,931
Impairment of investments	(119)	(126)
	<u>182,261</u>	<u>3,805</u>

**6. Financial expense**

	2021 £000	2020 £000
Net present value adjustments	-	605
Interest expense on lease liabilities (note 15)	37	39
	<u>37</u>	<u>644</u>

**7. Employees**

None of the directors received any emoluments from the Company during the year. Three of the directors who served during the year were employed by BAE Systems plc, and one was employed by BAE Systems Properties Limited. They were remunerated through those companies.

The Company has no employees (2020: nil).

**Notes to the Financial Statements**

**8. Directors' remuneration**

The disclosures below represent an allocation of the emoluments received by the directors to reflect their qualifying services to the Company.

	<b>2021</b>	<b>2020</b>
	<b>£000</b>	<b>£000</b>
Directors' remuneration	63	59
Company contributions to defined contribution pension schemes	10	13
	<b>73</b>	<b>72</b>

Retirement benefits are accruing to the following number of directors under:

	<b>2021</b>	<b>2020</b>
	<b>Number of directors</b>	<b>Number of directors</b>
Defined benefit schemes	2	2
	<b>2</b>	<b>2</b>

	<b>2021</b>	<b>2020</b>
	<b>Number of directors</b>	<b>Number of directors</b>
Number of directors who exercised share options	2	2
Number of directors in respect of whose qualifying services shares were received or receivable under long-term incentive schemes	2	2
	<b>2</b>	<b>2</b>

**Notes to the Financial Statements**

**9. Tax**

	2021 £000	2020 £000
<b>Deferred tax</b>		
Origination and reversal of temporary differences	7,128	488
Tax rate adjustment <sup>1</sup>	(248)	(820)
Adjustments in respect of prior years	(3)	3
	<b>6,877</b>	<b>(329)</b>
<b>Tax expense/(income)</b>	<b>6,877</b>	<b>(329)</b>

<sup>1</sup>The Government announced in 2021 that from 1 April 2023 the UK corporation tax rate would increase from 19% to 25%. The deferred tax liability at each Balance Sheet date has been calculated at the tax rates, enacted at that date, expected to apply to the temporary differences when they reverse. The resulting tax rate adjustment has been recorded in the Income Statement.

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

**Reconciliation of tax result**

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

	2021 £000	2020 £000
<b>Profit before tax</b>	<b>180,184</b>	<b>21,107</b>
<b>UK corporation tax rate</b>	<b>19.00%</b>	<b>19.00%</b>
Expected tax (expense) on profit	(34,235)	(4,010)
Expenses not tax effected	(2,231)	(528)
Income not subject to tax	34,652	236
Transfer pricing adjustment	5	-
Imputed interest (income)	(1,193)	(303)
Chargeable gains	(1,101)	(199)
Chargeable gains reallocated to fellow group companies	551	199
Losses received from fellow group companies	3,552	4,982
Adjustments in respect of prior years	(3)	3
Tax rate adjustment	(248)	(820)
Property, plant and equipment	7,128	111
	<b>6,877</b>	<b>(329)</b>
<b>Tax expense/(income)</b>	<b>6,877</b>	<b>(329)</b>

**Notes to the Financial Statements**

**10. Investments**

	<b>£000</b>
<b>Cost</b>	
At 1 January 2021	51,049
Additions	119
<b>At 31 December 2021</b>	<b>51,168</b>
<b>Impairment</b>	
At 1 January 2021	51,049
Impairment	119
<b>At 31 December 2021</b>	<b>51,168</b>
<b>Net book value</b>	
<b>At 31 December 2021</b>	-
<b>At 31 December 2020</b>	-

During the year, management conducted an impairment review of the investments held by the Company. As a result of this review, no reversals were created.

**Subsidiary undertakings and participating interests at 31 December 2021**

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiary undertakings and significant holdings as at 31 December 2021 is disclosed below. Unless otherwise stated, all subsidiary undertakings and significant holdings are owned indirectly by the Company, have a financial year end of 31 December and the registered office address is Warwick House, PO Box 87, Farnborough Aerospace Centre, Farnborough, Hampshire, GU14 6YU.

<b>Company name</b>	<b>Class of shares held</b>	<b>Proportion of class (%)</b>
BAE Systems Properties Limited - directly held shares	Ordinary shares	100
Lemacrown Limited	Ordinary shares	100
Lemacrown Limited	Ordinary A shares	100
Newcombe Properties Limited	Ordinary shares	100
Winner Developments Limited	Ordinary shares	33.33

During the year the following subsidiary undertakings which were indirectly owned were dissolved: Buckfield Properties Limited, Hertfordshire Estates Limited and The Leeds Partnership Limited.

**Notes to the Financial Statements**

**11. Investment property**

	<b>Investment property £000</b>
<b>Cost</b>	
At 1 January 2020	197,714
Additions	16,297
Disposals	(152,475)
Revaluations	1
<b>At 31 December 2021</b>	<b>61,537</b>
<b>Depreciation and impairment</b>	
At 1 January 2021	85,793
Depreciation charge for the year	1,276
Disposals	(63,358)
Impairment charge	3,767
<b>At 31 December 2021</b>	<b>27,478</b>
<b>Net book value</b>	
<b>At 31 December 2021</b>	<b>34,059</b>
At 31 December 2020	111,921
<b>Fair Value</b>	
<b>At 31 December 2021</b>	<b>39,359</b>
At 31 December 2020	294,700

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**

**12. Deferred taxation**

**Deferred tax assets/(liabilities)**

	Deferred tax assets		Deferred tax liabilities		Net balance at 31 December	
	2021 £000	2020 £000	2021 £000	2020 £000	2021 £000	2020 £000
Investment property	-	-	(1,033)	(7,913)	(1,033)	(7,913)
Provisions and accruals	-	3	-	-	-	3
<b>Deferred tax assets/(liabilities)</b>	<b>-</b>	<b>3</b>	<b>(1,033)</b>	<b>(7,913)</b>	<b>(1,033)</b>	<b>(7,910)</b>
Set off of tax	-	-	-	-	-	-
<b>Net deferred tax assets/(liabilities)</b>	<b>-</b>	<b>3</b>	<b>(1,033)</b>	<b>(7,913)</b>	<b>(1,033)</b>	<b>(7,910)</b>

**Movement in temporary differences during the year**

	As at 1 January 2021 £000	Recognised in income £000	As at 31 December 2021 £000
Investment property	(7,913)	6,880	(1,033)
Provisions and accruals	3	(3)	-
	<b>(7,910)</b>	<b>6,877</b>	<b>(1,033)</b>

	As at 1 January 2020 £000	Recognised in income £000	As at 31 December 2020 £000
Investment property	(7,581)	(332)	(7,913)
Provisions and accruals	-	3	3
	<b>(7,581)</b>	<b>(329)</b>	<b>(7,910)</b>

**Notes to the Financial Statements**

**13. Trade and other receivables**

	2021 £000	2020 £000
Trade receivables	317	3,135
Amounts owed by BAE Systems plc subsidiaries	412,200	155,190
Prepayments	82	23
Accrued income	91	108
	412,690	158,456

Amounts owed by BAE Systems plc subsidiaries are payable on demand and are expected to be settled in the Company's usual operating cycle of 12 months or less. No interest is applied to amounts owed.

**14. Trade and other payables**

	2021 £000	2020 £000
<b>Current</b>		
Trade creditors	7	55
Other taxes and social security costs	1,905	1,993
Accruals	1,877	1,984
Deferred income	206	5,261
	3,995	9,293

**Notes to the Financial Statements**

**15. Leases**

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

**Right-of-use assets**

	<u>31 December 2021</u>	<u>31 December 2020</u>
	Investment Property £000	Investment Property £000
Additions during the year	-	1
Depreciation expense for the year	73	140
Impairment charge for the year	-	(53)
Net book value	<u>1,241</u>	<u>1,313</u>

**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.

	<b>2021</b>	<b>2020</b>
	<b>£000</b>	<b>£000</b>
Payments due:		
Within one year	96	96
Between one and five years	385	385
Later than five years	1,131	1,227
	<u>1,612</u>	<u>1,708</u>
Reconciliation to Balance Sheet:		
Undiscounted lease liability	1,612	1,708
Impact of discounting	(330)	(367)
Total discounted lease liability	<u>1,282</u>	<u>1,341</u>

The total cash outflow for leases recognised on the Balance Sheet in the year ended 31 December 2021, amounted to £96k (2020: 102k).

**Notes to the Financial Statements**

**15. Leases (continued)**

**Amounts recognised in the Income Statement**

	2021	2020
	£000	£000
<b>Included in operating costs:</b>		
Depreciation on right-of-use assets	73	140
	73	140
<b>Included in other income:</b>		
Operating lease income from investment property	6,653	24,388
Operating lease income from subleasing right-of-use assets	72	402
	6,725	24,790
<b>Included in net finance costs:</b>		
Interest expense on lease liabilities	37	39
	37	39

**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.

	2021	2020
	£000	£000
<b>Receipts due:</b>		
Within one year	-	24,991
Between one and two years	-	24,991
Between two and three years	-	24,991
Between three and four years	-	24,991
Between four and five years	-	411
	-	100,375

**Notes to the Financial Statements**

**16. Provisions**

	Legal, contractual and environmental £000	Other £000	Total £000
Non-current	-	3	3
Current	1,023	2,008	3,031
At 1 January 2021	1,023	2,011	3,034
Released	-	(963)	(963)
Created	2,760	316	3,076
Utilised in year	(686)	-	(686)
<b>At 31 December 2021</b>	<b>3,097</b>	<b>1,364</b>	<b>4,461</b>
<b>Represented by:</b>			
Non-current	1,400	4	1,404
Current	1,697	1,360	3,057
	<b>3,097</b>	<b>1,364</b>	<b>4,461</b>

**Legal, contractual and environmental**

Reflecting the inherent uncertainty within many legal proceedings, the amount of the outflows could differ significantly from the amount provided and the timing of the outflows cannot be reliably estimated. During the year, the Company created provisions totalling £2.7m relating to the sale of land and buildings at its sites at Broughton and Filton.

**Other**

This provision relates to an estimate of additional business rates arising on leased property.

**17. Share capital**

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

**Notes to the Financial Statements**

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**18. Controlling parties**

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

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

6 Carlton Gardens  
London  
SW1Y 5AD

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