

BAE SYSTEMS ELECTRONICS OVERSEAS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001



BAE SYSTEMS ELECTRONICS OVERSEAS LIMITED

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BAE SYSTEMS ELECTRONICS OVERSEAS LIMITED

Directors' Report

The directors present their report and the audited financial statements of the company for the year ended 31 December 2001.

Results

The profit for the year before taxation amounted to £20,000 (£92,000 for the year to 31 December 2000). 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 worldwide.

Directors and director's interests

The present members of the board are Messrs N. E. Franks and D. M. Frost. On 4 April 2002 Mr C. V. Geoghegan resigned and Mr N. E. Franks was appointed.

Mr D. S. Parkes served as secretary throughout the year.

The beneficial interests of the directors, including those of their families, 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 company 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>1 January 2001</u>	<u>31 December 2001</u>	<u>1 January 2001</u>	<u>31 December 2001</u>
D.M. Frost	19,917	19,917	6,196	6,196
C.V. Geoghegan	113,289	117,947	-	-

Share option schemes

	<u>1 January</u> <u>2001</u>	<u>Lapsed</u>	<u>Granted</u>	<u>Exercised</u>	<u>31 December</u> <u>2001</u>	<u>Weighted average</u> <u>exercise price</u>
D.M. Frost	24,386	-	36,165	-	60,551	£3.64
C. V. Geoghegan	238,266	27,813	121,366	22,023	309,796	£2.77

Normally the options are exercisable, conditional on the performance of BAE SYSTEMS plc, between 26 February 2000 and 22 May 2011. Full details are contained in the register of directors' interests.

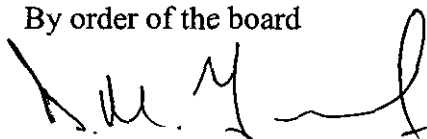
Donations

No political or charitable donations were made in the year.

Auditors

Pursuant to a shareholders' resolution, the company is not obliged to reappoint its auditors annually and KPMG Audit plc will therefore continue in office.

By order of the board



D. M. Frost
Director

14 June 2002
Registered Office:
Warwick House
PO Box 87
Farnborough Aerospace Centre
Farnborough
Hampshire GU14 6YU

BAE SYSTEMS ELECTRONICS OVERSEAS LIMITED

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

REPORT OF THE INDEPENDENT AUDITORS

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 preparing 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 1985. 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 audit 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 2001 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

26 June 2002

BAE SYSTEMS ELECTRONICS OVERSEAS LIMITED

PROFIT AND LOSS ACCOUNT

	Note	Year to 31 December 2001 £000	Year to 31 December 2000 £000
Turnover		1,038	4,680
Other external and operating charges		(1,017)	(4,587)
Auditors' remuneration		(1)	(1)
Operating profit and profit on ordinary activities before taxation		<hr/> 20	<hr/> 92
Taxation on profit on ordinary activities	1	-	-
Retained profit for the year		<hr/> 20	<hr/> 92
Movement on profit and loss account reserve			
At the beginning of the year		69	(23)
Retained profit for the year		20	92
At end of the year		<hr/> 89	<hr/> 69

In the opinion of the directors all turnover is derived from one class of business in Qatar.

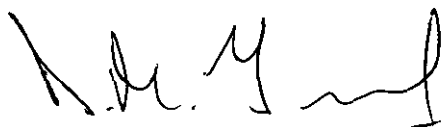
There were no recognised gains or losses other than those reported above. The above results relate entirely to the continuing activities of the company. There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above, and their historical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

BAE SYSTEMS ELECTRONICS OVERSEAS LIMITED

BALANCE SHEET

		31 December 2001	31 December 2000
	Note	£000	£000
Current assets			
Debtors	2	380	1,502
Current liabilities			
Creditors: amounts falling due within one year	3	(291)	(1,433)
Net current assets		<hr/> 89	<hr/> 69
Capital and reserves			
Called up share capital	4	-	-
Profit and loss account		89	69
Equity shareholders' funds	7	<hr/> 89	<hr/> 69

Approved by the board of directors on 14 June 2002 and signed on its behalf by:



D. M. Frost
Director

BAE SYSTEMS ELECTRONICS OVERSEAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

The company has not provided for United Kingdom Corporation Tax for the year as any profits will be covered by the surrender of losses from other group companies, in respect of which no payment will be made. The company has no provided or unprovided amounts of deferred tax.

2. DEBTORS

	31 December	31 December
	2001	2000
	£000	£000
Amounts falling due within one year:		
Trade debtors	380	1,502

3. CREDITORS

	31 December	31 December
	2001	2000
	£000	£000
Amounts falling due within one year		
Bank overdraft	26	26
Payments received in advance	215	14
Trade creditors	1	1
Amounts owed to holding and fellow subsidiary companies	49	1,392
	<hr/>	<hr/>
	291	1,433
	<hr/>	<hr/>

BAE SYSTEMS ELECTRONICS OVERSEAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. CALLED UP SHARE CAPITAL

	Authorised	Issued
	£	£
Share capital		
1 January 2001 and 31 December 2001		
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 consolidated accounts are prepared. Copies of the accounts of BAE SYSTEMS are available from The Secretary, 6 Carlton Gardens, London, SW1Y 5AD.

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	Year to
	31 December	31 December
	2001	2000
	£000	£000
Profit for the year	20	92
Net increase in equity shareholders' funds	20	92
Opening equity shareholders' funds	69	(23)
Closing equity shareholders' funds	89	69

BAE SYSTEMS ELECTRONICS OVERSEAS LIMITED

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 payments received in advance 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 payments received in advance.
- c. **Financial Reporting Standard 19 – Deferred tax (FRS 19)** has been adopted for the first time in these accounts.

In previous years the company complied with Statement of Standard Accounting Practice 15 – Accounting for deferred tax (SSAP 15), which has been superseded by the introduction of FRS 19. SSAP 15 required provision for deferred tax to be made using the liability method to the extent that net deferred tax assets or liabilities were likely to crystallise in the foreseeable future. FRS 19, by contrast, requires a form of full provisioning.

- d. **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. Full provision for deferred tax is made, on an undiscounted basis, using the liability method for timing differences between the inclusion of items in accounting and taxable profit, where there is an obligation to pay more tax, or a right to pay less tax, in the future.
- e. **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.