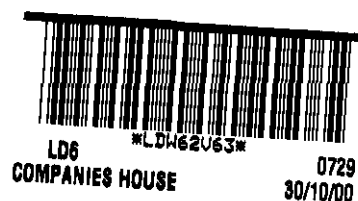


BAE SYSTEMS ELECTRONICS OVERSEAS LIMITED
(formerly Marconi Electronics Overseas Limited)

REPORT AND FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED 31 DECEMBER 1999



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 accounts of the Company for the nine months ended 31st December 1999.

Results

The loss for the period after taxation amounted to £22,000. 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 Company

Sales in the nine months related to the microwave video distribution contracts in Hong Kong and 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. Messrs A. E. Cook and D. M. Frost were both appointed to the Board of Directors on the 10th August 1999. Mr C. V. Geoghegan was appointed to the Board on the 10th October 2000. Messrs P. J. Lynas and E. A. Peachey both resigned from the Board on the 23rd August 1999 and Mr A. E. Cook resigned on the 11th August 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 period 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 period, nor in the period from period end to the date of this report. The Board is not aware of any contract of significance in relation to the Company 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>	
	1/4/99	31/12/99	1/4/99	31/12/99
D.M. Frost	-	18918	-	5974

Share Options

	1/4/99	Exercised	Granted	31/12/99
D.M. Frost	-	-	23753	23753
A.E. Cook	-	-	109264	109264

Normally the options are exercisable within the period from the 20th December 2002 to the 19th December 2009 at a subscription price of £4.21 per share.

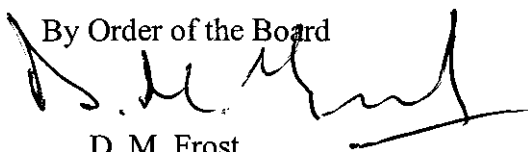
Name change

On 23 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

(formerly Marconi Electronics Overseas Limited)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare accounts 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 accounts, 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 accounts 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 accounts 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

(formerly Marconi Electronics Overseas Limited)

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 1999 and of its loss for the period 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 30th October 2000

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

PROFIT AND LOSS ACCOUNT
for the nine months ended 31 December 1999

		31 December 1999 £000	31 March 1999 £000
	Note		
Turnover		(1,470)	1,907
Operating (loss)/profit and (loss)/profit on ordinary activities Before taxation	1	(31)	37
	2	9	(11)
Taxation on loss/profit on ordinary activities			
Retained (loss)/profit for the period		(22)	26
MOVEMENT ON PROFIT AND LOSS ACCOUNT RESERVE			
At 1 April		(1)	(27)
Retained (loss)/profit for the period		(22)	26
At 31 December		(23)	(1)

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 loss on ordinary activities before taxation and the retained loss for the period stated above, and their historical cost equivalents.

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

BALANCE SHEET

at 31 December 1999

		31 December 1999 £000	31 March 1999 £000
	Note		
Current assets			
Debtors	3	3,390	1,940
Current liabilities			
Creditors: amounts falling due within one year	4	(3,413)	(1,941)
Net current liabilities		(23)	(1)
Capital and Reserves			
Called up share capital	5	-	-
Profit and loss account		(23)	(1)
Equity shareholders' funds	8	(23)	(1)

Approved by the Board of Directors on 27th October 2000


 Director

BAE SYSTEMS ELECTRONICS OVERSEAS LIMITED

(formerly Marconi Electronics Overseas Limited)

NOTES TO THE ACCOUNTS

for the nine months ended 31 December 1999

1. OPERATING (LOSS)/PROFIT AND (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	31 December 1999 £000	31 March 1999 £000
Sales	(1,470)	1,907
Other external and operating charges	1,440	(1,869)
Auditors remuneration	(1)	(1)
Operating (loss)/profit and (loss)/profit on ordinary activities before taxation	(31)	37

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

2. TAXATION ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

	31 December 1999 £000	31 March 1999 £000
United Kingdom taxation		
Corporation Tax recovery at 30% (31 March 1999 - charge at 31%)	(9)	11

3. DEBTORS

	31 December 1999 £000	31 March 1999 £000
Amounts falling due within one year:		
Trade debtors	1,799	1,940
Amount owed by fellow subsidiary company	1,591	-
	3,390	1,940

BAE SYSTEMS ELECTRONICS OVERSEAS LIMITED

(formerly Marconi Electronics Overseas Limited)

NOTES TO THE ACCOUNTS (continued)

for the nine months ended 31 December 1999

4. CREDITORS

	31 December 1999 £000	31 March 1999 £000
Amounts falling due within one year		
Bank overdraft	26	2
Payments received in advance	3,384	1,766
Trade creditors	1	1
Amounts owed to holding and fellow subsidiary companies	-	161
Corporation Tax	2	11
	<hr/> 3,413	<hr/> 1,941

5. CALLED UP SHARE CAPITAL

	Authorised £	Issued £
Share Capital		
At 1 April 1999 and 31 December 1999		
Shares of £1 each fully paid	100	100

6. 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.

7. ULTIMATE PARENT UNDERTAKING

The Company's ultimate parent company is BAE SYSTEMS Public Limited Company. ("BAe"), which is registered in England and Wales. The BAe group is the only group of which the Company is a member for which group accounts are prepared. Copies of the accounts of BAe 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 Group have not been disclosed in these financial statements.

BAE SYSTEMS ELECTRONICS OVERSEAS LIMITED

(formerly Marconi Electronics Overseas Limited)

NOTES TO THE ACCOUNTS (continued)

for the nine months ended 31 December 1999

8. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	31 December 1999 £000	31 March 1999 £000
(Loss)/Profit for the nine months	(22)	26
Net (reduction)/increase in equity shareholders' funds	(22)	26
Opening equity shareholders' funds	(1)	(27)
Closing equity shareholders' funds	(23)	(1)

9. ACCOUNTING POLICIES

The accounts 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"), 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 and are in addition to the policies explained in the notes to the accounts.

- Turnover. Turnover, excluding VAT, comprises sales to customers outside the BAe Group and arms-length inter-BAe 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.
- 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. 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.
- Taxation. Taxation on profit on ordinary activities is that which has been paid or becomes payable in respect of the profits of the year. Deferred taxation is provided on all timing differences which are expected to reverse in the future at the rate of tax which is anticipated will apply in the year of assessment.