

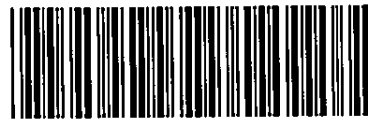
Registration No 444860

BAE SYSTEMS (PROJECTS) LIMITED

Directors' Report and Financial Statements

For the Year Ended 31 December 2007

SATURDAY



AUZAO49E

A10

25/10/2008

222

COMPANIES HOUSE

BAE SYSTEMS (PROJECTS) LIMITED

CONTENTS	PAGE
DIRECTORS' REPORT	1
STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS	3
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BAE SYSTEMS (PROJECTS) LIMITED	4
PROFIT AND LOSS ACCOUNT	6
BALANCE SHEET	7
NOTES TO THE ACCOUNTS	8

BAE SYSTEMS (PROJECTS) LIMITED

DIRECTORS' REPORT

The Directors present their report, together with the financial statements, for the year ended 31 December 2007

Business review and principal activities

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

The profit for the year amounted to £34,158,000 (2006 Loss £2,698,000) The Directors do not recommend the payment of a dividend for the year (2006 £nil)

During 2007 activity has been concentrated on the management of defence contracts awarded by the governments of Brunei and Malaysia On 30th March 2007 the business activities, assets and liabilities associated with contracts awarded by the government of Malaysia were transferred to a new company, BAE SYSTEMS Surface Fleet Solutions (Projects) Limited Also during March, the arbitration process in respect of the Brunei Offshore Patrol Vessels was settled and title to all three vessels transferred to the customer

Future outlook

It is anticipated that any future export contracts will be handled by the new company, BAE SYSTEMS Surface Fleet Solutions (Projects) Limited Any existing contracts not transferred to BAE SYSTEMS Surface Fleet Solutions (Projects) Limited will be traded out in this Company

Key performance indicators

The businesses which form this Company make up part of the BAE SYSTEMS Group The key performance indicators used to review and monitor the business are set by the directors of the Group and are discussed in more detail in the Annual Report of the Group

Directors

The directors who held office during the period were

Mr V R Emery
Mr A J Tough

Mr A J Tough resigned as a director on 19th May 2008 and Mr W Brown was appointed as a director in his place on the same date

Auditors

The auditors, KPMG Audit Plc, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting

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 auditors are unaware, and each director has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

BAE SYSTEMS (PROJECTS) LIMITED

DIRECTORS' REPORT (Continued)

By Order of the Board



W Brown
Director

Warwick House
PO Box 87
Farnborough Aerospace Centre
Farnborough
Hampshire GU14 6YU

Date 21 October, 2008

BAE SYSTEMS (PROJECTS) LIMITED

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 Company's financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to 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 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 statement, 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 that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BAE SYSTEMS (PROJECTS) LIMITED

We have audited the financial statements of BAE SYSTEMS (Projects) Limited for the year ended 31st December 2007 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
22 October, 2008

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

For the year ended 31 December 2007

	Notes	2007 £'000	2006 £'000
Turnover	2	147,253	2,418
Operating costs	3	(105,429)	(3,594)
Operating profit/(loss)		41,824	(1,176)
Profit on disposal	12	2,018	-
Profit / (Loss) on ordinary activities before taxation		43,842	(1,176)
Taxation on profit/(loss) on ordinary activities	4	(9,684)	(1,522)
Profit/(loss) for the financial year		34,158	(2,698)

There were no recognised gains or losses other than those reported above. There is no material difference between the profit on ordinary activities before taxation and the profit for the year stated above, and their historical cost equivalents.

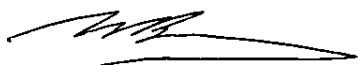
BAE SYSTEMS (PROJECTS) LIMITED

BALANCE SHEET

As at 31 December 2007

	Notes	2007 £'000	2006 £'000
Current assets			
Stocks	5	-	3,766
Debtors	6	90,801	9,824
Cash at bank and in hand		-	56,370
		<u>90,801</u>	<u>69,960</u>
Creditors: amounts falling due within one year	7	<u>(16,296)</u>	<u>(28,113)</u>
Net current assets		74,505	41,847
Provisions for liabilities and charges	8	-	(1,500)
		<u>74,505</u>	<u>40,347</u>
Net assets		<u>74,505</u>	<u>40,347</u>
Capital and reserves			
Called up share capital	9	-	-
Profit and loss account	13	74,505	40,347
		<u>74,505</u>	<u>40,347</u>
Equity shareholders' funds	14	<u>74,505</u>	<u>40,347</u>

Approved by the Board of Directors on 21 October, 2008



W Brown
Director

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

NOTES TO THE ACCOUNTS

Year ended 31 December 2007

1. ACCOUNTING POLICIES

Basis of preparation

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

The Company is exempt from the requirement of Financial Reporting Standard 1 (Revised) - Cash flow statements (FRS 1) to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of BAE SYSTEMS plc, and its cash flows are included within the consolidated cash flow statement of that company. In accordance with paragraph 3c of Financial Reporting Standard 8 - Related Party Transactions (FRS 8), the Company is exempt from disclosing details of arrangements with other companies in the Group

The Accounting Standards Board has issued FRS 29 'Financial Instruments Disclosures', applicable for the year ended 31 December 2007. As the Company is a wholly owned subsidiary of BAE SYSTEMS plc, it is exempt from presenting FRS 29 disclosures as full equivalent disclosures are presented on a group basis within the consolidated financial statements

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. 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

c. 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

d. Pensions and other post retirement benefits

The Company contributes to Group pension schemes operated in the UK that provide benefits based on final pensionable salary. Details of the principal schemes, including the value of the deficit that exists for the schemes, and the financial assumptions used are contained in the consolidated accounts of BAE SYSTEMS plc. As permitted by Financial Reporting Standard 17 Retirement Benefits (FRS17), the schemes are accounted for as defined contribution schemes, as the employer cannot identify its share of the underlying assets and liabilities of the schemes

NOTES TO THE ACCOUNTS (Continued)

Year ended 31 December 2007

e. 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.

2. 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.

3. OPERATING COSTS

	2007 £'000	2006 £'000
(Decrease)/increase in stocks of finished goods and work in progress	(90,010)	14,923
Raw materials and consumables	(2,903)	(11,963)
Staff costs (Note 10)	(105)	(844)
Other external and operating charges	(12,411)	(5,710)
	<u>(105,429)</u>	<u>(3,594)</u>

In the current year the Auditor's remuneration was paid in full by a fellow group Company (BAE SYSTEMS Surface Fleet Solutions Limited). In the previous year the Auditor's remuneration was paid in full by a fellow group Company (BAE SYSTEMS Marine Limited).

NOTES TO THE ACCOUNTS (Continued)

Year ended 31 December 2007

4. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

a) Analysis of charge in the year

	2007 £'000	2006 £'000
Current tax:		
Corporation tax charge for year at 30% (2006 30%)	9,471	958
Adjustment in respect of prior years	(240)	1,012
Total current tax	9,231	1,970
Deferred tax:		
Deferred tax charge/(credit) for the year	453	(448)
Tax charge on profit/(loss) on ordinary activities	9,684	1,522

b) Factors affecting the tax charge

The corporation tax charge for the year is lower (2006 higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below

	2007 £'000	2006 £'000
Profit/(loss) on ordinary activities before taxation	43,842	(1,176)
Tax charge/(credit) on profit/(loss) at UK rate of 30 % (2006 – 30%)	13,153	(353)
Accelerated Capital Allowances	(2)	(2)
Provisions	(450)	450
Other	966	863
Group relief	(4,196)	-
Adjustments in respect of prior years	(240)	1,012
Total corporation tax charge	9,231	1,970

BAE SYSTEMS (PROJECTS) LIMITED

NOTES TO THE ACCOUNTS (Continued)

Year ended 31 December 2007

5. STOCK

	2007 £'000	2006 £'000
Long-term contract balances	3,143	102,639
Less attributable progress payments	(3,143)	(98,873)
	<u>-</u>	<u>3,766</u>

6. DEBTORS

	2007 £'000	2006 £'000
Amounts falling due within one year:		
Amounts owed by holding and fellow subsidiary companies	90,796	7,076
Prepayments and accrued income	-	2,290
	<u>90,796</u>	<u>9,366</u>
Amounts falling due after more than one year:		
Deferred taxation (Note 11)	5	458
Total	<u>90,801</u>	<u>9,824</u>

7. CREDITORS

	2007 £'000	2006 £'000
Amounts falling due within one year:		
Trade creditors	-	(614)
Amounts owed to holding and fellow subsidiary companies	-	(24,259)
Other creditors	(633)	-
Corporation Tax	(11,201)	(1,970)
Accruals and deferred income	(4,462)	(1,270)
	<u>(16,296)</u>	<u>(28,113)</u>

BAE SYSTEMS (PROJECTS) LIMITED

NOTES TO THE ACCOUNTS (Continued) Year ended 31 December 2007

8. PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges

	2007 £'000	2006 £'000
Opening balance	(1,500)	-
Provision created	-	(1,500)
Provision released	1,500	-
Balance at end of year	-	(1,500)

The provision was created to cover anticipated future losses against the Brunei project, however, since a loss did not arise the provision was released in the year ended 31 December 2007

9. CALLED UP SHARE CAPITAL

	Authorised £	Issued £
Share Capital		
At 31 December 2007 and 31 December 2006		
Ordinary shares of £1 each fully paid	100	100

10. DIRECTORS AND EMPLOYEES

	2007 No.	2006 No.
Total average number of employees	4	16
	£'000	£'000
The aggregate payroll costs in respect of these employees were		
Wages	(85)	(670)
Social security costs	(10)	(80)
Other pension costs	(10)	(94)
Total remuneration	(105)	(844)
Directors' emoluments	-	-

Directors' emoluments are shown above as nil. Messrs Emery, Tough and Brown 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. Retirement benefits were accruing to the two directors under a defined benefit scheme at 31 December 2007 (31 December 2006: 2).

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

Year ended 31 December 2007

11. DEFERRED TAXATION ASSET

	2007 £'000	2006 £'000
Amount brought forward	458	10
Included in profit and loss account	(453)	448
	<u>5</u>	<u>458</u>
Carried forward	<u>5</u>	<u>458</u>

	2007 £'000	2006 £'000
Accelerated capital allowances	5	8
Other timing differences	-	450
	<u>5</u>	<u>458</u>
Deferred tax asset	<u>5</u>	<u>458</u>

The current tax rate has been reduced from 30% to 28%, with effect from 1 April 2008. In line with this change, the rate applying to deferred tax assets has also been reduced from 30% to 28%

12. PROFIT ON DISPOSAL

	2007 £'000	2006 £'000
Profit on disposal of business assets and liabilities to BAE Systems Surface Fleet Solutions (Projects) Limited	2,018	-
	<u>2,018</u>	<u>-</u>

Certain of the assets and liabilities of BAE Systems Projects Limited, which were sold to BAE Systems Surface Fleet Solutions (Projects) Limited for a consideration of £6,500,000 cash, were valued in the books of account at £4,482,000, resulting in Profit on Disposal of £2,018,000

BAE SYSTEMS (PROJECTS) LIMITED

NOTES TO THE ACCOUNTS (Continued)

Year ended 31 December 2007

13. RESERVES

	2007 £'000	2006 £'000
As at 1 January	40,347	43,045
Profit/(loss) for the financial year	34,158	(2,698)
At 31 December	<u>74,505</u>	<u>40,347</u>

14. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	2007 £'000	2006 £'000
Profit/(loss) for the financial year	34,158	(2,698)
Opening equity shareholders' funds	40,347	43,045
Closing equity shareholders' funds	<u>74,505</u>	<u>40,347</u>

15. ULTIMATE PARENT UNDERTAKING

The Company's immediate parent company is BAE SYSTEMS Electronics Limited

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.