

**BAE SYSTEMS Land Systems (FRES) Limited
(Formerly Alvis Property Limited)**

**Directors' Report and Financial Statements
Year ended 31 December 2005
Registered number 3824625**



DIRECTORS' REPORT AND FINANCIAL STATEMENTS

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Directors' report

The directors present their annual report and the unaudited financial statements for the year ended 31 December 2005.

Business review

The shares of Alvis plc were acquired by BAE SYSTEMS plc on 18 August 2004. The Company was consequently re-registered as BAE SYSTEMS Land Systems (FRES) Limited with effect from 10 February 2005 and is a wholly owned subsidiary of BAE SYSTEMS Land Systems (Finance) Limited (formerly Alvis Finance Limited).

Principal activity

The Company has been dormant throughout the year.

Profit and dividends

The Company had no trading activity in the year.

Directors and their interests

The directors who held office during the year and at the date of this report were as follows:

A O B Davies (appointed 4 February 2005)
J P Grant (appointed 4 February 2005)
M F Greenslade (resigned 4 February 2005)
P E Jarman (resigned 4 February 2005)

None of the directors who held office at the end of the financial year had any disclosable interest in the share capital of the Company.

The directors who held office during the year, and the beneficial, including family, interests in the share capital and share options of BAE SYSTEMS plc are disclosed in the financial statements of the intermediate parent undertaking, Alvis Limited

By order of the Board



J P Grant
Director

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

27 September 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards.

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 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 judgments and estimates that are reasonable and prudent; 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 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.

Profit and loss account
for the year ended 31 December 2005

During the year the Company has received no income and incurred no expenditure. Consequently the Company has made neither a profit nor a loss.

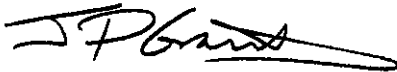
The Company has not made any other gains or losses for the current and prior year.

Balance sheet
 at 31 December 2005

	Note	2005 £	2004 £
Current Assets			
Debtors	4	1	1
Net current assets		1	1
Total assets less current liabilities		1	1
Capital and reserves			
Called up share capital	5	1	1
Equity shareholders' funds	6	1	1

- (a) For the year ended 31st December 2005 the company was entitled to exemption under section 249AA(1) of the Companies Act 1985.
- (b) Members have not required the company to obtain an audit in accordance with section 249B(2) of the Companies Act 1985.
- (c) The directors acknowledge their responsibility for:
- ensuring the company keeps accounting records which comply with section 221; and
 - preparing accounts which give a true and fair view of the state of affairs of the company as at the end of the financial year, and of its profit or loss for the financial year, in accordance with the requirements of section 226, and which otherwise comply with the requirements of the Companies Act relating to accounts, so far as applicable to the company.

These financial statements were approved by the board of directors on 27 September 2006 and were signed on its behalf by:



J P Grant
 Director

Notes

(forming part of the financial statements)

1 Accounting policies

Accounting Convention

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of preparation

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

As the company is a wholly owned subsidiary of BAE SYSTEMS plc, the company has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of BAE SYSTEMS plc, within which this company is included, can be obtained from the address given in note 8.

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.

2 Directors' remuneration, staff numbers and costs

The only persons employed by the company during the period were the directors, none of whom received any remuneration from the company (2004: £nil). The directors of the company were paid for their services by either the intermediate parent undertaking, Alvis Limited or by fellow group undertaking BAE Systems Land Systems (Munitions and Ordnance) Limited. Disclosure of these amounts is given in the financial statements of those companies.

3 Taxation

No provision for current or deferred tax is required.

4 Debtors

	2005 £	2004 £
Amounts due within one year:		
Amounts owed by intermediate parent undertaking	1	1

Notes (continued)

5 Share capital

	2005 £	2004 £
Authorised: 1 ordinary share of £1	1	1
Allotted, called up and fully paid: 1 ordinary share at £1	1	1

6 Reconciliation of movements in equity shareholders' funds

	2005 £	2004 £
Equity shareholders' funds at the beginning and end of the year	1	1

7 Immediate parent company

The Company is a subsidiary undertaking of BAE SYSTEMS Land Systems (Finance) Limited, a company incorporated in Great Britain and registered in England and Wales.

8 Ultimate parent company and parent undertaking of larger group of which the company is a member

The ultimate parent company is BAE SYSTEMS plc, a company incorporated in Great Britain and registered in England and Wales. The largest and smallest group in which the results of the company are consolidated is that headed by BAE SYSTEMS plc. The consolidated accounts of that company are available to the public and may be obtained from the registered office, 6 Carlton Gardens, London SW1Y 5AD.