

RACAL TELECOM PLC

ANNUAL REPORT
AND ACCOUNTS

1990



 **VODA**
RACAL TELECOM

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RESULTS AT A GLANCE

FOR THE YEAR ENDED 31 MARCH

	1990 £000	1989 £000
Turnover	405,778	240,134
Return on turnover—before interest	40.0%	37.3%
Profit before taxation	164,778	84,530
Taxation	46,299	22,454
Profit after taxation	118,479	62,076
Net tangible assets employed	268,772	179,965
Return on net tangible assets employed	61.3%	47.0%
Earnings per share	11.85p	6.21p
Dividends per share (net of tax)	2.4475p	0.7000p

SHARE PRICE INFORMATION

Current share price can be obtained by dialling the F.T. CityLine service for Racal Telecom on 0836 435555. Calls are charged at 25p cheap rate and 38p at all other times.

RACAL TELECOM PLC

To keep pace with the demand for the Vodafone service, new mobile telephone exchanges have been brought into service in Dartford, Watford, Leicester and Newcastle.



The Vodapage radiopaging network, which now has more than 50,000 subscribers is co-located with the Vodafone network.



Sir Ernest Harrison OBE
Chairman



G A Whent CBE
Chief Executive

BOARD OF DIRECTORS

Chairman	Sir Ernest Harrison OBE, Hon DSc, Hon D Univ (Surrey), Hon D Univ (Edinburgh), FCA, Comp IEE
Chief Executive	G A Whent CBE
Directors	Sir William Barlow F Eng, FI Mech E, FIEE Sir Robert Clark DSC C C Gent K J Hydon FCMA, FCCA E J Peett MSEE, F Inst D
Secretary	D Whittaker LLB, FCIS, FCCA, Solicitor
Registered Office	Western Road, Bracknell, Berkshire RG12 1RG
Auditors	Touche Ross & Co. Hill House, 1 Little New Street, London EC4A 3TR
Registrars and Transfer Office	Barclays Registrars Limited Bourne House, 34 Beckenham Road Beckenham, Kent BR3 4TU

NOTICE OF MEETING

Notice is hereby given that the sixth Annual General Meeting of the Company will be held at The Institution of Electrical Engineers, Savoy Place, London WC2 on Wednesday 1 August 1990 at 11.45 a.m. to transact the following business:

1. To receive the report of the directors and financial statements for the year ended 31 March 1990 and to approve a final dividend of 34% (1.7p per share) net of tax on the ordinary shares.
2. To re-elect Mr C C Gent as a director.
3. To re-elect Mr E J Peett as a director.
4. To re-appoint Touche Ross & Co. as auditors to the Company until the next Annual General Meeting and to authorise the directors to fix their remuneration.
5. As special business to consider and, if thought fit, pass the following resolution, which will be proposed as a special resolution:

THAT the directors be and they are hereby empowered pursuant to section 95 of the Companies Act 1985 to allot equity securities (within the meaning of section 94 of the Companies Act 1985) for cash pursuant to the authority conferred by the ordinary resolution passed on 1 August 1989 as if sub-section (1) of section 89 of the Companies Act 1985 did not apply to any such allotment provided that this power shall be limited:

- (a) to the allotment of equity securities in connection with an offer by way of rights to ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them, subject to such exclusions or other arrangements as the directors may deem fit to deal with fractional entitlements or problems arising under the laws of any overseas territory or the requirements of any regulatory authority or any stock exchange; and
- (b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £2,500,000, being 5% of the present issued share capital of the Company

and shall expire on the date of the next Annual General Meeting of the Company after the passing of this resolution save that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offers or agreements as if the power conferred hereby had not expired.

6. As special business to consider and, if thought fit, pass the following resolution, which will be proposed as a special resolution:

THAT Article 141 of the Company's Articles of Association shall be amended by the addition at the end thereof of the following words:

"Provided that if and to the extent that the Act so permits the Company need not send copies of the documents referred to above to members but may send to such members summary financial statements or other documents authorised by the Act."

By Order of the Board
David Whittaker
Secretary
Western Road
Bracknell
Berkshire
2 July 1990

Notes

1. A member entitled to attend and vote is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not also be a member of the Company. A proxy card is enclosed.
2. Lodgement of a proxy will not preclude a shareholder from attending and voting at the Meeting.
3. Copies of the service contracts of the directors with the Company of more than one year's duration will be available for inspection at the registered office of the Company during normal business hours on any weekday (excluding Saturday) from the date of the Notice until the date of the Annual General Meeting and at The Institution of Electrical Engineers, Savoy Place, London WC2 from 11.15 a.m. on that day until the conclusion of the Meeting. No director has a service contract with any subsidiary.
4. Copies of the Company's existing Articles of Association will be available for inspection at the registered office of the Company and at the offices of Stephenson Harwood, One, St. Paul's Churchyard, London EC4M 8SH during normal business hours on any weekday (excluding Saturday) from the date of the Notice until the date of the Annual General Meeting and at The Institution of Electrical Engineers, Savoy Place, London WC2 from 11.15 a.m. on that day until the conclusion of the Meeting.

STATEMENT BY THE CHAIRMAN

Sir Ernest Harrison OBE

It is with pleasure that I am able to report that the Company has achieved substantial increases in both sales and profit. Sales during the year were £406 million (1988/89 – £240 million), an increase of 69%. The net profit before taxation amounted to £164.8 million (1988/89 – £84.5 million), an increase of 95%.

Taxation for the year amounted to £46.3 million (1988/89 – £22.5 million).

The directors recommend payment of a final dividend of 34% net of tax (1.7p per share) making a total of 49% net of tax (2.4475p per share). Warrants for the final dividend will be posted on 14 August 1990 to shareholders on the register of members on 19 July 1990.

THE COMPANY

Racal Telecom is a leading provider of mobile telecommunications including Cellular Radio, Wide Area Paging, Trunked Private Mobile Radio, Packet Radio and Value Added Network Services.

Our mobile telecommunications business began with the Vodafone national cellular radio telephone service in the United Kingdom which has grown to become the largest contiguous mobile telephone service in the world. The business has subsequently expanded into other mobile communications activities in the UK, in Europe and more recently in Mexico.

The continuing growth in demand for mobile communications coupled with the increasing liberalisation of telecommunications will provide new and unique opportunities throughout the world.

VODAFONE

On 7 March Vodafone celebrated the connection of its 500,000th subscriber, maintaining its position as the world's largest cellular network. During the year over 200,000 net new subscribers joined the service. The weekly net connection rate grew from 3,000 per week at the beginning of the year to an average of more than 4,000 per week by the year end.

The release by the Government of the final tranche of ETACS frequencies and substantial additional investment in new infrastructure has resulted in the voice channel capacity of the network being nearly doubled. Quality of service has improved in line with increased network capacity which at the end of the year was 7% ahead of subscriber demand.

The programme for improving network resilience by building a back-up network has been completed on schedule and the number of switches handling mobile traffic doubled during the year. The capital

investment required to meet subscriber growth increased from a budgeted £120 million to over £150 million bringing cumulative investment in Vodafone to approximately £390 million. Based on the growth experienced so far this year, net new subscribers are joining at an annualised rate of over 200,000 and this will require investment in the network to be similar to 1989/90.

VODAC

Racal-Vodac grew from 50,000 to more than 75,000 subscribers during the year and sales to major business houses, where Vodac continues to lead the market, featured strongly.

Airtime sales, assisted by the high proportion of the Vodata messenger service sold by Vodac, increased substantially and in the longer term Vodac's high quality customer base will provide an ongoing revenue stream and a sound business future.

VODATA

Racal-Vodata has had another excellent year with significant growth in both turnover and profitability. It continues to integrate its value added services to enhance the utility of the Vodafone and Vodapage networks and to support their Service Providers and can therefore be expected to match the growth of these businesses in the future.

Vodata's voice messaging service continues to be the largest in the world. Its data services still dominate the cellular market place in the UK, and it is pleasing to see signs of our data solutions being adopted in overseas markets.

Vodata's other businesses which include Meterfone, Creditfone and Information Services all performed satisfactorily and have played their part in this subsidiary's major contribution to the Company's profits.

STATEMENT BY THE CHAIRMAN

ORBITEL

Following the takeover of Plessey by GEC/Siemens, the joint venture nature of the company was brought to an end, and Orbitel Mobile Communications is now wholly owned by the Company.

Orbitel has made significant progress in its development programme for infrastructure and subscriber equipment to the GSM standard for the pan-European digital cellular radio service. In April 1990, Orbitel became the world's first manufacturer to demonstrate, in public, a fully representative model of a GSM mobile terminal communicating with a prototype GSM base station. These products will be in full production when the pan-European service commences in 1991.

During the year, Orbitel made its first major international sale of GSM equipment with an order for base stations from Telecom Finland. Further orders are currently under negotiation and another round of equipment tendering is expected next year from Europe's leading pan-European cellular radio operators. Orbitel's marketing effort is directed at positioning the Company to win up to 20% of this market.

Orbitel manufactures a range of CT2 digital cordless telephone products and an order for a quantity of these for trial purposes has been received from Televerket, the Swedish PTT.

PAKNET

The joint venture between Racal Telecom and Cable and Wireless/Mercury Communications to provide a radio based packet switching network in the UK was launched into commercial service in February 1990. The service has particular applications in markets which require very fast transmission of short data messages and trials are now being undertaken by most of the UK clearing banks, as well as certain security and telemetry organisations.

VODAPAGE

Vodapage completed its second full trading year during which its subscribers more than doubled from just over 20,000 to more than 45,000.

In the final quarter Vodapage commenced trading profitably and in the current year it will contribute to the Company's profits.

Vodapage has installed, and now manages on behalf of Euromessage Limited (a consortium of six paging operators), the UK sector of a paging network compatible with those operated by France Telecom, the Deutsches Bundespost and SIP (Italy). This service which commenced commercial operation in March will enable subscribers to be contacted anywhere within the service areas of the four networks.

Vodapage is also a signatory of the Memorandum of Understanding for the promotion of the European Radio Message Service (ERMES) throughout Europe during the 1990's.

INTERNATIONAL

Racal Telecom has continued to seek opportunities for equity participation in overseas network operations by joining in partnership with the local PTT or the second national cellular network licensee.

Société Française du Radiotéléphone (SFR), a subsidiary of COFIRA in which Racal Telecom has a 4% equity holding, commenced operations in April 1989. By the end of the year more than 20,000 subscribers had been connected to the SFR network and this substantial growth continues.

Telecell, a joint venture between Telemalta and Racal Telecom, has been building a cellular mobile telecommunication system to provide service in Malta, Gozo and the surrounding areas. The service will commence on schedule in July 1990.

Comunicaciones Celulares de Occidente SA de CV, a joint venture between Racal Telecom, Hermes Telecomunicaciones SA de CV, BellSouth Mexico and Fabricas del Calzado Canada has been awarded a licence for a cellular mobile telecommunications network in the Guadalajara province of Mexico. The service is planned to commence in 1991.

Vodafone SA has set up sales, installation and after sales support facilities in Paris, Lyons, Lille, Marseille, Nice, Bordeaux, Toulouse, Nantes, Metz and Rouen, and is now trading.

In Italy, Racal Telecom has joined a consortium led by Fiat and Fininvest which will apply to the Italian Government for a licence to operate a mobile telephone network.

BAND THREE RADIO

During the year Band Three Radio, in which the Company has a 25% equity interest, completed the deployment of its regional network.

Band Three Radio had a difficult trading year in which it saw little subscriber growth. It faced intense competition from cellular radio where low entry prices offered by cellular Service Providers caused a major incursion into its niche market.

With the completion of its national network, growth in subscribers has now resumed and Band Three Radio is expected to have a much improved year.

ALLOTMENT OF SHARES FOR CASH

At the Annual General Meeting of the Company held on 1 August 1989, a resolution was passed enabling the directors to allot equity securities up to an aggregate amount of £2,500,000 for cash (being 5% of the present issued share capital of the Company) and also, on a rights issue, to sell the entitlements of overseas shareholders for their benefit. The main purpose of this resolution, which is required to dis-apply the statutory provision of the Companies Acts, is to enable the directors to take advantage of favourable opportunities to raise funds in international markets, or in connection with a rights issue, to avoid exceptional costs in issuing shares to shareholders who are citizens of, or resident in, an overseas territory. This resolution had effect until the conclusion of the Annual

STATEMENT BY THE CHAIRMAN

General Meeting of the Company to be held in 1990. The directors are therefore proposing in Resolution No 5 to renew this authority for the period to the 1991 Annual General Meeting.

ARTICLES OF ASSOCIATION

Summary Financial Statements

As a result of the Companies Act 1989 a listed company may send summary financial statements to those shareholders who would prefer to receive them instead of the full Annual Report and Accounts. The Act provides that a Company may only send summary statements to shareholders where it is not prohibited by its existing articles of association.

The amendment to the articles set out in Resolution No 6 would enable the Company to take advantage of this aspect of the Act, should the board consider it to be for the benefit of the Company.

The Act requires that even if it is decided to follow this course, a shareholder will still have the right to require the Company to send the full Annual Report and Accounts if requested.

Scrip Dividend Scheme

In response to a number of requests received from shareholders the board considered introducing a scrip dividend scheme which would have enabled shareholders to choose taking new fully paid ordinary shares of 5p each instead of cash in respect of the recommended final dividend for the year ended 31 March 1990.

After full consideration the board do not feel able to recommend this type of scheme to shareholders at this point in time. This is because the current make up of the Company's share register does not lend itself to this type of scheme. In particular:

1. scrip dividend schemes tend to be more popular with private shareholders than "other" shareholders. Racal Telecom's private shareholders only hold 1.35% of the Company's share capital and
2. the vast majority of the Company's shareholders hold less than 500 shares. Therefore, most shareholders would only be entitled to one or two additional shares under any scrip dividend scheme.

APPRECIATION

1989/90 was another outstanding year for Racal Telecom placing exceptional demands on the staff and in turn, on their families. I am sure that you would wish me to place on record our very great appreciation of their outstanding efforts and achievements.

THE FUTURE

Mobile communications continues to be an outstanding growth market and Racal Telecom is recognised to be a world market leader.

To its strategy of:

- investing in and developing its current businesses to optimise their potential.
- participating in the rapid expansion of mobile services as they spread throughout Europe.
- developing digital infrastructure and subscriber equipment as well as the new generation of digital cordless telephones.
- deploying a new high capacity pan-European digital system to the GSM standard to commence commercial operation by the end of 1991.
- establishing equipment distribution organisations in Europe.

Racal Telecom has added:

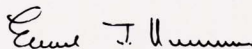
- the construction of a high density cellular radio system with the capacity to provide Personal Communications Network (PCN) services.
- the development and manufacture of micro-cells and ultra lightweight handportables to the GSM standard for use on Personal Communications Networks.

Expansion into Europe will continue and we will seek opportunities to participate in joint ventures for mobile communications network operations, distribution, service provision and value added services. We will also follow closely the economic and political development taking place in the world particularly in East Europe so that we are in a position to offer our expertise and benefit from any opportunities which may arise.

THE DUOPOLY REVIEW

The Department of Trade and Industry together with OFTEL have commenced a preliminary consultative process prior to the impending review of the British Telecom/Mercury duopoly which is not scheduled to begin formally until November 1990. Our views have been and are being sought and over the next few months we will be presenting our opinions and aspirations. It would be premature of us as a major public telecommunications network operator to make any statement at this time. We intend to keep the matter continually under review and shape our strategy accordingly.

Regardless of the outcome of the Review we believe that Racal Telecom is well positioned to make a significant contribution to telecommunications well into the next century.



REPORT OF THE DIRECTORS

The directors submit their annual report and audited financial statements for the year ended 31 March 1990.

Review of the Group's business

The Company and its subsidiaries are involved principally in mobile telecommunication services. A review of the development of the business of the Company and its subsidiaries is contained in the Chairman's statement on pages 5 to 7.

Future developments

The Group is currently involved in the future expansion and development of the cellular telecommunications and related businesses as detailed in the Chairman's statement on pages 5 to 7.

Share capital

There have been no changes in the share capital of the Company during the year.

Dividends and transfer to reserves

The consolidated profit and loss account is set out on page 13 and shows a profit on ordinary activities after taxation of £118,479,000.

The directors recommend a final dividend of 1.7p per ordinary share amounting to £17,000,000 payable on 15 August 1990 to ordinary shareholders on the Register of Members on 19 July 1990.

An interim dividend of 0.7475p per ordinary share was paid during the year giving a total for the year of 2.4475p per ordinary share.

The retained profit for the year of £94,047,000 has been transferred to reserves.

Fixed assets

The movement in tangible fixed assets is set out on pages 20 and 21 in Note 10.

Charitable and political contributions

During the year ended 31 March 1990, charitable contributions amounted to £48,378. No political contributions were made.

Research and development

The Group maintains substantial laboratory facilities and continues an active development programme as referred to in the Chairman's statement on pages 5 to 7.

Close company provisions

The close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company.

Auditors

In accordance with section 384 of the Companies Act 1985, a resolution proposing the re-appointment of Touche Ross & Co. as auditors to the Company will be put to the Annual General Meeting.

Employee involvement and consultation

The Group is organised on the basis of autonomous subsidiary companies with certain services centralised. Employee involvement and commitment, which is encouraged throughout the Group, is the responsibility of the managing director of each company and his board of directors.

Regular contact and exchanges of information between managers and staff are maintained through departmental managers, team briefing and informally via social functions.

Team briefing, which complements other forms of management communications, is a systematic method of staff communication providing a structured approach to ensure that all levels in the organisation are kept up-to-date and thereby increase employee involvement at work.

The directors of the Company are committed to the principle of employee share participation in the Company and have established various employee share option schemes.

Disabled persons

The Group's attitude concerning the employment of disabled persons is the same as that relating to all other staff in matters of recruitment, continuity of employment, training, development and promotion. Nevertheless, the Group is very conscious of the difficulties experienced by the disabled and takes account sympathetically of individual circumstances.

Directors

The directors who served throughout the year were Sir Ernest Harrison, G A Whent, Sir William Barlow, Sir Robert Clark, C C Gent, K J Hydon and E J Peett.

In accordance with the Company's Articles of Association, C C Gent and E J Peett retire by rotation and being eligible offer themselves for re-election. C C Gent and E J Peett have service contracts with the Company which are terminable by not less than twelve calendar months notice.

None of the directors had a material interest in any contract of significance to which Racal Telecom Plc or any of its subsidiaries were a party during the financial year.

The following directors served as non-executive directors:

Sir Ernest Harrison
Chairman and Chief Executive of Racal Electronics Plc since 1966.

Sir William Barlow
Chairman of BICC plc since 1984.

Sir Robert Clark
Director of TSB Group plc
and since 1988 Deputy Chairman.

REPORT OF THE DIRECTORS

Substantial holdings

The Company's holding company is Racal Electronics Plc which holds 79.92% of the Company's ordinary share capital.

BNY (Nominees) Limited holds 13.11% of the Company's ordinary share capital and this holding

underlies American Depositary Receipts (ADRs) issued by The Bank of New York.

The directors are not aware of any other holding in excess of 3%.

Directors' interests in the shares of Racal Telecom Plc

The directors have the following interests, all of which are beneficial, in the ordinary shares of Racal Telecom Plc:

	ordinary shares	31 March 1990 options				1 April 1989 ordinary shares
		shares A	shares B	shares C	shares D	
Sir Ernest Harrison	520,440	Nil	Nil	Nil	Nil	520,440
G A Whent	50,000	Nil	2,278	53,500	110,000	50,000
Sir William Barlow	5,000	Nil	Nil	Nil	Nil	5,000
Sir Robert Clark	5,000	Nil	Nil	Nil	Nil	5,000
C C Gent	20,000	4,210	1,139	40,500	45,000	20,000
K J Hydon	5,000	Nil	1,139	38,000	30,000	5,000
E J Peett	53,102	Nil	1,139	37,000	40,000	53,102

A. Option granted under the Savings Related Share Option Scheme exercisable at 171p per share between 1 March 1994 and 31 August 1994.

B. Options granted under the Savings Related Share Option Scheme exercisable at 316p per share between 1 March 1995 to 31 August 1995.

C. Options granted under the Executive Share Option Scheme exercisable at 170p per share between 11 October 1991 and 10 October 1998.

D. Options granted under the Executive Share Option Scheme exercisable at 409p per share between 12 July 1992 and 11 July 1999.

All of the above options existed at 1 April 1989 with the exception of the B and D options which were granted during the year.

No director had since 1 April 1989 any interest in the shares of any subsidiary company.

There have been no changes in the interests in Racal Telecom Plc of the directors during the period 1 April to 12 June 1990.

Directors' interests in the shares of Racal Electronics Plc

The directors have the following interests, all of which are beneficial, in the ordinary shares of Racal Electronics Plc:

	31 March 1990	1 April 1989*
Sir Ernest Harrison	2,985,712	3,085,712
G A Whent	43,424	Nil

* The comparative figure has been adjusted to reflect the capitalisation issue made by Racal Electronics Plc in August 1989.

None of the other directors had any interest, either beneficial or non-beneficial, in the ordinary shares of Racal Electronics Plc at 31 March 1990 or at 1 April 1989.

Under the terms of the Share Option Scheme, the following directors have been granted options to acquire ordinary shares:

	31 March 1990	1 April 1989*
Sir Ernest Harrison	190,966	190,966
G A Whent	Nil	165,520
K J Hydon	Nil	53,962

* The comparative figures have been adjusted to reflect the capitalisation issue made by Racal Electronics Plc in August 1989.

Options exercisable at 106p per share between 26 March 1987 and 25 March 1991.

REPORT OF THE DIRECTORS

Directors' interests in the shares of Racial Electronics Plc (continued)

Under the terms of the Share Savings Plan (1980), the following directors have been granted options to acquire ordinary shares:

	31 March 1990		
	shares A	shares B	shares C
Sir Ernest Harrison	3,424	4,624	4,090
G A Whent	Nil	4,624	Nil
K J Hydon	Nil	9,250	Nil
E J Peett	Nil	9,250	Nil

A. Option exercisable at 108p per share between 1 November 1989 and 30 April 1990.

B. Options exercisable at 80p per share between 1 April 1991 and 30 September 1991.

C. Option exercisable at 176p per share between 1 January 1995 and 30 June 1995.

Unless exercised all the options under the Share Savings Plan (1980) held at 31 March 1990 were held at 1 April 1989 except the C option which was granted during the year.

Under the terms of the Share Option Scheme 1984, the following directors have been granted options to acquire ordinary shares:

	31 March 1990				
	shares A	shares B	shares C	shares D	shares E
Sir Ernest Harrison	341,066	347,748	282,000	128,000	56,000
G A Whent	Nil	Nil	268,000	76,000	Nil
C C Gent	Nil	300,708	44,000	Nil	Nil
K J Hydon	Nil	Nil	28,000	Nil	Nil
E J Peett	Nil	Nil	71,000	Nil	Nil

A. Option exercisable at 113p per share between 24 August 1987 and 23 August 1994.

B. Options exercisable at 62p per share between 4 July 1988 and 3 July 1995.

C. Options exercisable at 108.5p per share between 24 February 1991 and 23 February 1998.

D. Options exercisable at 164p per share between 8 August 1991 and 7 August 1998.

E. Option exercisable at 229p per share between 19 January 1993 and 18 January 2000.

The above figures have been adjusted to reflect the capitalisation issue made by Racial Electronics Plc in August 1989.

Part of option B granted under this scheme to Sir Ernest Harrison is alternative to that granted under the Share Option Scheme shown earlier and the exercise of the option under either scheme will correspondingly reduce the number of shares under option under the other scheme.

Unless exercised or lapsed all the options under the Share Option Scheme 1984 held at 31 March 1990 were held at 1 April 1989 except the E option which was granted during the year.

During the year ended 31 March 1990, the following directors exercised options:

G A Whent exercised options totalling 210,422 shares under the Share Option Scheme and the Share Option Scheme 1984 and subsequently sold 190,422 of them prior to the capitalisation issue. He also exercised his option for 3,424 shares under the Share Saving Plan (1980). K J Hydon exercised options totalling 101,918 shares under the Share Option Scheme and Share

Option Scheme 1984 and subsequently sold them prior to the capitalisation issue.

In both cases the corresponding options, where applicable, have been cancelled.

In regard to Racial Electronics Plc there has been the following change in the interests of the directors during the period 1 April to 12 June 1990:

Sir Ernest Harrison exercised his option for 3,424 shares under the Share Savings Plan (1980).

By Order of the Board
David Whittaker
Secretary
25 June 1990

GROUP HISTORICAL SUMMARY

£000 (except where stated)	1990	1989	1988	1987	1986
Turnover	<u>405,778</u>	<u>240,134</u>	<u>138,007</u>	<u>67,856</u>	<u>34,524</u>
Profit and loss					
Profit/(loss) before taxation	<u>164,778</u>	<u>84,530</u>	<u>37,061</u>	<u>(3,765)</u>	<u>(17,489)</u>
Profit/(loss) after taxation, minority interest and extraordinary item	<u>118,522</u>	<u>62,076</u>	<u>25,788</u>	<u>(13,972)</u>	<u>1618</u>
Earnings per share	<u>11.85p</u>	<u>6.21p</u>	<u>2.58p</u>	<u>(1.40p)</u>	<u>0.16p</u>
Balance sheet					
Fixed assets	<u>345,417</u>	<u>208,719</u>	<u>131,227</u>	<u>86,493</u>	<u>63,130</u>
Net (liabilities)/assets	<u>(75,952)</u>	<u>(28,179)</u>	<u>(2,123)</u>	<u>28,395</u>	<u>36,365</u>
Total assets	<u>269,465</u>	<u>180,540</u>	<u>129,104</u>	<u>114,888</u>	<u>99,495</u>
Shareholders' funds	<u>269,419</u>	<u>180,540</u>	<u>22,004</u>	<u>(9,947)</u>	<u>965</u>
Minority interests	<u>46</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,675</u>
	<u>269,465</u>	<u>180,540</u>	<u>22,004</u>	<u>(9,947)</u>	<u>4,640</u>
Capital loans	<u>—</u>	<u>—</u>	<u>107,100</u>	<u>124,835</u>	<u>94,855</u>
Capital employed	<u>269,465</u>	<u>180,540</u>	<u>129,104</u>	<u>114,888</u>	<u>99,495</u>

The financial information set out above is based on the audited financial statements of the Group after making such adjustments as are necessary in order to show the consolidated financial information on the basis that the Group structure on flotation existed since 1 April 1984.

STATEMENT OF ACCOUNTING POLICIES

Basis of accounting

The financial statements are prepared under the historical cost convention.

Basis of consolidation

The Group financial statements are the result of the consolidation of the financial statements of the Company and its subsidiaries and include the Group's share of results of associated companies. The financial statements of all companies are made up to 31 March 1990.

The surplus of cost over fair value attributed to the net assets of subsidiaries or associates acquired during the year is written off direct to reserves.

Turnover

Turnover represents the invoiced value, excluding value added tax, of goods and services supplied by the Group.

Stocks

Stocks are valued at the lower of cost and estimated net realisable value. Cost includes material handling overheads.

Research and development

Expenditure on research and development is written off in the year in which it is incurred.

Finance leases

The total net investment in finance leases, included in debtors, represents total lease payments receivable, net of finance charges relating to future accounting periods, together with estimated residual values. Finance charges are allocated to accounting periods so as to give a constant rate of return on the net cash investment in the lease.

Tangible fixed assets

Included within the cost of cellular radio systems are materials awaiting installation which are valued at cost less a provision for excess and obsolete items. The materials are used in the construction and maintenance of new and existing infrastructure and, when issued, are charged either to the cost of specific infrastructure or to the profit and loss account. The cost of tangible fixed assets includes overheads incurred in the acquisition, establishment and installation of radio base stations.

Intangible fixed assets

Intangible fixed assets are capitalised at cost except for customer contracts, which are written off to reserves in the year in which they are acquired. The value attributable to the potential income stream of existing contracted customers is not included in the Group's balance sheet.

Depreciation of fixed assets

The cost of tangible fixed assets, except freehold land, is written off, from the time they are brought into use, by equal instalments over their expected useful lives as follows:

Freehold buildings	50 years
Short term leaseholds	the term of the lease
Cellular radio and paging networks	10 years
Plant, test and office equipment	6-7 years
Motor vehicles	4 years
Computers and software	3-5 years
Furniture and fittings	10 years

The cost of intangible fixed assets is amortised in equal annual instalments over six years.

Investments

The consolidated financial statements include investments in associated companies using the equity method of accounting. An associated company is a company in which the Group owns a material share of the equity and, in the opinion of the directors, can exercise a significant influence in its management. The profit and loss account includes the Group's share of the profit or loss before taxation and attributable taxation of those companies. The balance sheet shows the Group's share of the net assets or liabilities, excluding goodwill, of those companies. Other investments, comprise equity shareholdings in, and long term loans to, communication companies. These are held as fixed assets and are stated at cost. Income is recognised upon receipt of dividends and provision only made for permanent diminution in value.

Foreign currencies

The financial statements of the overseas subsidiary companies are translated into sterling at the closing rate of exchange. Exchange differences which arise on the retranslation of these financial statements at the beginning of the year are dealt with as a movement in reserves. Other translation differences are dealt with in the profit and loss account.

Deferred taxation

Provision is made for deferred taxation only where there is a reasonable probability that a liability will crystallize in the foreseeable future.

Pension costs

Pension costs, which are periodically calculated by professionally qualified actuaries, are charged against profits so that the expected costs of providing pensions are recognised during the period in which benefit is derived from the employees' services. The cost of the various pension schemes may vary from the funding dependent upon actuarial advice with any difference between pension cost and funding being treated as a provision or prepayment.

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 1990**

	Note	1990 £000	1989 £000
Turnover	1	<u>405,778</u>	<u>240,134</u>
Operating profit	2	<u>162,227</u>	89,566
Interest receivable less payable	5	<u>2,551</u>	<u>(5,036)</u>
Profit on ordinary activities before taxation		<u>164,778</u>	84,530
Tax on profit on ordinary activities	6	<u>46,299</u>	<u>22,454</u>
Profit on ordinary activities after taxation		<u>118,479</u>	62,076
Minority interests		<u>43</u>	<u>—</u>
Profit after taxation attributable to shareholders		<u>118,522</u>	62,076
Dividends	7	<u>24,475</u>	<u>225,015</u>
Retained profit/(loss) for the year	18	<u>94,047</u>	(162,939)
Transfer from share premium account	18	<u>—</u>	<u>192,492</u>
Retained profit transferred to reserves		<u>94,047</u>	<u>29,553</u>
Earnings per share	8	<u>11.85p</u>	<u>6.21p</u>

CONSOLIDATED BALANCE SHEET AT 31 MARCH 1990

	Note	1990 £000	1989 £000
Fixed assets			
Intangible assets	9	693	575
Tangible assets	10	332,374	200,881
Investments	11	<u>12,350</u>	<u>7,263</u>
		345,417	208,719
Current assets			
Stocks	12	6,402	4,158
Debtors	13	96,162	63,793
Cash at bank and in hand		<u>6,010</u>	<u>14,870</u>
		108,574	82,821
Creditors: amounts falling due within one year	14	<u>183,263</u>	<u>109,237</u>
Net current liabilities		(74,689)	(26,416)
Total assets less current liabilities		270,728	182,303
Creditors: amounts falling due after more than one year	15	1,094	1,636
Provisions for liabilities and charges	16	<u>169</u>	<u>127</u>
		<u>269,465</u>	<u>180,540</u>
Capital and reserves			
Called up share capital	17	50,000	50,000
Share premium account		82,058	82,058
Capital reserve		2,705	2,705
Profit and loss account	18	<u>134,656</u>	<u>45,777</u>
Shareholders' funds		269,419	180,540
Minority interests		<u>46</u>	<u>—</u>
		<u>269,465</u>	<u>180,540</u>

G A WHENT Chief Executive

K J HYDON Financial Director

25 June 1990

BALANCE SHEET AT 31 MARCH 1990

	Note	1990		1989	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	10		—		280
Investments	11		<u>514,918</u>		<u>513,216</u>
			514,918		513,496
Current assets					
Debtors	13	<u>101,479</u>		<u>85,866</u>	
Cash at bank		<u>4,863</u>		<u>13,890</u>	
		106,342		99,756	
Creditors: amounts falling due within one year	14	<u>48,923</u>		<u>25,588</u>	
Net current assets			<u>57,419</u>		<u>74,168</u>
			572,337		587,664
Capital and reserves					
Called up share capital	17		50,000		50,000
Share premium account			82,058		82,058
Merger reserve			87,895		87,895
Profit and loss account	18		<u>352,384</u>		<u>367,711</u>
			572,337		587,664

G A WHENT Chief Executive

K J HYDON Financial Director

25 June 1990

SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED 31 MARCH 1990

	1990		1989	
	£000	£000	£000	£000
Funds generated by operations				
Profit on ordinary activities before taxation		164,778		84,530
Adjustments for items not involving the movement of funds:				
Depreciation and amortisation	33,326		20,429	
Losses retained in associated companies	1,636		1,026	
Deep discounted bond interest	(829)	34,133	(821)	20,634
Total generated from operations		198,911		105,164
Funds from other sources				
Proceeds of sale of tangible fixed assets	1,212		206	
Taxation received	3,835		11,101	
Investment from minority shareholders	89		—	
Flotation	—	5,136	1,475	12,782
		204,047		117,946
Application of funds				
Acquisitions	8,425		—	
Investments	8,856		3,332	
Taxation paid	26,122		11,504	
Purchase of fixed assets	160,781		94,847	
Dividends paid	14,475		—	
Repayment of capital loans	—	218,659	5,115	114,798
		(14,612)		3,148
Decrease/(increase) in working capital				
Stocks	(181)		2,878	
Debtors	(15,871)		(19,352)	
Creditors	18,572	2,520	27,575	11,101
Net funds flow		(12,092)		14,249
Movement in net liquid funds				
Cash at bank and in hand		(8,860)		14,249
Acquisition — Bank overdraft		190		—
Bank overdraft		(3,422)		—
		(12,092)		14,249
Effect of acquisitions:	£000			£000
Net assets acquired:			Satisfied by:	
Fixed assets	5,368		Cash paid	1,159
Associated companies	(3,332)		Loans	7,266
Goodwill	5,170			
Stocks	2,060			
Debtors	15,543			
Creditors	(16,411)			
Deferred taxation	208			
Taxation	9			
Overdraft	(190)			
	8,425			8,425

NOTES ON THE FINANCIAL STATEMENTS

1 TURNOVER

	1990 £000	1989 £000
Supply of mobile telecommunications services and products	<u>405,778</u>	<u>240,134</u>
A geographical analysis of turnover by area of destination:		
United Kingdom	404,609	239,501
Asia	1,138	611
Continental Europe	31	22
	<u>405,778</u>	<u>240,134</u>

2 OPERATING PROFIT

	1990 £000	1989 £000
Turnover	405,778	240,134
Cost of sales	<u>182,463</u>	<u>110,755</u>
Gross profit	223,315	129,379
Selling and distribution costs	22,753	12,430
Administrative expenses	36,258	26,466
Royalties receivable	(2)	(109)
	<u>59,009</u>	<u>38,787</u>
	164,306	90,592
Share of losses of associated companies	<u>2,079</u>	<u>1,026</u>
	<u>162,227</u>	<u>89,566</u>
Operating profit has been arrived at after charging:		
Depreciation of tangible fixed assets	32,944	20,096
Amortisation of intangible fixed assets	382	333
Research and development	10,815	4,033
Hire of equipment	293	107
Auditors' remuneration	<u>150</u>	<u>127</u>

3 EMPLOYEES

The average number of persons employed by the Group during the year:	1990 Number	1989 Number
Manufacturing	101	—
Selling and distribution	266	220
Administration	1,057	627
Development	<u>204</u>	<u>70</u>
	<u>1,628</u>	<u>917</u>

NOTES ON THE FINANCIAL STATEMENTS

3

EMPLOYEES (Continued)

The cost incurred in respect of these employees (including directors):

Wages and salaries
Social security costs
Other pension costs

1990
£000

1989
£000

27,021
2,323
880

15,589
1,132
18

30,224

16,739

Employees (excluding directors of the Company) of the Group whose emoluments, excluding pension contributions, exceeded £30,000:

£30,001 – £35,000
£35,001 – £40,000
£40,001 – £45,000
£45,001 – £50,000
£50,001 – £55,000
£55,001 – £60,000
£60,001 – £65,000
£65,001 – £70,000
£70,001 – £75,000
£80,001 – £85,000

1990
Number

1989
Number

28
28
13
15
7
5
–
1
3
1

19
17
9
3
1
2
1
–
–
–

The Company is only a holding company and therefore had no employees during the year.

4

DIRECTORS

Emoluments including pension contributions

1990
£

1989
£

900,993

727,416

The emoluments, excluding pension contributions, of directors of the Company:

Chairman

–

Highest paid director

300,014

241,507

Other directors:

1990
Number

1989
Number

£ 10,001 – £ 15,000
£ 25,001 – £ 30,000
£ 30,001 – £ 35,000
£ 35,001 – £ 40,000
£ 65,001 – £ 70,000
£ 90,001 – £ 95,000
£110,001 – £115,000
£120,001 – £125,000
£145,001 – £150,000

–
2
–
1
1
1
1
1
–
1

NOTES ON THE FINANCIAL STATEMENTS

5 INTEREST RECEIVABLE LESS PAYABLE

	1990	1989
	£000	£000
Interest receivable	3,033	5,429
Interest payable:		
Fellow subsidiary loans	115	5,548
Other loans repayable within five years	367	4,917
	<u>482</u>	<u>10,465</u>
	<u>2,551</u>	<u>(5,036)</u>

6 TAX ON PROFIT ON ORDINARY ACTIVITIES

	1990	1989
	£000	£000
Corporation tax charge on profit for the year at 35% (1989 – 35%)	46,464	22,483
Transfer to deferred taxation	205	124
Associated companies	(370)	(153)
	<u>46,299</u>	<u>22,454</u>

The taxation charge for the year has been reduced by £12,814,000 (1989 – £7,560,000) as a result of accelerated capital allowances being higher than depreciation.

7 DIVIDENDS

	1990	1989
	£000	£000
Paid on capital reconstruction	–	218,015
Interim dividend paid of 0.7475p per ordinary share	7,475	–
Proposed final dividend of 1.7p per ordinary share (1989 – 0.7p)	17,000	7,000
	<u>24,475</u>	<u>225,015</u>

On 11 October 1988 a dividend of £218,015 per ordinary share totalling £218,015,000 was paid to Racal Electronics Plc as part of the Company's capital reconstruction on flotation.

8 EARNINGS PER SHARE

Earnings per share are based upon the 1,000,000,000 ordinary shares in issue throughout the year and are calculated on the profit on ordinary activities after taxation and minority interests of £118,522,000 (1989 – £62,076,000).

There would be no material dilution of earnings per share if the outstanding share options were exercised.

NOTES ON THE FINANCIAL STATEMENTS

9 INTANGIBLE FIXED ASSETS – GROUP

Cost	Know How 1990 £000	Know How 1989 £000
1 April	2,000	2,000
Additions	500	–
31 March	2,500	2,000
Amortisation		
1 April	1,425	1,092
Charge for the year	382	333
31 March	1,807	1,425
Net book value		
31 March	693	575

10 TANGIBLE FIXED ASSETS – GROUP

Cost	Freehold Premises £000	Short Term Leasehold Premises £000	Plant Machinery Fixtures & Vehicles £000	Cellular Radio Systems £000	Total £000
1 April 1989	1,824	232	23,590	221,719	247,365
Additions	129	746	24,502	134,901	160,278
Subsidiaries acquired	301	7	9,825	–	10,133
Transfers from fellow subsidiary companies	–	–	–	3	3
Disposals	–	–	(440)	(1,352)	(1,792)
Transfers to fellow subsidiary companies	–	–	(75)	(1,036)	(1,111)
Reclassification	(1,532)	–	–	1,532	–
31 March 1990	722	985	57,402	355,767	414,876
Depreciation					
1 April 1989	–	2	6,665	39,817	46,484
Charge for the year	3	48	6,857	26,036	32,944
Subsidiaries acquired	39	7	4,719	–	4,765
Disposals	–	–	(323)	(1,344)	(1,667)
Transfers to fellow subsidiary companies	–	–	(24)	–	(24)
31 March 1990	42	57	17,894	64,509	82,502
Net book value					
31 March 1990	680	928	39,508	291,258	332,374
31 March 1989	1,824	230	16,925	181,902	200,881
Cellular radio systems comprise:					
	Freehold Premises £000	Short Term Leasehold Premises £000	Plant & Machinery £000		Total £000
31 March 1990					
Cost	3,042	40,351	312,374		355,767
Depreciation	(32)	(9,714)	(54,763)		(64,509)
Net book value	3,010	30,637	257,611		291,258
31 March 1989					
Net book value	–	24,496	157,406		181,902

NOTES ON THE FINANCIAL STATEMENTS

10 TANGIBLE FIXED ASSETS – COMPANY

	Plant Machinery & Furniture £000	Motor Vehicles £000	Total £000
Cost			
1 April 1989	150	250	400
Transfers to fellow subsidiary companies	(150)	(250)	(400)
31 March 1990	—	—	—
Depreciation			
1 April 1989	35	85	120
Transfers to fellow subsidiary companies	(35)	(85)	(120)
31 March 1990	—	—	—
Net book value			
31 March 1990	—	—	—
31 March 1989	115	165	280

11 FIXED ASSET INVESTMENTS – GROUP

	Associated Companies £000	Other Investments £000	Total £000
1 April 1989	6,311	952	7,263
Additions	1,687	7,169	8,856
Interest on deep discounted bond financing	807	22	829
Adjustment on acquisition of former associated companies	(3,332)	—	(3,332)
Share of retained losses for the year	(1,266)	—	(1,266)
31 March 1990	4,207	8,143	12,350

The share of the retained losses of the associated companies is shown after the following adjustments:

	£000
Group share of retained losses on consolidation	(2,079)
Group share of associated companies taxation charge	370
Elimination of unrealised profit on group fixed assets manufactured by associated company	443
	(1,266)

COMPANY

	Subsidiary Companies £000	Associated Companies £000	Other Investments £000	Total £000
1 April 1989	502,976	9,288	952	513,216
Additions	512	1,687	7,169	9,368
Capital repayment	—	(6,200)	—	(6,200)
Provisions	—	(1,466)	—	(1,466)
31 March 1990	503,488	3,309	8,121	514,918

The Company's subsidiaries, associated companies and other investments are detailed on page 26.

NOTES ON THE FINANCIAL STATEMENTS

12 STOCKS – GROUP

	1990 £000	1989 £000
Raw materials	1,326	–
Work in progress	1,494	–
Finished goods	3,582	4,158
	<u>6,402</u>	<u>4,158</u>

13 DEBTORS

	1990		1989	
	Group £000	Company £000	Group £000	Company £000
Due within one year:				
Trade debtors	51,230	–	36,901	–
Amounts owed by associated companies	51	–	1	1
Amounts owed by fellow subsidiaries	328	7	163	–
Amounts owed by subsidiaries	–	100,328	–	85,103
Taxation recoverable	4,558	–	3,500	–
Other debtors	10,635	6	2,508	7
Prepayments and accrued income	28,459	–	19,732	287
	<u>95,261</u>	<u>100,341</u>	<u>62,805</u>	<u>85,398</u>
Due after more than one year:				
Trade debtors	1	–	473	–
Other debtors	185	–	305	–
Prepayments	715	1,138	210	468
	<u>96,162</u>	<u>101,479</u>	<u>63,793</u>	<u>85,866</u>

Included within trade debtors is a net investment in finance leases of £30,000 (1989 – £1,410,000) of which £1,000 (1989 – £473,000) is due after more than one year.

14 CREDITORS: amounts falling due within one year

	1990		1989	
	Group £000	Company £000	Group £000	Company £000
Bank overdraft	3,422	–	–	–
Trade creditors	52,592	–	33,933	114
Amounts owed to fellow subsidiaries	3,446	1	1,383	559
Amounts owed to associated companies	201	201	4,408	–
Amounts owed to subsidiaries	–	26,399	–	12,046
Taxes and social security	57,415	5,315	29,484	1,861
Other creditors	4,335	7	1,193	–
Accruals and deferred income	44,852	–	31,836	4,008
Proposed dividend	17,000	17,000	7,000	7,000
	<u>183,263</u>	<u>48,923</u>	<u>109,237</u>	<u>25,588</u>

15 CREDITORS: amounts falling due after more than one year

	1990		1989	
	Group £000	Company £000	Group £000	Company £000
Trade creditors	1,090	–	1,636	–
Other creditors	4	–	–	–
	<u>1,094</u>	<u>–</u>	<u>1,636</u>	<u>–</u>

NOTES ON THE FINANCIAL STATEMENTS

16 PROVISIONS FOR LIABILITIES AND CHARGES – GROUP

	Deferred Taxation £000
1 April 1989	127
Additions from acquisitions	(208)
Profit and loss account	205
	<u>124</u>
Decrease in advance corporation tax recoverable on proposed dividend	45
	<u>169</u>

The amounts provided for deferred taxation and the full potential liability, calculated on the liability method are:

	1990		1989	
	Amount Provided £000	Potential Liability £000	Amount Provided £000	Potential Liability £000
Accelerated capital allowances	1,430	41,647	207	27,670
Other timing differences	(838)	(838)	388	388
	<u>592</u>	<u>40,809</u>	<u>595</u>	<u>28,058</u>
Advance corporation tax recoverable	(423)	(423)	(468)	(468)
	<u>169</u>	<u>40,386</u>	<u>127</u>	<u>27,590</u>

COMPANY

The Company has no liability to deferred taxation.

17 CALLED UP SHARE CAPITAL

	Group and Company			
	1990		1989	
	Number	£000	Number	£000
Authorised:				
Ordinary shares of 5p each	<u>1,200,000,000</u>	<u>60,000</u>	<u>1,200,000,000</u>	<u>60,000</u>
Allotted, called up and fully paid:				
Ordinary shares of 5p each	<u>1,000,000,000</u>	<u>50,000</u>	<u>1,000,000,000</u>	<u>50,000</u>

Options:

The Company had the following options outstanding at 31 March 1990 to subscribe for ordinary shares:

	Number	Price	Period during which exercisable
Savings Related Share Option Scheme	230,448	171p	1 March 1994 to 31 August 1994
	231,003	316p	1 March 1995 to 31 August 1995
Executive Share Option Scheme	370,000	170p	11 October 1991 to 10 October 1998
	603,000	409p	12 July 1992 to 11 July 1999
	322,000	357p	19 January 1993 to 18 January 2000

NOTES ON THE FINANCIAL STATEMENTS

18 PROFIT AND LOSS ACCOUNT

	Group		Company
	Subsidiary Companies £000	Associated Companies £000	Total £000
1 April 1989	46,288	(511)	45,777
Goodwill written off	(5,170)	—	(5,170)
Currency translation	2	—	2
Subsidiary acquired	147	(147)	—
Profit/(loss) retained for the year	95,313	(1,266)	94,047
31 March 1990	136,580	(1,924)	134,656

The goodwill written off relates substantially to the acquisition of the 50% of Orbitel Mobile Communications (Holdings) Limited not previously owned by the Group. The fair value of assets acquired was the same as the book value of the net tangible assets.

The transfer from share premium account in 1989 was part of the capital reconstruction upon flotation.

No profit and loss account has been prepared by the Company in accordance with section 228(7) of the Companies Act 1985. The profit after taxation dealt with in the accounts of the Company is £9,148,000 (1989 – £402,101,000). The 1989 figure includes a dividend receivable as part of the Company's capital reconstruction upon flotation.

19 LEASED ASSETS Operating leases

Commitments to non-cancellable operating lease payments within one year are as follows:

	Group 1990		Group 1989	
	Land and buildings £000	Other Assets £000	Land and buildings £000	Other Assets £000
In respect of leases expiring:				
Within one year	822	27	426	5
Between two and five years	2,418	2,456	1,503	1,168
After five years	1,772	—	1,536	—

The Company had no commitments under operating leases.

Finance leases

The Group and the Company do not hold a material amount of assets under finance leases.

20 PENSIONS

The Group operates a number of schemes for the benefit of the employees. The schemes are prefunded defined benefit schemes and the assets of these schemes are all held in separate trustee administered funds. The schemes are all subject to triennial valuations by independent actuaries. The last valuations were carried out as at 1 April 1989, using the projected unit method, in which the actuarial liability makes allowances for projected earnings.

The following actuarial assumptions were applied:

Investment returns	9%
Salary growth	7.5%
Equity dividend growth	4.5%

At the last actuarial valuation date, the market value of the assets of the schemes was £8,598,000 and this actuarial value was sufficient to cover 116% of the benefits which had accrued to members, after allowing for the improvements to benefits made on 1 October 1989 and for expected increases in earnings.

With effect from 1 April 1989 the Group implemented Statement of Standard Accounting Practice 24 and in accordance with the transitional provision of that standard comparative figures for 1989 have not been restated and the surplus is being recognised over the average remaining service lives of the members of the schemes.

The pension cost for the Group amounted to £880,000 (1989 – £18,000).

A prepayment of £231,000 (1989 – £nil) is included in prepayments. This represents the excess of the amounts funded over the accumulated pension costs.

NOTES ON THE FINANCIAL STATEMENTS

21 PROVISION OF SERVICES BY RACAL ELECTRONICS PLC

Racal Electronics Plc and certain of its subsidiaries provide or procure, in accordance with an Agreement dated 11 October 1988, certain services to the Company and subsidiaries as follows:

- The services of a chairman of the board of directors of the Company.
- General company secretarial services including the services of a company secretary for the Company and each of its subsidiaries.
- Such legal advice and services as the Company may require.
- Certain publicity services.
- Advisory and administration services regarding pensions and insurance.

Charges are made on an arms length basis and the agreement can be cancelled on three months notice by either Racal Electronics Plc or the Company.

22 CAPITAL COMMITMENTS – GROUP

	1990 £000	1989 £000
Contracted for but not provided in the financial statements	126,049	93,702
Authorised by respective boards of directors but not contracted for	50,924	28,413

COMPANY

The future capital commitments in respect of the Company amounted to £nil (1989 – £nil).

23 CONTINGENT LIABILITIES

The Company has given a guarantee of £84,000 (1989 – £84,000) in respect of rent payable for office premises.

REPORT OF THE AUDITORS

To the members of Racal Telecom Plc

We have audited the financial statements on pages 12 to 26 in accordance with Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 March 1990 and of the profit and source and application of funds of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Touche Ross & Co.
Chartered Accountants
Hill House
1 Little New Street
London EC4A 3TR

25 June 1990

SUBSIDIARY, ASSOCIATED AND OTHER COMPANIES

The Company had at 31 March 1990 the following principal subsidiaries, associated companies and other investments, all of which have share capital consisting solely of ordinary shares. The country of incorporation of all subsidiaries, associated companies and other investments is also their principal place of operation. None of the Company's other investments are listed on any stock exchange.

SUBSIDIARY COMPANIES

All subsidiaries are wholly owned (unless otherwise stated), sub-subsidiaries are shown inset.

Name	Activity	Country of Incorporation
Orbitel Mobile Communications (Holdings) Limited	Holding company	England
Orbitel Mobile Communications Limited	Mobile telecommunications equipment manufacturer	England
Racal Cellular Limited	Holding company	England
Racal-Vodac Limited	Service provider for Vodafone network	England
Vodac (Ulster) Limited (51%)	Service provider for Vodafone network	Northern Ireland
Racal Telecom Central Services Limited	Provision of central services	England
Racal-Vodacom Limited	Service provider for Band Three Radio	England
Racal-Vodafone (Holdings) Limited	Holding company	England
Racal-Vodafone Limited	Operation of cellular network	England
Racal-Vodapage Limited	Operation of radio paging service	England
Racal-Vodata Limited	Supply of value added services	England
Telecell Limited (80%)	Operation of cellular network	Malta
Vodafone SA	Mobile radio equipment retailer	France

ASSOCIATED COMPANIES

Name	Activity	Percentage Shareholding	Value of Issued Equity	Latest Financial Accounts	Country of Incorporation
Band Three Holdings Limited	Holding company	25	£8,000,000	31.3.90	England
Band Three Radio Limited	Operation of trunked mobile radio	25			England
Merrac Limited	Holding company	50	£100	31.3.90	England
Paknet Limited	Operation of packet radio network	50			England

OTHER INVESTMENTS

Name	Activity	Percentage Shareholding	Country of Incorporation
COFIRA	Operation of French cellular network	4	France
Euromessage Limited	Operation of Pan-European paging network	17	England
Martin Dawes Communications Limited	Service provider for cellular networks	20	England

ULTIMATE HOLDING COMPANY

The Company's ultimate holding company is Racal Electronics Plc, a company incorporated in England.

INVESTOR INFORMATION

Financial calendar

Racal Telecom Plc usually announces results and pays dividends at the following times:

	Announcement of results	Payment of dividend
Interim	December	February
Final	June	August

Listings

Ordinary shares of Racal Telecom Plc are traded on the International Stock Exchange, London and on the New York Stock Exchange in the form of American Depositary Shares (ADSs).

Ordinary share and ADS market price ranges

Fiscal Year	Ordinary Shares		ADS	
	High (£)	Low (£)	High (US\$)	Low (US\$)
1988/89				
3rd Quarter	1.84	1.58	34.12	29.50
4th Quarter	3.51	1.84	59.50	34.12
1989/90				
1st Quarter	5.19	3.24	85.50	60.62
2nd Quarter	4.26	3.45	70.75	53.38
3rd Quarter	4.07	3.18	65.25	49.25
4th Quarter	4.06	3.45	66.75	53.88

American Depositary Receipts

ADSs each representing ten ordinary shares are traded on the New York Stock Exchange under the symbol "RTG". ADSs are represented by American Depositary Receipts (ADRs). The ADR programme is administered on behalf of Racal Telecom Plc by The Bank of New York, ADR Division, 101 Barclay Street, New York, N.Y. 10286.

Dividends & ADR holders

ADR holders are generally eligible for all dividends or other entitlements attaching to the underlying shares of Racal Telecom Plc and receive all cash dividends in US dollars.

Qualifying US holders will generally be entitled to receive a payment in respect of the UK tax credit, subject to a UK withholding tax of 15% of the sum of the dividend and UK tax credit.

Dividends and any related UK tax credit and associated withholding will be income to the holder for Federal income tax purposes.

ADR holders unsure of their tax position should consult their independent tax adviser.

Reports to ADR holders

ADR holders receive the annual and interim reports issued to ordinary shareholders. Racal Telecom Plc will file with the Securities and Exchange Commission in the USA its annual report in Form 20-F (which corresponds to the 10-K for a US Corporation) and other information as required.

A copy of the Form 20-F may be obtained by writing to: Investor Relations, Racal Telecom Plc, The Courtyard, 2-4 London Road, Newbury, Berkshire RG13 1JL, England.

Type of shareholder at 31 March 1990

	Number of accounts	% of total issued shares
Private individuals	21,677	1.35
Nominee companies	831	2.57
Banks	532	0.37
Other corporate bodies	320	80.07
Investment companies	80	0.04
Trusts	76	0.21
Insurance companies	52	1.07
Pension funds	24	1.13
Local & National institutions	17	0.05
Bank of New York Nominees		
ADRs*	1	13.14
	23,610	100.00

* At 31 March 1990 there were 350 registered holders of ADRs representing approximately 7,000 beneficial holders.

Shareholders

Number of ordinary registered shares held at 31 March 1990	Number of accounts	% of total issued shares
1- 500	16,269	0.43
501- 1,000	4,348	0.32
1,001- 5,000	2,503	0.47
5,001- 50,000	346	0.50
50,001- 500,000	112	1.87
500,001- 1,000,000	12	0.82
More than 1,000,000	20	95.59
	23,610	100.00

ADJUSTMENT TO US ACCOUNTING PRINCIPLES

The following is a summary of the approximate effects of the differences between US Generally Accepted Accounting Principles ("US GAAP") and UK Generally Accepted Accounting Principles ("UK GAAP") that are material to Racal Telecom Plc.

NET INCOME AND EARNINGS PER ORDINARY SHARE

Year ended 31 March

1990 1989
£000 £000

Net income as reported in accordance with UK GAAP

118,522 62,076

Items increasing/(decreasing) net income:

Goodwill amortisation

(2,436) (2,248)

Deferred income taxes

(12,593) (7,839)

Capitalisation of interest costs – net of amortisation

(639) 1,792

Net income in accordance with US GAAP

102,854 53,781

Earnings per ordinary share in accordance with US GAAP

10.29p 6.07p

SHAREHOLDERS' EQUITY

As at 31 March
1990 1989
£000 £000

Shareholders' equity as reported in accordance with UK GAAP

269,465 180,540

Items increasing/(decreasing) shareholders' equity:

Goodwill charged directly to equity

93,315 88,145

Cumulative amortisation of goodwill

(7,533) (5,097)

Cumulative deferred income taxes

(40,432) (27,839)

Cumulative capitalisation of interest costs – net of amortisation

4,198 4,837

Proposed dividends

17,000 7,000

Cumulative impact of differences on minority interest

2,867 2,867

Shareholders' equity in accordance with US GAAP

338,880 250,453

TOTAL ASSETS

Total assets as reported in accordance with UK GAAP

453,991 291,540

Items increasing/(decreasing) total assets:

Goodwill charged directly to equity

93,315 88,145

Cumulative amortisation of goodwill

(7,533) (5,097)

Cumulative capitalisation of interest costs – net of amortisation

4,198 4,837

Total assets in accordance with US GAAP

543,971 379,425

ADJUSTMENT TO US ACCOUNTING PRINCIPLES

Summary of differences between Accounting Principles Generally Accepted in the United Kingdom and the United States.

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United Kingdom ("UK GAAP"), which differ in certain material respects from those generally accepted in the United States ("US GAAP"). The differences that are material to the Group relate to the following items and the necessary adjustments are shown on the facing page.

(a) Goodwill

Under UK GAAP, costs of acquisition in excess of the fair value of the attributable net assets of acquired businesses at the date of acquisition may be capitalised or may be written off against shareholders' equity, either in the fiscal year of acquisition or in a subsequent fiscal year. The Group has written off such goodwill against shareholders' equity in the fiscal year of acquisition. Under US GAAP, goodwill must be capitalised and amortised against income over the estimated period of benefit, but not in excess of 40 years. For US GAAP purposes the Group would amortise goodwill over periods between 6 and 40 years.

(b) Deferred taxation

Under UK GAAP, deferred taxation is provided at the rates at which the tax is expected to become payable. No provision is made for amounts which are not expected to become payable in the foreseeable future. Under US GAAP, deferred taxation is provided on all temporary differences under the liability method at rates at which the tax would be payable in the relevant future year as prescribed by Statement of Financial Accounting Standards No. 96 – Accounting for Income Taxes.

(c) Capitalisation of interest costs

Under UK GAAP, interest on borrowings used to finance the construction of an asset is not required to be included in the cost of the asset. Under US GAAP, the interest cost on borrowings used to finance the construction of an asset is capitalised during the period of construction until the date that the asset is placed in service. Such interest cost is amortised over the estimated useful life of the related assets.

(d) Proposed dividends

Under UK GAAP, dividends are included in the financial statements when recommended by the Board of Directors to the shareholders. Under US GAAP, dividends are not included in the financial statements until declared by the Board of Directors.

(e) Minority interest

Although accounting for minority interest does not differ between UK GAAP and US GAAP, minority interest is adjusted to reflect the impact of the US GAAP adjustments relating to deferred taxation and capitalisation of interest costs.

(f) Earnings per Ordinary Share

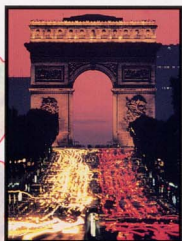
Earnings per ordinary share is calculated by dividing net income of £53,781,000 and £102,854,000 for the years ended 31 March 1989 and 1990 respectively, by 886,000,000 and 1,000,000,000, the approximate weighted average number of ordinary shares outstanding for the years ended 31 March 1989 and 1990, respectively.

RACAL TELECOM PLC

Lars Frisell, the Chairman of Talkland International, a major Vodafone Service Provider, receives a memento from Sir Ernest Harrison to mark the occasion of the 500,000th subscriber connected to the Vodafone network.



Racal-Vodac, the Racal Telecom Service Provider, now has more than 75,000 customers many of whom come from the major Corporations.



Vodafone SA is now established as a cellular radio distributor in France. The company has outlets in Paris, Lyons, Lille, Marseille, Nice, Bordeaux, Toulouse, Nantes, Metz and Rouen.



Racal Telecom continues to seek opportunities to participate in cellular radio network operations throughout Europe.

RACAL TELECOM PLC

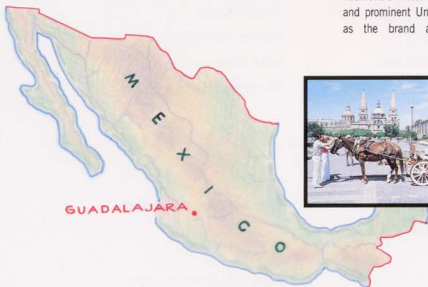
Orbitel was the first company in the world to publicly demonstrate a mobile phone working to the new Pan-European specification.



To warn of rising water levels at numerous remote sites, a new type of portable data logger system is being used to transmit critical data and alarms over the Vodafone network via a Racal-Vodata CDLC modem.



Vodafone's latest TV commercial features a combination of studio shots and prominent United Kingdom landmarks. Its aim is to present Vodafone as the brand and market leader in mobile telecommunications.



Comunicaciones Celulares de Occidente SA de CV, a consortium of which Racal Telecom has a 6% share, has been awarded a cellular licence in the western region of Mexico which includes Guadalajara, the second largest city in Mexico.

The Telecell network will open in the summer of 1990. It will provide a mobile telephone service for the islands of Malta, Gozo, Comino and their coastal waters.



RACAL TELECOM PLC

SERVICE PROVIDERS

VODAFONE

Air Call Cellular
Carphones of Britain
C-Com International
The Cellphone Group
Cellular Communications
Cellcom
Cellwest
Connexions
Digital Mobile Communications
Excell Communications
Hawthorn Leslie
Hi-Time
Hutchison Telephone UK
IM Group
Intercell
Intercity Mobile Communications

Marconiphone
Mercury Carphone
Mobilephone
Mobile Telecommunications
Nationwide Cellular Telephones
Newgate Communications
The Novafone Group
Racal-Vodac
Robert Bosch
Scottish Car Telephones
Securicor Communications
Space-Tel Communications
Storno Cellular Services
UniqueAir
Woodend Leasing

VODAFONE & VODAPAGE

Airetel
Astec Communications
Martin Dawes Communications
Metro Cellular
Millicom Cellular UK

Philips Telecom
Talkland International
Vodac Ulster
Wavetech Network Services

VODAPAGE

Bleeper Services
BYPSS
Caledonian Business Communications
Capital Radio Paging
Cellcall
Chubb Alarms
Dial-a-Page
H L Mobile Radio
Infopage

Intercity Paging
Millicom Information Services
Psion
Quadrant
Radio Links Communications
Softcell Communications
Unipage
Vanderhoff Business Systems

The above are authorised to connect subscribers to either Vodafone or Vodapage or both networks.

PRINCIPAL ACTIVITIES

Cellular Radio Network Operations

Data Transmission Over Cellular Radio Networks

Digital Cellular Radio Systems and Equipment

Mobile and Hand-Portable Cellular Telephones

Private Mobile Radio

Radiopaging

Value Added Network Services

Cordless Telephone Systems and Equipment

Packet Radio Network Operation

Racal Telecom Plc
The Courtyard
2-4 London Road
Newbury
Berkshire RG13 1JL
Telephone: 0635 33251
Facsimile: 0635 45713