

27. Reconciliation of movement in capital and reserves

	Attributable to equity holders of the parent							Total equity £m
	Issued share capital £m	Share premium £m	Equity option of preference shares £m	Other reserves £m	Retained earnings £m	Total £m	Minority interests £m	
Balance at 1 January 2006	80	782	78	4,720	(2,872)	2,788	16	2,804
Total recognised income and expense	–	–	–	(476)	2,177	1,701	3	1,704
Share-based payments ¹	–	–	–	–	46	46	–	46
Share options:								
Proceeds from shares issued	1	52	–	–	–	53	–	53
Purchase of own shares by ESOP	–	–	–	–	(12)	(12)	–	(12)
Conversion of preference shares	–	7	(2)	6	(6)	5	–	5
Purchase of treasury shares	–	–	–	–	(112)	(112)	–	(112)
Release of unrealised gain on the sale of Atlas Elektronik	–	–	–	(11)	–	(11)	–	(11)
Revaluation of net assets acquired by equity accounted investments (note 14)	–	–	–	–	5	5	–	5
Reclassification	–	–	–	91	(91)	–	–	–
Other	–	–	–	–	–	–	(2)	(2)
Ordinary share dividends	–	–	–	–	(346)	(346)	–	(346)
At 31 December 2006	81	841	76	4,330	(1,211)	4,117	17	4,134
Total recognised income and expense	–	–	–	72	1,291	1,363	21	1,384
Placing of shares (net of costs)	5	–	–	–	736	741	–	741
Share-based payments	–	–	–	–	34	34	–	34
Share options:								
Proceeds from shares issued	1	63	–	–	–	64	–	64
Purchase of own shares	–	–	–	–	(50)	(50)	–	(50)
Conversion of preference shares	3	318	(76)	229	(229)	245	–	245
Purchase of treasury shares	–	–	–	–	(152)	(152)	–	(152)
Other	–	–	–	–	–	–	(1)	(1)
Ordinary share dividends	–	–	–	–	(396)	(396)	(1)	(397)
At 31 December 2007	90	1,222	–	4,631	23	5,966	36	6,002

Other reserves include a merger reserve of £4,589m (2006 £4,589m), a statutory reserve of £202m (2006 £202m), a translation reserve of £217m debit (2006 £259m debit) and a hedging reserve of £57m (2006 £27m). Under Section 4 of the British Aerospace Act 1980 the statutory reserve may only be applied in paying up unissued shares of the Group to be allotted to members of the Group as fully paid bonus shares.

1 The credit in respect of share-based payments for the year ended 31 December 2006 comprises £21m in respect of equity-settled share-based payment schemes, £21m relating to a change in the terms of certain share-based payment schemes from cash-settled to equity-settled and £4m relating to discontinued operations.

Placing of shares

On 11 May 2007, 174,418,605 new ordinary shares of 2.5p each were issued by a placing of shares (note 25). 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 (note 25).

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 Group 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.