

BAE SYSTEMS Avionics Overseas Limited

Directors' Report and Financial Statements

For the year ended 31 December 2000



BAE SYSTEMS Avionics Overseas Limited

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Report of the Directors

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

Principal Activity

The principal activity of the company is the supply of avionics equipment overseas.

Business Review

During the year the company was wholly concerned with contracts for avionics equipment the manufacture and support of which was subcontracted.

During the period the company made a profit of £57,000 (period ended 31st December 2000 - £nil). The directors do not recommend the payment of a dividend (period ended 31st December 2000 - £nil).

Directors and Directors' Interests

The directors who served during the year and at the date of this report were:

D M Frost	
C V Geoghegan	Appointed 11 August 2000
A E Cook	Resigned 11 August 2000

The beneficial, including family, interests of the 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. 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.

	<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	34,692	113,289	-	-

	<u>Executive Share Options Scheme</u>			
	<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	349,050	-	(230,960)	118,090

Normally the options are exercisable between 20/12/02 and 02/05/10 at subscription prices between £3.98 and £4.21 per share.

Report of the Directors (Continued)

Directors and Directors' Interests (Continued)

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

Normally the options are exercisable between 01/06/01 and 30/11/03 at subscription prices between £1.75 and £2.70 per share.

* - or date of appointment if later

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

Normally the options are exercisable, conditional on the performance of BAE SYSTEMS plc, between 02/05/99 and 01/03/05.

* - or date of appointment if later

Name Change

On 23rd February 2000 the company changed its name from Marconi Avionics Overseas Limited to BAE SYSTEMS Avionics Overseas Limited.

Auditors

A resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming 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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are required by the Companies Act 1985 to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss for the financial 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 financial statements;
- 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 ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the 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.

AUDITORS' REPORT

to the members of BAE SYSTEMS Avionics Overseas Limited (formerly MARCONI AVIONICS OVERSEAS LIMITED)

We have audited the financial statements on pages 5 to 8.

Respective responsibilities of Directors and Auditors

The directors are responsible for preparing the directors' report and, as described on page 3, 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 the result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

WMC Andrew PLC

(1 May 2001)

KPMG Audit Plc
Chartered Accountants and Registered Auditor
1 Forest Gate
Brighton Road
Crawley
West Sussex RH11 9PT

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2000

		Year to 31 December 2000 £'000	9 months to 31 December 1999 £'000
	Note		
Turnover	1	<u>7,347</u>	<u>5,613</u>
Operating profit and profit on ordinary activities before and after taxation	1	<u>57</u>	<u>-</u>
Retained profit for the financial year		<u>57</u>	<u>-</u>

**MOVEMENT ON PROFIT AND LOSS
ACCOUNT RESERVE**

At start of year	-	-
Retained profit for the financial year	57	-
At end of year	<u>57</u>	<u>-</u>

There were no recognised gains or losses or other movements in shareholders' funds other than those reported above. The above results relate entirely to the continuing operations 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.

BALANCE SHEET

At 31 December 2000

	Note	31 December 2000 £'000	31 December 1999 £'000
Current assets			
Debtors	2	1,627	1,423
Creditors: amounts falling due within one year	3	(1,570)	(623)
Net current assets		<u>57</u>	<u>800</u>
Creditors: amounts falling due after more than one year	3	-	(800)
		<u>57</u>	<u>-</u>
Capital and reserves			
Called up share capital		-	-
Profit and loss account		57	-
Equity shareholders' funds		<u>57</u>	<u>-</u>

Approved by the Board of Directors on 29 June 2001


D M Frost
Director

NOTES (forming part of the financial statements)

1. OPERATING PROFIT AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	Year to 31 December 2000 £'000	9 months to 31 December 1999 £'000
Turnover	7,347	5,613
Cost of sales	(7,290)	(5,613)
Operating profit and profit on ordinary activities before taxation.	57	-

All turnover is to Asia.

The auditor's remuneration is borne by another group company.

2. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

Current Year Corporation Tax

The company has not provided for 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.

Current Year Deferred Tax

Provision for deferred tax is not required.

3. DEBTORS

	December 2000 £'000	December 1999 £'000
Amounts falling due within one year:		
Trade debtors	1,570	577
Amounts owed by group undertakings	57	846
	1,627	1,423

4. CREDITORS

	December 2000 £'000	December 1999 £'000
Amounts falling due within one year:		
Payments received in advance	-	469
Amounts owing to group undertakings	-	154
Trade Creditors	1,570	-
	1,570	623
Amounts falling due after more than one year:		
Payments received in advance	-	800

5. CALLED UP SHARE CAPITAL

	Authorised £	Issued £
At 1 January 2000 and 31 December 2000		
Shares of £1 each fully paid	2	2

NOTES (Continued)

6. DIRECTORS AND EMPLOYEES

The company does not employ any staff and therefore there are no payroll or pension costs. 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. Information relating to the directors' interests in the shares and debentures of group companies can be found in the directors' report.

7. CONTINGENT LIABILITIES**Guarantees**

Under a group registration the company is jointly and severally liable for any Value Added Tax owing by other BAE SYSTEMS Electronics Group Companies at 31 December 2000.

8. ULTIMATE PARENT UNDERTAKING

The company's ultimate parent company and controlling entity is BAE SYSTEMS plc (formerly British Aerospace plc), 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 financial statements are prepared. Copies of the financial statements of BAE SYSTEMS plc are available from The Secretary, Warwick House, Farnborough, Hampshire GU14 6YU.

9. 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 plc; consequently the company is exempt under the terms of Financial Reporting Standard 1 (Revised 1996) from the requirement to publish its own cash flow statement.

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.

The more important accounting policies, which have been consistently applied, are summarised below to facilitate the interpretation of the financial statements.

(a) Turnover

The company records transactions as turnover when title passes to customers or when there is a contractual right to invoice. Turnover is exclusive of VAT.

(b) 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 of deferred tax 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.