

BAE SYSTEMS (PROJECTS) LIMITED

Registration No. 444860

BAE SYSTEMS (PROJECTS) LIMITED

Report and Financial Statements

For the Year Ended 31 December 2004



BAE SYSTEMS (PROJECTS) LIMITED

CONTENTS	PAGE
REPORT OF THE DIRECTORS	1
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BAE SYSTEMS (PROJECTS) LIMITED	5
PROFIT AND LOSS ACCOUNT	6
BALANCE SHEET	7
NOTES TO THE ACCOUNTS	8

BAE SYSTEMS (PROJECTS) LIMITED

Report of the Directors

The Directors present their report and the audited accounts of the Company for the year ended 31 December 2004.

Results

The loss for the year after taxation amounted to **£2,684,000** (2003 Profit: £3,214,000). The Directors do not recommend the payment of a dividend.

Principal Activity and Review of the Business

The principal activity of the Company is the management and co-ordination of major projects, which use the expertise, and products of other BAE SYSTEMS plc companies. During the year activity has been concentrated on the management of defence contracts awarded by various governments, including those of Brunei and Malaysia. The Company is also involved in marketing support for prime contractorship and defence systems capability for new business opportunities in the ASEAN region.

Directors

The present members of the Board, Messrs. V R Emery and A J Tough were appointed to the Board on 12 November 2000 and 1 November 2004 respectively. S D Jewell resigned with effect from 1 November 2004

According to the Register kept by the Company in accordance with Section 325 of the Companies Act 1985, the Directors who held office at the end of the year had no interests in the shares of its holding company or its subsidiaries other than those shown below: -

In BAE SYSTEMS plc

Ordinary Shares of
2.5p each, fully paid

31 Dec 2003 31 Dec 2004

V R Emery	21,435	32,190
A J Tough	-	-

Report of the Directors (Continued)Options in respect of Ordinary Shares of 2.5p each in respect of BAE SYSTEMS plc

	The BAE SYSTEMS March 1998 Executive Share Option Scheme	The BAE SYSTEMS October 2000 Executive Share Option Scheme	The BAE SYSTEMS May 2001 Share Option Plan	The BAE SYSTEMS April 2002 Share Option Plan	The BAE SYSTEMS September 2003 Share Option Plan	The BAE SYSTEMS March 2004 Share Option Plan
As at 31 December	2003 2004	2003 2004	2003 2004	2003 2004	2003 2004	2003 2004
V R Emery	- -	16,627 16,627	37,424 37,424	32,258 32,258	58,866 58,866	- 44,776
A J Tough	- -	- -	- -	- -	- -	- 25,500
Exercise Price	£4.8725	£4.21	£3.30	£3.35	£1.72	£2.01
Exercisable from/to	Mar 01 Mar 08	Dec 02 Dec 09	May 04 May 11	Apr 05 Apr 12	Sep 06 Sep 13	Mar 07 Mar 14

	The BAE SYSTEMS October 1998 SAYE Share Option Scheme	The BAE SYSTEMS October 1999 SAYE Share Option Scheme	The BAE SYSTEMS April 2000 SAYE Share Option Scheme	The BAE SYSTEMS April 2001 SAYE Share Option Scheme	The BAE SYSTEMS March 2000 Performance Share Plan	The BAE SYSTEMS 2001 Restricted Share Plan - Matching Shares
As at 31 December	2003 2004	2003 2004	2003 2004	2003 2004	2003 2004	2003 2004
V R Emery	- -	- -	1,103 1,103	- 2,030	39,244 69,096	1,531 6,529
A J Tough	- -	- -	- -	- 756	- 14,334	- -
Exercise Price	£2.90	£3.21	£2.57	£2.56	-	£1.9975
Exercisable from/to	Dec 03 Jun 04	Dec 04 Jun 05	Jun 05 Dec 05	Jun 06 Dec 06	Sep 06 Sep 10	Mar 07 Mar 07

Report of the Directors (Continued)

Payment of Creditors

It is and will continue to be the policy of the Company to negotiate with suppliers so as to obtain the best available terms taking account of quality, delivery, price and period of settlement and, having agreed those terms, to abide by them. The number of day's credit taken by the company at the year end, excluding amounts owed to companies in the BAE SYSTEMS plc group, were 30 (2003: Nil)

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board


A J Tough
Director

Date: 27 October 2005

Registered Office: Warwick House, PO Box 87, Farnborough Aerospace Centre, Farnborough, Hampshire, GU14 6YU

BAE SYSTEMS (PROJECTS) LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those accounts, 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 accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They have a 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.



KPMG Audit Plc

Edward VII Quay
Navigation Way
Ashton-on-Ribble
Preston PR2 2YF
United Kingdom

Independent auditor's report to the members of BAE SYSTEMS (Projects) Limited

We have audited the financial statements on pages 6 to 15.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

27 October 2005

BAE SYSTEMS (PROJECTS) LIMITED**PROFIT AND LOSS ACCOUNT**

For the twelve months ended 31 December 2004

	Notes	2004 £'000	2003 £'000
Turnover	1	56,980	45,220
Operating costs	2	<u>(59,661)</u>	<u>(42,000)</u>
Operating (loss)/profit	1	(2,681)	3,220
Interest receivable	3	-	-
(Loss)/Profit on ordinary activities before taxation		<u>(2,681)</u>	<u>3,220</u>
Taxation charge on profit on ordinary activities	4	<u>(3)</u>	<u>(6)</u>
(Loss)/Profit for the financial year		<u><u>(2,684)</u></u>	<u><u>3,214</u></u>

MOVEMENT ON PROFIT AND LOSS ACCOUNT RESERVE

At beginning of year	45,601	42,387
(Loss)/Profit for the financial year	(2,684)	3,214
Balance at end of year	<u><u>42,917</u></u>	<u><u>45,601</u></u>

There were no recognised gains or losses other than those reported above. The above results relate entirely to the continuing activities of the Company.

BALANCE SHEET

As at 31 December 2004

	Notes	2004 £'000	2003 £'000
Fixed assets			
Tangible assets	5	-	6
Current assets			
Stocks	6	-	-
Debtors	7	6,644	6,233
Cash at bank and in hand		59,185	62,084
		65,829	68,317
Creditors: amounts falling due within one year	8	(22,112)	(12,882)
Net current assets		43,717	55,435
Total assets less current liabilities		43,717	55,441
Creditors: amounts falling due after more than one year	8	(800)	(9,840)
Net assets		42,917	45,601
Capital and reserves			
Called up share capital	9	-	-
Profit and loss account		42,917	45,601
Equity shareholders' funds		42,917	45,601

Approved by the Board of Directors on

27 October 2005


 A J Tough
 Director

BAE SYSTEMS (PROJECTS) LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2004

1. SEGMENTAL INFORMATION

The company derives all its turnover and profit before taxation from its principal activity of managing and co-ordinating major projects which use the products of other group companies.

Net assets are situated in the United Kingdom and derive from the company's principal activity.

2. OPERATING COSTS

	2004 £'000	2003 £'000
Decrease in stocks of finished goods and work in progress	(36,753)	(14,225)
Raw materials and consumables	(17,977)	(22,950)
Staff costs (Note 10)	(2,545)	(2,465)
Loss on Disposal of Fixed Assets	(6)	-
Cost of hire of other assets	(56)	(85)
Other external and operating charges	(2,324)	(2,263)
Auditors' remuneration	-	(12)
	<hr/>	<hr/>
	(59,661)	(42,000)

In the current year Auditors' remuneration was paid in full by a fellow group company

3. INTEREST RECEIVABLE

	2004 £'000	2003 £'000
Interest receivable	-	-

BAE SYSTEMS (PROJECTS) LIMITED

NOTES TO THE ACCOUNTS (Continued)

Year ended 31 December 2004

4. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2004 £'000	2003 £'000
United Kingdom taxation		
Corporation tax 30%	-	-
Deferred taxation at 30%	3	6
	<hr/> 3	<hr/> 6
Adjustments for under provision in prior years		
Corporation Tax	-	-
Deferred Tax	-	-
	<hr/> 3	<hr/> 6
	<hr/> <hr/>	<hr/> <hr/>

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

5. TANGIBLE FIXED ASSETS

	Fixtures, fittings, Tools and motor vehicles £'000
Cost at 1 January 2004	11
Disposals	(11)
	<hr/> -
At End of Year	-
Accumulated depreciation at 1 January 2004	5
Disposals	(5)
At End of year	-
	<hr/> -
Net book value at 31 December 2004	<hr/> <hr/> -
Net book value at 31 December 2003	<hr/> <hr/> 6

BAE SYSTEMS (PROJECTS) LIMITED

NOTES TO THE ACCOUNTS (Continued)

Year ended 31 December 2004

6. STOCK

	2004 £'000	2003 £'000
Long-term contract balances	82,003	110,346
Less: attributable progress payments	(82,003)	(110,346)
	<u>-</u>	<u>-</u>

7. DEBTORS

	2004 £'000	2003 £'000
Amounts falling due within one year:		
Amounts owed by fellow subsidiary companies	6,631	6,217
Prepayments and accrued income	-	-
	<u>6,631</u>	<u>6,217</u>
Amounts falling due after more than one year:		
Deferred taxation (Note 13)	13	16
	<u>-</u>	<u>16</u>
Total	<u>6,644</u>	<u>6,233</u>

8. CREDITORS

	2004 £'000	2003 £'000
Amounts falling due within one year:		
Payments received on account	21,930	11,546
Trade creditors	100	-
Amounts owed to holding and fellow subsidiary companies	-	115
Accruals and deferred income	82	1,221
	<u>22,112</u>	<u>12,882</u>
Amounts falling due after more than one year:		
Payments received on account	<u>800</u>	<u>9,840</u>

BAE SYSTEMS (PROJECTS) LIMITED

NOTES TO ACCOUNTS (Continued)

Year ended 31 December 2004

9. CALLED UP SHARE CAPITAL

	Authorised £	Issued £
Share Capital		
At 31 December 2003 and 31 December 2004	100	100
Shares of £1 each fully paid		

10. DIRECTORS AND EMPLOYEES

	2004 No.	2003 No.
Average number of employees working overseas	1	1
Total average number of employees	33	33
	£'000	£'000
The aggregate payroll costs in respect of these employees were:		
Wages	2,163	2,136
State and social security costs	190	160
Other pension costs	192	169
Total remuneration	2,545	2,465
Directors' Emoluments	-	-

Directors' emoluments are shown above as nil for 2004. Messrs Emery and Tough were full time executives of other group companies and did not receive any remuneration for services provided to this company. It is not practicable to allocate the emoluments for other services. Details relating to Directors' Share Options are contained within the Directors' Report. Retirement benefits were accruing to the two directors under a defined benefit scheme at 31 December 2004 (31 December 2003: 2).

11. CONTINGENT LIABILITIES

Guarantees

Under a group registration the Company is jointly and severally liable for any Value Added Tax owing by other group companies at 31 December 2004.

BAE SYSTEMS (PROJECTS) LIMITED**NOTES TO ACCOUNTS (Continued)**

Year ended 31 December 2004

12. FINANCIAL COMMITMENTS

	2004 £'000	2003 £'000
Amounts payable under operating leases which fall due in the next financial year		
Motor vehicles expiring:		
Within one year	34	5
Between two and five years	35	71

13. DEFERRED TAXATION

	2004 £'000	2003 £'000
Amount brought forward	16	22
Transfer to profit and loss account	(3)	(6)
Carried forward	13	16

14. ULTIMATE PARENT UNDERTAKING

The Company's ultimate parent company and controlling entity BAE SYSTEMS plc ("BAE"), is registered in England and Wales. The BAE group is the only group of which the Company is a member for which group accounts are prepared. Copies of the accounts of BAE are available from The Secretary, 6 Carlton Gardens, London SW1Y 5AD.

Pursuant to the exemption granted by Financial Reporting Standard 8 "Related Party Disclosures", transactions with other undertakings within, and related parties of, the BAE group have not been disclosed in these financial statements.

NOTES TO ACCOUNTS (Continued)

Year ended 31 December 2004

15. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	2004 £'000	2003 £'000
(Loss)/Profit for the financial year	(2,684)	3,214
Opening equity shareholders' funds	45,601	42,387
Closing equity shareholders' funds	<u>42,917</u>	<u>45,601</u>

16. PENSIONS

The company has continued to account for pensions in accordance with Statement of Standard Accounting Practice 24 - Accounting for pension costs (SSAP 24) and the disclosures given in (a) are those required by that standard. Financial Reporting Standard 17- Retirement benefits (FRS17) was issued in November 2000 but the Accounting Standards Board has proposed to defer full mandatory implementation, which is now not expected before the year ending 31 December 2005 at the earliest. Prior to this, transitional disclosures are required which, to the extent they are not given in note (a), are set out in (b).

a. Pension Schemes

The principal schemes of which the employees are members are the BAE SYSTEMS Pension Scheme and the BAE SYSTEMS 2000 Pension Plan. These schemes are funded defined benefit schemes and the assets are held in separate trustee administered funds. Pension scheme valuations are regularly carried out by independent actuaries to determine contribution rates and regular costs for pension funding, SSAP 24 and FRS17 purposes. Details of the principal schemes, their latest valuation dates, and the financial assumptions used are contained in the consolidated accounts of BAE SYSTEMS plc, the company's ultimate holding company. The contributions paid by the company are determined at group level, based on the funding requirements of the schemes set by the Trustees following actuarial advice. The total value of the contributions charged by the company to its profit and loss account in 2004 was £0.2m (2003 £0.2m).

NOTES TO ACCOUNTS (Continued)

Year ended 31 December 2004

16. PENSIONS (continued)**b. Transitional FRS 17 Disclosure**

Employees of the company are members of various of the group's defined benefit schemes. These are all multi-employer schemes and as such, the company is unable to identify its share of the underlying assets and liabilities of the schemes on a consistent and reasonable basis. As permitted by FRS17, the schemes will be accounted for as if they were defined contribution schemes when the standard is fully adopted by the company and therefore no transitional disclosures are required. At 31 December 2004 the schemes were in deficit on an FRS 17 basis and this is likely to result in additional contributions in future periods. The schemes are included in the FRS 17 disclosures set out in the consolidated accounts of BAE SYSTEMS plc, the company's ultimate holding company.

17. ACCOUNTING POLICIES

The accounts have been prepared on the historical cost basis in accordance with applicable accounting standards in the United Kingdom.

The Company is a wholly owned subsidiary of BAE SYSTEMS plc ("BAE"); consequently the Company is exempt under the terms of Financial Reporting Standard 1 (Revised 1996) from the requirement to publish its own cash flow statement.

The more important accounting policies, which have been consistently applied, are summarised below to facilitate the interpretation of the financial statements.

a. Turnover

Sales are recognised when title passes or a separately identifiable phase of a contract or development has been completed. Turnover represents sales made by the company and is exclusive of VAT.

b. Tangible fixed assets

Fixtures, fittings, tools and equipment are recorded at historic cost and depreciated on a straight-line basis over their estimated useful lives.

The following rates of depreciation are used:

Fixtures and fittings	20%
Motor Vehicles	25%
Tools and equipment	25%

NOTES TO ACCOUNTS (Continued)

Year ended 31 December 2004

17. ACCOUNTING POLICIES (Continued)

c. Taxation

The charge for taxation is based on the profit for the year and takes account of taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised on an undiscounted basis in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date where there is an obligation to pay more tax, or a right to pay less tax, in the future.

d. Leased assets

Operating lease payments are charged to the profit and loss account as incurred.

e. Stock and contracts in progress

Stock and contracts in progress are valued at the lower of cost, inclusive of appropriate overheads, and estimated net realisable value. Provisions are made for any losses incurred on uncompleted contracts. Profit on long-term contracts in progress is taken when a sale is recorded on part-delivery of products or part-performance of services, provided that the outcome of the contract can be assessed with reasonable certainty. Advance payments received from customers are shown within creditors until there is a right of set-off against the value of work carried out, any excess being included with payments received in advance.

f. Pensions and other post retirement benefits

The company contributes to group pension schemes operated in the United Kingdom by BAE SYSTEMS plc, the company's ultimate holding company. The company provides for its pension costs under Statement of Standard Accounting Practice 24 – Accounting for pension costs (SSAP 24) based on contributions which are set across the group as a whole. As permitted by SSAP 24 the company has chosen not to disclose full details for its principal pension schemes. Details of the principal schemes, their latest valuation dates, and the financial assumptions used are contained in the consolidated accounts of BAE SYSTEMS plc, the company's ultimate holding company.

g. Foreign Currencies

Transactions in overseas currencies are translated at the exchange rate ruling at the date of the transaction or, where forward cover contracts have been arranged, at the contracted rates. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at the balance sheet date or at a contracted rate if applicable and any exchange differences arising are taken to the profit and loss account and classified as interest receivable/payable.