

14. Reserves

	Share premium account £m	Other reserves £m	Profit and loss account £m
At 31 December 2006	841	101	1,689
Profit for the year	–	–	92
Dividends paid	–	–	(396)
Share placing (net of costs)	–	–	736
Share-based payments	–	–	34
Exercise of options	63	–	–
Purchase of own shares	–	–	(50)
Conversion of preference shares	318	–	–
Purchase of treasury shares	–	–	(152)
Other movements	–	–	(13)
Fair value movements on available-for-sale investments	–	–	6
Recycling of fair value movements on disposal of available-for-sale investments	–	–	(6)
Movements in hedging reserve	–	17	–
At 31 December 2007	1,222	118	1,940

14. Reserves (continued)

Other reserves

Other reserves for the Company comprise: capital reserve £24m (2006 £24m); hedging reserve £8m credit (2006 £9m debit); and non-distributable reserve arising from property disposals to other Group undertakings £86m (2006 £86m). The non-distributable reserve arising from property disposals to other Group undertakings relates to the revaluation surplus realised by the Company on properties which were sold to other Group companies as part of operational reorganisations in prior years. Amounts within this reserve will be transferred to the profit and loss account as distributable when the related properties are disposed of outside the Group, or written down following impairment.

Placing of shares

On 11 May 2007, 174,418,605 new ordinary shares of 2.5p each were issued by a placing of shares. The placing structure utilised attracted merger relief under Section 131 of the Companies Act 1985, resulting in a credit to the merger reserve of £736m. Subsequent internal transactions required to complete the placing structure have resulted in this part of the merger reserve being transferred to the retained earnings reserve.

Own shares held

Own shares held, including treasury shares and shares held by BAE Systems ESOP Trust, are recognised as a deduction from retained earnings.

Conversion of preference shares

During the year, 259,962,909 (2006 6,116,123) preference shares were converted into ordinary shares of 2.5p each on the basis of 0.47904 ordinary shares for each preference share.

Treasury shares

During the year, 33,270,000 ordinary shares of 2.5p each were repurchased under the buyback programme announced in October 2006. As at 31 December 2007, 61,945,000 (2006 28,675,000) 2.5p ordinary shares with an aggregate nominal value of £2m (2006 £1m) were held in treasury.

BAE Systems ESOP Trust

The Company has an ESOP discretionary trust to administer the share plans and to acquire Company shares, using funds loaned by the Group, to meet commitments to Group employees. A dividend waiver was in operation for shares within the ESOP Trust, other than those owned beneficially by the participants, for the dividend paid in November 2007.

At 31 December 2007, the ESOP held 1,552,015 (2006 2,382,835) 2.5p ordinary shares with a market value of £8m (2006 £10m). The shares held by the ESOP are recorded at cost and deducted from retained earnings until such time as the shares vest unconditionally to employees.

A dividend waiver is also in operation over shares within the Company's Share Incentive Plan Trust other than those shares owned beneficially by the participants.

Company profit

The Company's profit for the financial year was £92m (2006 £1,617m).