

BAE SYSTEMS ELECTRONICS OVERSEAS LIMITED
(formerly Marconi Electronics Overseas Limited)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2000



BAE SYSTEMS ELECTRONICS OVERSEAS LIMITED

(formerly Marconi Electronics Overseas Limited)

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BAE SYSTEMS ELECTRONICS OVERSEAS LIMITED

(formerly Marconi Electronics Overseas Limited)

Directors' Report

The directors present their report and the audited financial statements of the company for the year ended 31st December 2000.

Results

The profit for the year before taxation amounted to £92,000 (loss before taxation of £31,000 for the nine months to 31st December 1999). The directors do not recommend the payment of a dividend.

Principal activity

The principal activity of the company is the supply and installation of microwave video distribution systems.

Review of the year

Sales in the year related to the microwave video distribution contract in Qatar. The company is pursuing other contracts for this product world-wide.

Directors and secretary

The present members of the board are Messrs C. V. Geoghegan and D. M. Frost. Mr A. E. Cook resigned on the 11th August 2000 and Mr C. V. Geoghegan was appointed on the 10th October 2000.

Mr D. S. Parkes was appointed as secretary on the 11th August 2000 replacing Mr E. A. Peachey who resigned on that date.

The beneficial, including family, interests of the other directors at the end of the year in the ordinary shares, options to acquire ordinary shares and warrants to acquire ordinary shares of BAE SYSTEMS plc, the ultimate holding company, are shown below. None of the directors had any beneficial interest in the share capital of the group during the year, nor in the period from year end to the date of this report. The board is not aware of any contract of significance in relation to the group in which any director has, or has had, a material interest.

Shares in BAE SYSTEMS plc

	<u>Ordinary shares of 2.5p</u>		<u>Capital Amortising Loan Stock</u>	
	<u>1st January 2000 *</u>	<u>31st December 2000</u>	<u>1st January 2000 *</u>	<u>31st December 2000</u>
D.M. Frost	18,918	19,917	5,974	6,196
C.V. Geoghegan	265,652	113,289	-	-

Executive share option scheme

	<u>1st January 2000 *</u>	<u>Granted</u>	<u>Exercised</u>	<u>31st December 2000</u>
D.M. Frost	23,753	-	-	23,753
C. V. Geoghegan	118,090	-	-	118,090

Normally the options are exercisable between the 20th December 2002 and the 2nd May 2010 at subscription prices between £3.98 and £4.21 per share.

SAYE share option scheme

	<u>1st January 2000 *</u>	<u>Granted</u>	<u>Exercised</u>	<u>31st December 2000</u>
D.M. Frost	-	633	-	633
C. V. Geoghegan	6,917	-	-	6,917

Normally the options are exercisable between the 1st June 2001 and the 30th November 2003 at subscription prices between £1.75 and £2.70 per share.

Performance share plan

	<u>1st January 2000 *</u>	<u>Granted</u>	<u>Exercised</u>	<u>31st December 2000</u>
C. V. Geoghegan	113,258	-	-	113,258

Normally the options are exercisable, conditional on the performance of BAE SYSTEMS plc, between the 2nd May 1999 and the 1st March 2005.

* Or date of appointment if later.

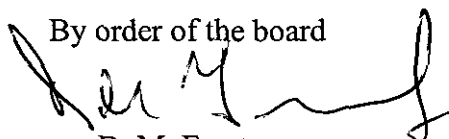
Name change

On the 23rd February 2000 the company passed a resolution at a specially convened extraordinary general meeting to change its name from Marconi Electronics Overseas Limited to BAE SYSTEMS Electronics Overseas Limited.

Auditors

A resolution proposing the re-appointment of KPMG Audit Plc as auditors will be put to the annual general meeting.

By order of the board



D. M. Frost
Director

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

BAE SYSTEMS ELECTRONICS OVERSEAS LIMITED

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STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which 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 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 accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- 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 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.

BAE SYSTEMS ELECTRONICS OVERSEAS LIMITED

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AUDITORS' REPORT

to the members of BAE SYSTEMS Electronics Overseas Limited

We have audited the financial statements on pages 6 to 10.

Respective responsibilities of directors and auditors

The directors are responsible for 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. 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 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 the company's affairs at 31 December 2000 and of its profit 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
8, Salisbury Square
London EC4Y 8BB

Dated *23 July 2001*

BAE SYSTEMS ELECTRONICS OVERSEAS LIMITED

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PROFIT AND LOSS ACCOUNT

		Year to 31 December 2000 £000	Nine months to 31 December 1999 £000
	Note		
Turnover		4,680	(1,470)
Other external and operating charges		(4,587)	1,440
Auditors' remuneration		(1)	(1)
Operating profit/(loss) and profit/(loss) on ordinary activities before taxation		<hr/> 92	(31)
Taxation on profit/(loss) on ordinary activities	1	-	9
Retained profit/(loss) for the year/period		<hr/> 92	(22)
Movement on profit and loss account reserve			
At the beginning of the year / period		(23)	(1)
Retained profit / (loss) for the year / period		92	(22)
At end of the year / period		<hr/> 69	(23)

A sale of £1,651,296 and the related purchase, made in the year to 31 March 1999, were cancelled in the period to 31 December 1999.

There were no recognised gains or losses other than those reported above. The above results relate entirely to the continuing activities of the company. There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above, and their historical cost equivalents.

BAE SYSTEMS ELECTRONICS OVERSEAS LIMITED

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BALANCE SHEET

		31 December	31 December
		2000	1999
	Note	£000	£000
Current assets			
Debtors	2	1,502	3,390
Current liabilities			
Creditors: amounts falling due within one year	3	(1,433)	(3,413)
Net current assets / liabilities		<hr/> 69	<hr/> (23)
Capital and reserves			
Called up share capital	4	-	-
Profit and loss account		69	(23)
Equity shareholders' funds	7	<hr/> 69	<hr/> (23)

Approved by the board of directors on 29 June 2001



D. M. Frost
Director

BAE SYSTEMS ELECTRONICS OVERSEAS LIMITED

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NOTES TO THE FINANCIAL STATEMENTS

1. TAXATION ON PROFIT/LOSS ON ORDINARY ACTIVITIES

	Year to 31 December	Nine months to 31 December
	2000	1999
	£000	£000
United Kingdom taxation		
Corporation Tax - 31 December 1999 - recovery at 30%	-	9

The company has not provided for Corporation Tax during the year as the profit will be covered by the surrender of losses from other group companies. Provision for deferred tax is not required.

2. DEBTORS

	31 December	31 December
	2000	1999
	£000	£000
Amounts falling due within one year:		
Trade debtors	1,502	1,799
Amount owed by fellow subsidiary company	-	1,591
	<hr/> 1,502	<hr/> 3,390

3. CREDITORS

	31 December	31 December
	2000	1999
	£000	£000
Amounts falling due within one year		
Bank overdraft	26	26
Payments received in advance	14	3,384
Trade creditors	1	1
Amounts owed to holding and fellow subsidiary companies	1,392	-
Corporation Tax	-	2
	<hr/> 1,433	<hr/> 3,413

BAE SYSTEMS ELECTRONICS OVERSEAS LIMITED

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NOTES TO THE FINANCIAL STATEMENTS (continued)

4. CALLED UP SHARE CAPITAL

	Authorised	Issued
	£	£
Share capital		
At 1 January 2000 and 31 December 2000		
Equity: ordinary shares of £1 each fully paid	100	100

5. DIRECTORS AND EMPLOYEES

The directors are full time executives of other group companies. They do not receive any remuneration for their services as directors of the company and it is not practicable to allocate their emoluments for other services. The company has no other employees.

6. ULTIMATE PARENT UNDERTAKING

The company's ultimate parent company is BAE SYSTEMS Public Limited Company. ("BAE SYSTEMS"), which is registered in England and Wales. The BAE SYSTEMS group is the only group of which the company is a member for which group accounts are prepared. Copies of the accounts of BAE SYSTEMS are available from The Secretary, Warwick House, PO Box 87, Farnborough Aerospace Centre, Farnborough, Hampshire, GU14 6YU

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

7. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	Year to	Nine months to
	31 December	31 December
	2000	1999
	£000	£000
Profit / (loss) for the year / period	92	(22)
Net increase / (reduction) in equity shareholders' funds	92	(22)
Opening equity shareholders' funds	(23)	(1)
Closing equity shareholders' funds	69	(23)

BAE SYSTEMS ELECTRONICS OVERSEAS LIMITED

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NOTES TO THE FINANCIAL STATEMENTS (continued)

8. ACCOUNTING POLICIES

The financial statements 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 Public Limited Company. ("BAE SYSTEMS"), whose accounts are publicly available, consequently the company is exempt under the terms of Financial Reporting Standard 1 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. Turnover, excluding VAT, comprises sales to customers outside the BAE SYSTEMS group and arms-length inter-BAE SYSTEMS group sales. The company records transactions as sales when the delivery of products or performance of services takes place in accordance with the terms of sale.
- b. Stocks and contracts in progress. Stocks 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 or expected to be incurred on uncompleted contracts as soon as they are foreseen. 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 as prepayments on account of contracts until there is a right of set-off against the value of work undertaken. Progress payments received are deducted from the value of work carried out, any excess being included within prepayments on account of contracts.
- 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. Provision for deferred taxation is made using the liability method to the extent that the net deferred tax asset or liability is likely to crystallise in the foreseeable future.
- d. Currency translation. Non-sterling net assets are translated at year end rates of exchange unless they are covered by forward contracts where the contracted rate is used. All other exchange gains and losses are included in profit on ordinary activities.