



RACAL TELECOM PLC

1989

ANNUAL REPORT & ACCOUNTS

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.

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RACAL TELECOM PLC

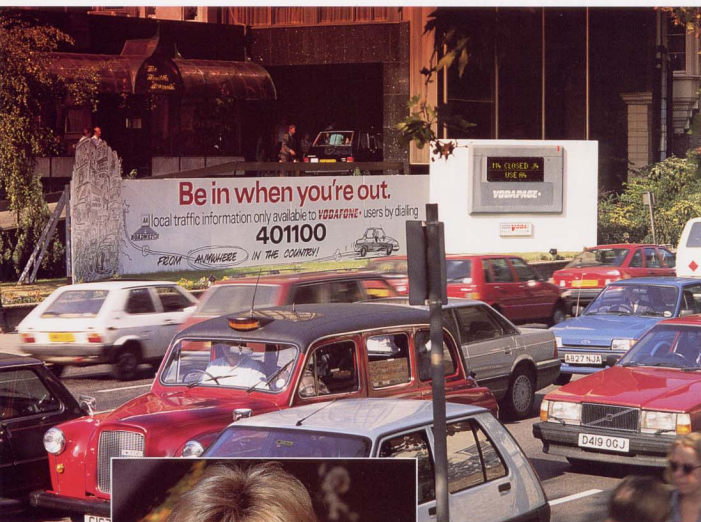
ANNUAL REPORT & ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 1989

RESULTS AT A GLANCE



	1989 £000	1988 £000
Turnover	240,134	138,007
Return on turnover – before interest	37.3%	36.5%
Profit before taxation	84,530	37,061
Taxation	22,454	11,273
Profit after taxation and extraordinary item	62,076	29,701
Net tangible assets employed	179,965	21,096
Earnings per share	6.21p	2.58p
Dividend per share (net of tax)	0.7p	–



The Cromwell Road, the main exit to the West from London, is an area where Racal Telecom provides communications and information for many held up in the traffic queues.

BOARD OF DIRECTORS



Sir Ernest Harrison OBE
Chairman



G A Whent CBE
Chief Executive

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

Hill Samuel Registrars Limited
6 Greencoat Place, London SW1P 1PL

NOTICE OF MEETING

Notice is hereby given that the fifth Annual General Meeting of the Company will be held at The Institution of Electrical Engineers, Savoy Place, London WC2 on Tuesday 1 August 1989 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 1989 and to approve a final dividend of 14.0% (0.7p per share) net of tax on the ordinary shares.
2. To re-elect Sir Ernest Harrison as a director.
3. To re-elect Sir William Barlow as a director.
4. To re-elect Sir Robert Clark as a director.
5. To re-elect Mr K J Hydon as a director.
6. 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.
7. As special business to consider and, if thought fit, pass the following resolution, which will be proposed as an ordinary resolution:

THAT the directors be and are hereby authorised generally and unconditionally pursuant to and in accordance with section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot relevant securities (within the meaning of that section) of the Company up to an aggregate nominal amount of £10,000,000 provided that this authority shall expire on the fifth anniversary of the passing of this resolution save that the Company may, before such expiry, make offers or agreements which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offers or agreements as if the authority conferred hereby had not expired.

8. 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 previous resolution 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

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.

By Order of the Board
David Whittaker, Secretary
Western Road, Bracknell, Berkshire
7 July 1989

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 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 had a service contract with any subsidiary.

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, and has exceeded the forecast included in the Prospectus published in connection with the flotation in October 1988. Sales during the year were £240 million (1987/88 – £138 million), an increase of 74%. The net profit before taxation amounted to £84.5 million (1987/88 – £37.1 million) an increase of 128%.

Taxation for the year is estimated at £22.5 million (1987/88 – £11.3 million).

The directors recommend payment of a final dividend of 14% net of tax (0.7p per share). Warrants for the final dividend will be posted on 15 August 1989.

Flotation

Racal Telecom became a separate public limited company following the flotation in October 1988 of the company previously known as the Racal Telecommunications Group Limited. The issue of 200 million of the 1 billion shares of the Company was over-subscribed at the offer price of 170 pence per share. The Company was floated unencumbered by debt.

I would like to take this opportunity of thanking all of those involved for their support and dedication in making it successful on both the London and New York Stock Exchanges.

The Company

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

The business began with a nationwide cellular radio telephone service in the United Kingdom and has subsequently expanded into other mobile communications activities, both in the United Kingdom and in Europe where the liberalisation in telecommunications and the Single Market Act will provide new and unique opportunities.

Vodafone

During the financial year Vodafone's subscriber base grew by over 140,000 finishing the year at just over 300,000 becoming in the process the biggest cellular network in the world. The weekly net connection rate rose from just under 2,000 per week at the beginning of the year to 3,000 by the end. Some considerable credit for this exceptional achievement is due to our Service Providers who sell subscriber equipment and retail airtime on behalf of Vodafone.

The artificially low equipment prices caused a more rapid acceleration in the growth of subscriber connections than was expected.

This, together with delays in deploying the new ETACS voice channels caused a temporary deterioration in the service available to our customers.

As a result of being permitted to extend the use of the ETACS frequencies and by resolving the equipment supply problems the growth of capacity has accelerated rapidly and now exceeds the increase in subscriber demand.

In addition to adding new base stations Vodafone is introducing a back-up network and significantly increasing the number of switches in service to minimise the effects of faults which inevitably occur in complex networks.

This programme which began in March 1989 is the first of its kind in any cellular system in the world and underlines Vodafone's commitment to providing the best possible service to its customers.

Last year Vodafone invested a further £91 million, bringing its total investment to £238 million. This year investment will be increased to over £120 million to meet the subscriber growth which will be in excess of 150,000.

During the year Vodafone continued to be the market leader in the United Kingdom. It is understood that we enjoyed the highest usage per subscriber and hence revenue generation of any cellular network in the world.

Vodac

Racal-Vodac, our own Service Provider, has more than 50,000 subscribers connected to the Vodafone network. Increasingly, new connections are by major business houses which results in low bad debt and higher subscriber base stability.

Vodac supplies equipment to customers directly and to a lesser extent indirectly through a dealer network. Competition in this market is intense with margins being severely eroded and this is likely to continue.

STATEMENT BY THE CHAIRMAN

However, losses in equipment sales are offset by increased airtime sales which create an ongoing and growing revenue stream assuring a sound and stable business future.

Vodac is also responsible for our retail experiment and the first two Vodashops have been opened in Swindon and Southampton.

Vodata

Racal-Vodata offers a range of value added services which enhance the basic communications facilities of Vodafone and Vodapage and provide significant benefits to subscribers. Vodata has achieved substantial growth in turnover and profitability in each of its business areas.

Vodata's voice messaging service, 'Messenger', had a record year and has grown to be the largest such system in the world.

The Meterfone and Creditfone businesses (short term hire facilities and mobile credit card payphones) have also enjoyed a good year and are now established as market leaders.

Vodata's data-over-cellular is dominant in the market and contributes significantly to the attractiveness of the Vodafone network for corporate clients. Two new data services have been launched as well as a new data modem which is compatible with a wide range of cellular radios.

Information services continue to expand; two of the most popular being the Financial Times' 'CityLine' and the AA's 'Roadwatch'.

In April a joint venture between Racal Telecom and Cable & Wireless was announced to establish a packet-radio network in the United Kingdom. It is intended that this business will be in commercial operation early in 1990.

Vodapage

1988/89 was Vodapage's first full trading year. Subscribers increased from some 4,000 at the beginning of the year to more than 20,000 at the end.

The weekly growth rate which doubled during 1988/89 continues to increase and Vodapage is expected to trade profitably by the end of the current financial year.

Racal Telecom has entered into a consortium arrangement with five other United Kingdom paging operators to set up and run a paging service compatible with those operated by France Telecom, the Deutsches Bundespost and SIP (Italy) allowing subscribers to roam freely between the four networks. The consortium company designated 'Europage Limited' has selected Vodapage to set up and run the United Kingdom's part of this European Network.

International

The move towards the liberalisation of telecommunications, particularly in Europe, has created opportunities to enter into network operations in several countries either by joining in

partnership with local PTT's or the second cellular network licensee. There are also opportunities to enter the distribution business, retailing telecommunication products and services.

During 1988/89 substantial progress has been made towards these objectives. In France, Racal Telecom has a 4% equity holding in COFIRA whose subsidiary SFR opened France's first cellular radio service in March 1989.

In Greece and Malta memoranda have been signed which will result in Racal Telecom participating in cellular operations in those countries in partnership with OTE and Telemalta respectively.

In the Federal Republic of Germany, Racal Telecom is part of a consortium led by BMW and VEB. Other partners are Bell South of the USA, and COFIRA of France. The consortium has been formed for the purpose of submitting an application for the second cellular network operating licence. The outcome of the application is expected to be announced by the Federal Government by the end of 1989.

Vodac Radiotéléphone SA is currently setting up facilities in the major centres of France to sell, install and service mobile equipment matching the expansion of the SFR cellular network.

Band Three Radio

Band Three Radio, in which we have a 25% equity holding, continued to grow its nationwide private mobile radio network opening the south-east regional service in October 1988.

Software problems resulted in a shortage of system capacity which constrained subscriber growth for several months, but Band Three now has more than 10,000 subscribers and this will increase substantially with the introduction of the regional and national services.

Orbitel

Orbitel Mobile Communications, our 50:50 joint venture with Plessey, has established itself as a major supplier of analogue cellular radio infrastructure equipment. The engineering team set up to develop digital cellular infrastructure and subscriber equipment for the Pan-European System in co-operation with Ericsson and Matra is now in place and the development programme is on schedule. Current estimates are that this market will be in the order of £1 billion per annum in the early 1990's and Orbitel should be well placed to take a share of some 20%. Orbitel has been developing and will shortly be manufacturing in substantial quantities CT2, the second generation cordless telephone which, in addition to being a digital replacement for the current generation of cordless telephones, has applications in respect of cordless PABX's and Telepoint.

STATEMENT BY THE CHAIRMAN

Share Capital

Authority to allot

At the Extraordinary General Meeting of the Company held on 11 October 1988, a resolution was passed empowering the directors to allot the then unissued shares in the Company for a period expiring at the conclusion of the Annual General Meeting to be held in 1989. As this authority therefore expires shortly the directors are proposing at resolution 7 that they be authorised for the maximum period of five years allowed by the Companies Act 1985 to allot the unissued shares in the Company.

Allotment of shares for cash

At the Extraordinary General Meeting of the Company held on 11 October 1988, a resolution was passed enabling the directors to allot equity securities up to an aggregate amount of £2,500,000 for cash and also, on a rights issue, to sell the entitlements of overseas shareholders for their benefit. The purpose of this resolution 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 General Meeting of the Company to be held in 1989. The directors are therefore proposing at resolution 8 to renew this authority for the period to the 1990 Annual General Meeting.

G A Whent CBE

The announcement in Her Majesty The Queen's Birthday Honours List that Gerry Whent, the Chief Executive of the Company, had been made a Commander of the Most Excellent Order of the British Empire, was delightful news to us all.

The honour is so well deserved and is a very fitting recognition of the outstanding service he has rendered to both the country and to Racal Telecom.

Appreciation

1988/89 was an exceptional year for Racal Telecom and the flotation placed great demands on the staff, and in turn, on their families. The Company is young and expanding rapidly but the spirit, professionalism and dedication is a credit to all concerned and I am sure that you would wish me to place on record our appreciation of their outstanding efforts and achievements.

The Future

Mobile communications will be one of the outstanding growth markets of the next decade. Racal Telecom's strategy is to build upon the world leadership it has already established by:

- investing in, and developing its current businesses to optimise their potential;
- participating in the rapid expansion of mobile services as they spread throughout Europe.

In cellular radio we are increasing our ongoing investment in the analogue service to keep ahead of subscriber demand.

This will be augmented by the new high capacity Pan-European Digital System to be deployed in the early 1990's.

Orbitel is currently developing digital infrastructure and subscriber equipment as well as the new generation of digital cordless phones.

We are already expanding into Europe by:

- participation in consortia licensed to compete with national PTTs;
- partnership with PTTs who wish to use our expertise in introducing mobile telecommunications as an extension of their existing services.

We are also establishing a European equipment distribution organisation to exploit the opportunity presented by the integrated Pan-European Service.

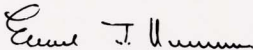
In Europe we intend to introduce value added services which have been so successful in the United Kingdom, and will continue to develop new concepts such as packet-radio.

The Government's statement of 22 June 1989 on Personal Communications Networks, expressed an intent to license two or possibly three new mobile operators in the 1.7 to 2.3 GHz band, with a view to their starting service in the 1990's. Although this development was expected, our share price was adversely affected by misinterpretation of the Government's statement.

It is confirmed that, under its existing licence, Racal Telecom will be able to develop a similar network in the 900 MHz band, in addition to its existing analogue and planned Pan-European Digital Services.

We anticipate that we will thereby maintain market leadership in this much enlarged market.

Racal Telecom will focus all of its efforts and resources on mobile communications and related activities. We believe no other market offers comparable growth prospects and earnings potential. All of our businesses are in buoyant markets and the prospects for the current year are good.



REPORT OF THE DIRECTORS

The directors submit their annual report and audited financial statements for the year ended 31 March 1989.

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.

Change of name and re-registration as a public company

On 5 September 1988, the Company's name was changed by special resolution of its members from Racal Telecommunications Group Limited to Racal Telecom Limited.

On 14 September 1988, the Company was re-registered as a public limited company with the name Racal Telecom public limited company.

Share capital

A statement of changes in the share capital of the Company appears on page 24 in Note 18.

Dividends and transfer to reserves

The consolidated profit and loss account is set out on page 13 and shows a profit for the financial year of £62,076,000.

The directors recommend a final dividend of 0.7p per ordinary share amounting to £7,000,000 payable on 16 August 1989 to ordinary shareholders on the Register of Members on 7 July 1989.

The retained loss for the year is £162,939,000 after paying a dividend of £218,015,000 on capital reconstruction upon flotation.

Fixed assets

The movement in tangible fixed assets is set out on pages 20 and 21 in Note 11.

Charitable and political contributions

During the year ended 31 March 1989, charitable contributions amounted to £1,450. No political contributions were made.

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 and have established during the year various 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.

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 13.85% of the Company's ordinary share capital and this holding underlies American Depositary Receipts (ADR's) issued by The Bank of New York.

The directors are not aware of any other holding in excess of 5%.

Close company provisions

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

REPORT OF THE DIRECTORS

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.

Directors

The directors who served during the year were as follows:

Sir Ernest Harrison	(appointed 25 August 1988)
G A Whent	
Sir William Barlow	(appointed 30 September 1988)
D Channing-Williams	(resigned 14 September 1988)
Sir Robert Clark	(appointed 30 September 1988)
C C Gent	
D J Henning	(resigned 14 September 1988)
K J Hydon	
E J Peett	

In accordance with the Company's articles of association, K J Hydon retires by rotation and being eligible offers himself for re-election. Sir Ernest Harrison, Sir William Barlow and Sir Robert Clark, who have been appointed since the last Annual General Meeting, retire and being eligible offer themselves for re-election.

K J Hydon has a service contract with the Company which expires on 30 September 1990. None of the other retiring directors have service contracts. None of the directors had a material interest in any contract of significance to which Racial Telecom Plc or any of its subsidiaries were a party during the financial year.

Of the above directors the following served as non-executive directors:

Sir Ernest Harrison
Chairman and Chief Executive of Racial 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.

Directors' interests in the shares of Racial Telecom Plc

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

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

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 Executive Share Option Scheme exercisable at 170p per share between 11 October 1991 and 10 October 1998.

No director had any interest in the share capital of the Company at 1 April 1988 or on his date of appointment.

No director had since 1 April 1988 any interest in the shares of any subsidiary company.

There have been no changes in the interests in Racial Telecom Plc of the directors during the period 1 April to 23 June 1989.

Directors' interests in the shares of Racial Electronics Plc

Sir Ernest Harrison had a beneficial interest in 1,542,856 ordinary shares in Racial Electronics Plc at 31 March 1989. (1,542,856 at the date of appointment).

None of the other directors had any interest, either beneficial or non-beneficial, in the ordinary shares of Racial Electronics Plc at 31 March 1989 or at 1 April 1988 (or at the date of appointment if later).

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 1989		1 April 1988	
	shares A	shares B	shares A	shares B
Sir Ernest Harrison	1,712	2,312	1,712	2,312
G A Whent	1,712	2,312	1,712	2,312
K J Hydon	Nil	4,625	Nil	4,625
E J Peett	Nil	4,625	Nil	4,625

- A. Options exercisable at 216p per share between 1 November 1989 and 30 April 1990.
 B. Options exercisable at 160p per share between 1 April 1991 and 30 September 1991.

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

	31 March 1989		1 April 1988	
	shares A	shares B	shares A	shares B
Sir Ernest Harrison	Nil	95,483	202,764	95,483
G A Whent	Nil	82,760	101,382	82,760
K J Hydon	Nil	26,981	Nil	26,981
E J Peett	Nil	Nil	Nil	35,267

- A. Options lapsed on 1 September 1988.
 B. Options exercisable at 212p per share between 26 March 1987 and 25 March 1991.

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

	31 March 1989				1 April 1988			
	shares A	shares B	shares C	shares D	shares A	shares B	shares C	shares D
Sir Ernest Harrison	170,533	173,874	141,000	64,000	170,533	173,874	141,000	Nil
G A Whent	139,908	70,514	134,000	38,000	139,908	70,514	134,000	Nil
C C Gent	Nil	150,354	22,000	Nil	Nil	244,354	22,000	Nil
K J Hydon	26,981	74,937	14,000	Nil	26,981	74,937	14,000	Nil
E J Peett	Nil	Nil	35,500	Nil	35,267	89,086	35,500	Nil

- A. Options exercisable at 226p per share between 24 August 1987 and 23 August 1994.
 B. Options exercisable at 124p per share between 4 July 1988 and 3 July 1995.
 C. Options exercisable at 217p per share between 24 February 1991 and 23 February 1998.
 D. Options exercisable at 328p per share between 8 August 1991 and 7 August 1998.

The options granted under this scheme are alternative to those granted under the Share Option Scheme up to the total number of shares originally granted under that scheme and the exercise of an option under either scheme will correspondingly reduce the number of shares under option under the other scheme.

The options granted under the Share Option Scheme at 217p in September 1984 lapsed on 1 September 1988. The alternative options granted at 226p are still exercisable.

In regard to Racial Electronics Plc there have been the following changes in the interests of the directors during the period 1 April to 23 June 1989:

K J Hydon exercised options totalling 101,918 shares under the Share Option Scheme and Share Option Scheme 1984 and subsequently sold them.

G A Whent exercised options totalling 210,422 shares under the Share Option Scheme and Share Option Scheme 1984 and subsequently sold 190,422 of them.

By Order of the Board
 David Whittaker
 Secretary

3 July 1989

GROUP HISTORICAL SUMMARY

£000 (except where stated)	1989	1988	1987	1986	1985
TURNOVER	240,134	138,007	67,856	34,524	4,277
PROFIT AND LOSS					
Profit/(loss) before taxation	84,530	37,061	(3,765)	(17,489)	(10,312)
Profit/(loss) after taxation, minority interest and extraordinary item	62,076	25,788	(13,972)	1618	114
Earnings per share	6.21p	2.58p	(1.40p)	0.16p	0.01p
BALANCE SHEET					
Fixed assets	208,719	131,227	86,493	63,130	16,194
Net assets/(liabilities)	(28,179)	(2,123)	28,395	36,365	4,775
Total assets	180,540	129,104	114,888	99,495	20,969
Shareholders' funds	180,540	22,004	(9,947)	965	(418)
Minority interests	—	—	—	3,675	1,187
	180,540	22,004	(9,947)	4,640	769
Capital loans	—	107,100	124,835	94,855	20,200
Capital employed	180,540	129,104	114,888	99,495	20,969

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 1989.

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.

Cost of 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. Included within the cost of tangible fixed assets are overheads incurred in the acquisition, establishment and installation of radio base stations.

Intangible fixed assets

Intangible fixed assets are amortised in equal annual instalments over six years.

Depreciation of tangible 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	5 years
Furniture and fittings	10 years

Investments

The consolidated financial statements include investments in associated companies using the equity method of accounting. The profit and loss account includes the Group's share of the pre-tax profit or loss 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, which are equity shareholdings in communication companies, 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. 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 commitments

During the year the Group participated in contributory pension schemes operated for the benefit of all the Group's permanent employees. These schemes are financed through separate trustee managed funds and contributions to the funds are based on actuarial advice following the most recent fund valuations.

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 1989

	NOTE	1989 £000	1988 £000
Turnover	1	<u>240,134</u>	<u>138,007</u>
Operating profit	2	89,566	50,391
Interest payable less receivable	5	<u>5,036</u>	<u>13,330</u>
Profit on ordinary activities before taxation		84,530	37,061
Tax on profit on ordinary activities	6	<u>22,454</u>	<u>11,273</u>
Profit on ordinary activities after taxation		62,076	25,788
Extraordinary item	7	—	<u>3,913</u>
Profit for the financial year		62,076	29,701
Dividends	8	<u>225,015</u>	—
Retained (loss)/profit for the financial year	19	(162,939)	29,701
Retained profit/(loss) brought forward		16,224	(13,477)
Transfer from share premium account	19	<u>192,492</u>	—
Retained profit carried forward		<u>45,777</u>	<u>16,224</u>
Earnings per share	9	<u>6.21p</u>	<u>2.58p</u>

CONSOLIDATED BALANCE SHEET AT 31 MARCH 1989

	NOTE	1989		1988	
		£000	£000	£000	£000
FIXED ASSETS					
Intangible assets	10		575		908
Tangible assets	11		200,881		126,336
Investments	12		<u>7,263</u>		<u>3,983</u>
			208,719		131,227
CURRENT ASSETS					
Stocks	13	4,158		7,036	
Debtors	14	63,793		53,836	
Cash at bank and in hand		<u>14,870</u>		<u>621</u>	
		82,821		61,493	
CREDITORS: amounts falling due within one year	15	<u>109,237</u>		<u>168,064</u>	
NET CURRENT LIABILITIES			<u>(26,416)</u>		<u>(106,571)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			182,303		24,656
CREDITORS: amounts falling due after more than one year	16		1,636		2,181
PROVISIONS FOR LIABILITIES AND CHARGES	17		<u>127</u>		<u>471</u>
			<u>180,540</u>		<u>22,004</u>
CAPITAL AND RESERVES					
Called up share capital	18		50,000		—
Share premium account	19		82,058		—
Other reserves	19		2,705		5,780
Profit and loss account	19		<u>45,777</u>		<u>16,224</u>
			<u>180,540</u>		<u>22,004</u>

G A WHENT Chief Executive

K J HYDON Financial Director

3 July 1989

BALANCE SHEET AT 31 MARCH 1989

	NOTE	1989		1988	
		£000	£000	£000	£000
FIXED ASSETS					
Tangible assets	11		280		111
Investments	12		<u>513,216</u>		<u>110,292</u>
			513,496		110,403
CURRENT ASSETS					
Debtors	14	85,866		3,653	
Cash at bank		<u>13,890</u>		<u>65</u>	
		99,756		3,718	
CREDITORS: amounts falling due within one year	15	<u>25,588</u>		<u>25,018</u>	
NET CURRENT ASSETS/(LIABILITIES)			<u>74,168</u>		<u>(21,300)</u>
			<u>587,664</u>		<u>89,103</u>
CAPITAL AND RESERVES					
Called up share capital	18	50,000		-	
Share premium account	19	82,058		-	
Other reserves	19	87,895		90,970	
Profit and loss account	19	<u>367,711</u>		<u>(1,867)</u>	
			<u>587,664</u>		<u>89,103</u>

G A WHENT Chief Executive

K J HYDON Financial Director

3 July 1989

SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED 31 MARCH 1989

	1989		1988	
	£000	£000	£000	£000
FUNDS GENERATED BY OPERATIONS				
Profit on ordinary activities before taxation		84,530		37,061
Extraordinary profit		—		3,913
		<u>84,530</u>		<u>40,974</u>
Adjustments for items not involving the movement of funds:				
Depreciation and amortisation	20,429		14,237	
Losses/(profits) retained in associated companies	205		(466)	
Provision against intangible assets in associated companies	—	20,634	4,549	18,320
		<u>20,634</u>		<u>18,320</u>
TOTAL GENERATED BY OPERATIONS		105,164		59,294
FUNDS FROM OTHER SOURCES				
Proceeds of sale of tangible fixed assets	206		546	
Capital reserve arising on purchase of subsidiaries	—		917	
Taxation recovered	11,101	11,307	20,937	22,400
		<u>11,307</u>		<u>22,400</u>
		116,471		81,694
APPLICATION OF FUNDS				
Investments	3,332		7,506	
Taxation paid	11,504		1,007	
Purchase of tangible fixed assets	94,847		54,107	
Repayment of capital loans	5,115	(114,798)	17,735	(80,355)
		<u>(114,798)</u>		<u>(80,355)</u>
FLOTATION (Note 20)		1,475		—
DECREASE/(INCREASE) IN WORKING CAPITAL				
Stocks	2,878		(2,602)	
Debtors	(19,352)		(6,434)	
Creditors	27,575	11,101	7,737	(1,299)
		<u>11,101</u>		<u>(1,299)</u>
NET INFLOW OF FUNDS		14,249		40
MOVEMENT IN NET LIQUID FUNDS				
Cash at bank and in hand		14,249		(1,220)
Bank overdraft		—		1,260
		<u>14,249</u>		<u>40</u>

NOTES ON THE FINANCIAL STATEMENTS

1 TURNOVER

	1989 £000	1988 £000
Supply of mobile telecommunications services and products	<u>240,134</u>	<u>138,007</u>
A geographical analysis of turnover by area of destination:		
United Kingdom	239,501	135,752
Asia	611	2,229
Continental Europe	<u>22</u>	<u>26</u>
	<u>240,134</u>	<u>138,007</u>

2 OPERATING PROFIT

	1989 £000	1988 £000
Turnover	240,134	138,007
Cost of sales	<u>110,755</u>	<u>59,067</u>
Gross profit	129,379	78,940
Selling and distribution costs	12,430	10,308
Administrative expenses	26,466	18,349
Royalties receivable	<u>(109)</u>	<u>(853)</u>
	<u>38,787</u>	<u>27,804</u>
	90,592	51,136
Share of losses of associated companies	<u>1,026</u>	<u>745</u>
	<u>89,566</u>	<u>50,391</u>
Operating profit has been arrived at after charging/(crediting):		
Pension holiday	(704)	(373)
Depreciation of tangible fixed assets	<u>20,096</u>	<u>13,912</u>
Amortisation of intangible fixed assets	<u>333</u>	<u>333</u>
Hire of equipment	<u>107</u>	<u>460</u>
Auditors' remuneration	<u>127</u>	<u>104</u>

3 EMPLOYEES

The average number of persons employed by the Group during the year:

	1989 Number	1988 Number
Administration	627	503
Engineering	70	15
Selling and distribution	<u>220</u>	<u>182</u>
	<u>917</u>	<u>700</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

1989 £000	1988 £000
15,589	10,067
1,132	764
18	207
16,739	11,038

Employees (excluding directors of the Company) of the Group whose emoluments 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

1989 Number	1988 Number
19	15
17	10
9	5
3	1
1	–
2	–
1	1

The Company had no employees (1988 – nil) whose emoluments exceeded £30,000.

4 DIRECTORS

Emoluments

1989 £	1988 £
727,416	408,126

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

Chairman

–	–
---	---

Highest paid director

241,507	94,566
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The highest paid director in 1989 was the Chief Executive who was paid by Racal Electronics Plc in 1988 and is therefore not the person referred to in the comparative figure for 1988.

Other directors

£ 0 – £ 5,000
£ 10,001 – £ 15,000
£ 30,001 – £ 35,000
£ 35,001 – £ 40,000
£ 40,001 – £ 45,000
£ 50,001 – £ 55,000
£ 65,001 – £ 70,000
£ 75,001 – £ 80,000
£ 90,001 – £ 95,000
£110,001 – £115,000

1989 Number	1988 Number
–	1
2	–
1	–
1	–
–	1
–	2
1	–
–	1
1	–
1	–

NOTES ON THE FINANCIAL STATEMENTS

5 INTEREST PAYABLE LESS RECEIVABLE

	1989 £000	1988 £000
Interest payable:		
Fellow subsidiary loans	5,548	13,165
Other loans repayable within five years	4,917	621
	<u>10,465</u>	<u>13,786</u>
Interest receivable	5,429	456
	<u>5,036</u>	<u>13,330</u>

6 TAX ON PROFIT ON ORDINARY ACTIVITIES

	1989 £000	1988 £000
Corporation tax charge on profit for the year at 35% (1988 – 35%)	22,483	11,808
Transfer to/(from) deferred taxation	124	(960)
Associated companies	(153)	425
	<u>22,454</u>	<u>11,273</u>

The taxation charge for the year has been reduced by £7,560,000 (1988 – £3,290,000) as a result of accelerated capital allowances being higher than depreciation.

7 EXTRAORDINARY ITEM

	1989 £000	1988 £000
Profit arising on disposal of business	–	3,913

8 DIVIDENDS

	1989 £000	1988 £000
Paid on capital reconstruction	218,015	–
Proposed final dividend of 0.7p per ordinary share	7,000	–
	<u>225,015</u>	<u>–</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.

9 EARNINGS PER SHARE

Earnings per share are based upon the 1,000,000,000 ordinary shares now in issue as if such number had been outstanding throughout the relevant periods and is calculated on the profit on ordinary activities after taxation of £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

10 INTANGIBLE FIXED ASSETS – GROUP

	Know How 1989 £000	Know How 1988 £000
Cost		
1 April	2,000	2,000
Amortisation		
1 April	1,092	759
Charge for the year	333	333
31 March	1,425	1,092
Net book value		
31 March	575	908

11 TANGIBLE FIXED ASSETS – GROUP

	Freehold Premises £000	Short Term Leasehold Premises £000	Plant Machinery & Vehicles £000	Fixtures & Fittings £000	Cellular Radio Systems £000	Total £000
Cost						
1 April 1988	–	–	9,312	3,706	140,203	153,221
Additions	1,824	232	6,856	4,409	81,516	94,837
Transfers from Group companies	–	–	12	1	–	13
Disposals	–	–	(629)	(70)	–	(699)
Transfers to Group companies	–	–	(7)	–	–	(7)
31 March 1989	1,824	232	15,544	8,046	221,719	247,365
Depreciation						
1 April 1988	–	–	3,081	719	23,085	26,885
Charge for the year	–	2	2,748	614	16,732	20,096
Transfers from Group companies	–	–	3	–	–	3
Disposals	–	–	(486)	(8)	–	(494)
Transfers to Group companies	–	–	(6)	–	–	(6)
31 March 1989	–	2	5,340	1,325	39,817	46,484
Net book value						
31 March 1989	1,824	230	10,204	6,721	181,902	200,881
31 March 1988	–	–	6,231	2,987	117,118	126,336
Cellular radio systems comprise:		Short Term Leasehold Premises £000	Plant & Machinery £000			Total £000
31 March 1989						
Cost		31,235	190,484			221,719
Depreciation		6,739	33,078			39,817
Net book value		24,496	157,406			181,902
31 March 1988						
Net book value		19,398	97,720			117,118

NOTES ON THE FINANCIAL STATEMENTS

11 TANGIBLE FIXED ASSETS – COMPANY

Cost	Plant Machinery & Furniture £000	Motor Vehicles £000	Total £000
1 April 1988	64	146	210
Additions	72	157	229
Transfers from Group companies	25	12	37
Disposals	(6)	(18)	(24)
Transfers to Group companies	(5)	(47)	(52)
31 March 1989	150	250	400
Depreciation			
1 April 1988	21	78	99
Charge for the year	19	54	73
Transfers from Group companies	–	3	3
Disposals	(3)	(13)	(16)
Transfers to Group companies	(2)	(37)	(39)
31 March 1989	35	85	120
Net book value			
31 March 1989	115	165	280
31 March 1988	43	68	111

12 FIXED ASSET INVESTMENTS – GROUP

	Associated Companies £000	Other Investments £000	Total £000
1 April 1988	3,983	–	3,983
Additions	2,380	952	3,332
Share of retained losses for the year	(52)	–	(52)
31 March 1989	6,311	952	7,263

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

	£000
Group share of retained losses on consolidation	(1,026)
Group share of associated companies taxation charge	153
Consolidation adjustment for interest on deep discounted bond financing	821
	(52)

None of the Group's investments are listed on any stock exchange.

NOTES ON THE FINANCIAL STATEMENTS

12 FIXED ASSET INVESTMENTS – COMPANY

	Subsidiary Companies £000	Associated Companies £000	Other Investments £000	Total £000
1 April 1988	102,971	7,321	–	110,292
Additions	400,005	2,380	952	403,337
Provisions	–	(413)	–	(413)
31 March 1989	502,976	9,288	952	513,216

Details of the Company's subsidiary and associated companies and other investments are given on page 27.

13 STOCKS

	1989 £000	1988 £000
Finished goods	4,158	7,036

14 DEBTORS

	1989		1988	
	Group £000	Company £000	Group £000	Company £000
Due within one year:				
Trade debtors	36,901	–	27,535	–
Amounts owed by associated companies	1	1	–	–
Amounts owed by fellow subsidiaries	163	–	12,580	–
Amounts owed by subsidiaries	–	85,103	–	2,768
Taxation recoverable	3,500	–	–	623
Other debtors	2,508	7	1,126	262
Prepayments and accrued income	19,732	287	10,774	–
	62,805	85,398	52,015	3,653
Due after more than one year:				
Trade debtors	473	–	1,516	–
Other debtors	305	–	–	–
Prepayments	210	468	305	–
	63,793	85,866	53,836	3,653

Included within trade debtors is a net investment in finance leases of £1,410,000 (1988 - £2,947,000) of which £473,000 (1988 - £1,516,000) is due after more than one year.

15 CREDITORS: amounts falling due within one year

	1989		1988	
	Group £000	Company £000	Group £000	Company £000
Trade creditors	33,933	114	13,154	197
Amounts owed to fellow subsidiaries	1,383	559	112,872	11,699
Amounts owed to associated companies	4,408	–	6,287	768
Amounts owed to subsidiaries	–	12,046	–	11,959
Taxes and social security	29,484	1,861	16,139	59
Other creditors	1,193	–	868	–
Proposed dividend	7,000	7,000	–	–
Accruals and deferred income	31,836	4,008	18,744	336
	109,237	25,588	168,064	25,018

NOTES ON THE FINANCIAL STATEMENTS

16 CREDITORS: amounts falling due after more than one year

Trade creditors

1989		1988	
Group £000	Company £000	Group £000	Company £000
1,636	—	2,181	—

17 PROVISIONS FOR LIABILITIES AND CHARGES – GROUP

1 April 1988
Profit and loss account

Deferred
Taxation
£000

471
124

31 March 1989

595

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

	1989		1988	
	Amount Provided £000	Potential Liability £000	Amount Provided £000	Potential Liability £000
Accelerated capital allowances	207	27,670	323	20,322
Other timing differences	388	388	148	147
	595	28,058	471	20,469
Advance corporation tax recoverable	(468)	(468)	—	—
	127	27,590	471	20,469

COMPANY

The Company has no liability to deferred taxation.

NOTES ON THE FINANCIAL STATEMENTS

18 SHARE CAPITAL

	Group and Company			
	1989		1988	
	Number	£000	Number	£000
Authorised:				
Ordinary shares 5p each (1988 – £1 each)	1,200,000,000	60,000	1,000,000	1,000
Allotted, called up and fully paid:				
1 April	100	–	100	–
Sub-division	1,900	–	–	–
Capitalisation issue	998,000	50	–	–
Capitalisation issue	798,208,890	39,910	–	–
On offer for sale	200,791,110	10,040	–	–
31 March	1,000,000,000	50,000	100	–

On 14 September 1988 each £1 ordinary share of the Company was sub-divided into 20 ordinary shares of 5p each and the authorised share capital was increased to £60 million by the creation of 1,180 million additional ordinary shares of 5p each.

On 14 September 1988 the Company capitalised £49,900 standing to the credit of the merger reserve and allotted, credited as fully paid, 998,000 ordinary shares of 5p each.

On 11 October 1988 the Company capitalised £39,910,000 standing to the credit of the merger reserve and allotted, credited as fully paid, 798,208,890 ordinary shares of 5p each.

The Company allotted 200,791,110 new ordinary 5p shares pursuant to an offer for sale and sold these shares at 170p per share on 24 October 1988. The proceeds of the offer were £341,475,000 (£321,475,000 net of expenses) and reflect the foreign exchange fluctuations on the pricing of the European and American offers.

Options:

The Company granted the following options during the year to subscribe for ordinary shares:

	Number	Price	Period during which exercisable
Savings Related Share Option Scheme	246,235	171p	1 March 1994 to 31 August 1994
Executive Share Option Scheme	370,000	170p	11 October 1991 to 10 October 1998
	639,000	205p	19 January 1992 to 18 January 1999

19 RESERVES Share premium account

	Group and Company
1 April 1988	–
Premium arising on issue of ordinary shares net of expenses	311,435
Transfer to merger reserve	(36,885)
Transfer to profit and loss account	(192,492)
31 March 1989	82,058

During the year the approval of shareholders and of the court was obtained to reduce the Company's share premium account by £229,377,000.

NOTES ON THE FINANCIAL STATEMENTS

19 RESERVES Other reserves

	Capital Reserve £000	Merger Reserve £000	Group Total £000	Company Merger Reserve £000
1 April 1988	2,705	3,075	5,780	90,970
Capitalisation share issues (Note 18)	—	(39,960)	(39,960)	(39,960)
Transfer from share premium account	—	36,885	36,885	36,885
31 March 1989	2,705	—	2,705	87,895

Profit and loss account

	Group Companies £000	Associated Companies £000	Group Total £000	Company £000
1 April 1988	15,862	362	16,224	(1,867)
Transfer from share premium account	192,492	—	192,492	192,492
Profit/(loss) retained for the year	(162,066)	(873)	(162,939)	177,086
31 March 1989	46,288	(511)	45,777	367,711

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 £402,101,000 (1988 – £375,000).

20 NET PROCEEDS OF FLOTATION

	1989 £000
Proceeds of flotation net of expenses	321,475
Dividend paid on capital reconstruction	(218,015)
Repayment of capital loans upon flotation	(101,985)
	1,475

21 LEASED ASSETS Operating leases

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

	Group 1989		Group 1988	
	Land and buildings £000	Other Assets £000	Land and buildings £000	Other Assets £000
In respect of leases expiring:				
Within one year	426	5	106	3
Between two and five years	1,503	1,168	130	594
After five years	1,536	—	1,444	—

The Company had no commitments under operating leases.

Finance leases

The Group and the Company do not hold any assets under finance leases.

NOTES ON THE FINANCIAL STATEMENTS

22 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 Racal Telecom Plc and subsidiaries as follows:

- The services of a chairman of the board of directors of Racal Telecom Plc.
- General company secretarial services including the services of a company secretary for Racal Telecom Plc and each of its subsidiaries.
- Such legal advice and services as Racal Telecom Plc 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 Racal Telecom Plc.

23 CAPITAL COMMITMENTS – GROUP

Contracted for but not provided in the financial statements

1989 £000	1988 £000
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93,702	24,723
--------	--------

Authorised by respective boards of directors but not contracted for

28,413	22,549
--------	--------

COMPANY

The future capital commitments in respect of the Company amounted to £nil (1988 – £nil).

24 CONTINGENT LIABILITIES

The Group has given a guarantee of £84,000 (1988 – £84,000) in respect of rent payable for office premises. Guarantees given, jointly or otherwise, on behalf of an associated company include £120,000 in respect of vehicle leases and £227,000 per annum in respect of a fifteen year property lease.

REPORT OF THE AUDITORS To the members of Racal Telecom Plc

We have audited the financial statements on pages 12 to 27 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 1989 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

3 July 1989

SUBSIDIARY, ASSOCIATED AND OTHER COMPANIES

The Company had at 31 March 1989 the following principal subsidiaries, associated companies and other investments, all of which are incorporated and operate in England (unless otherwise stated), and have share capital consisting solely of ordinary shares.

SUBSIDIARY COMPANIES

All subsidiaries are wholly owned, sub-subsidiaries are shown inset.

Name	Activity
Racal Cellular Limited	Holding company
Racal-Vodac Limited	Service provider for Vodafone network
Racal-Vodacom Limited	Service provider for Band Three Radio
Racal-Vodafone (Holdings) Limited	Holding company
Racal-Vodafone Limited	Operation of cellular network
Racal-Vodapage Limited	Operation of radio paging service
Racal-Vodata Limited	Supply of value added services
Vodac Radiotéléphone SA (France)	Mobile radio equipment retailer

ASSOCIATED COMPANIES

Name	Activity	Percentage Shareholding	Value of Issued Equity
Band Three Holdings Limited	Holding company	25	£6,480,000
Band Three Radio Limited	Operation of trunked mobile radio	25	
Orbitel Mobile Communications (Holdings) Limited	Holding company	50	£2
Orbitel Mobile Communications Limited	Mobile telecommunications equipment manufacture	50	

OTHER INVESTMENTS

Name	Activity
COFIRA (France)	Operation of French cellular network
Europage Limited	Operation of Pan-European paging network

ULTIMATE HOLDING COMPANY

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

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").

	1989 £000	1988 £000
NET INCOME AND EARNINGS PER ORDINARY SHARE		
Net income before extraordinary item as reported in accordance with UK GAAP	62,076	25,788
Items increasing/(decreasing) net income before extraordinary item:		
Goodwill amortisation	(2,248)	(2,248)
Deferred income taxes	(7,839)	(2,973)
Capitalisation of interest costs – net of amortisation	1,792	764
Net income before extraordinary item in accordance with US GAAP	53,781	21,331
Extraordinary item in accordance with US GAAP	–	–
Net income in accordance with US GAAP	53,781	21,331
Earnings per ordinary share in accordance with US GAAP	6.07p	2.67p
SHAREHOLDERS' EQUITY	£000	£000
Shareholders' equity as reported in accordance with UK GAAP	180,540	22,004
Items increasing/(decreasing) shareholders equity:		
Goodwill charged directly to equity	88,145	88,145
Cumulative amortisation of goodwill	(5,097)	(2,849)
Cumulative deferred income taxes	(27,839)	(20,000)
Cumulative capitalisation of interest costs – net of amortisation	4,837	3,045
Cumulative impact of differences on minority interest	2,867	2,867
Shareholders' equity in accordance with US GAAP	243,453	93,212
TOTAL ASSETS		
Total assets as reported in accordance with UK GAAP	291,540	192,720
Items increasing/(decreasing) total assets:		
Goodwill charged directly to equity	88,145	88,145
Cumulative amortisation of goodwill	(5,097)	(2,849)
Cumulative capitalisation of interest costs – net of amortisation	4,837	3,045
Total assets in accordance with US GAAP	379,425	281,061

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 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) Extraordinary Item

As described in Note 7 to the audited financial statements under UK GAAP, a profit arising on disposal of a business in the year ended 31 March 1988 was classified as an extraordinary item. For the purposes of the UK and US registration statements, this extraordinary item did not appear in the financial statements included therein because the financial statements of the Group were modified to present a consistent, historical record of the Group's results based on the Group's structure as it existed on the date of the offering. In order to present the US GAAP results on a basis consistent with that used in the registration statement on Form F-1, the extraordinary item has been excluded from the UK to US GAAP reconciliation.

(d) Capitalisation of interest costs

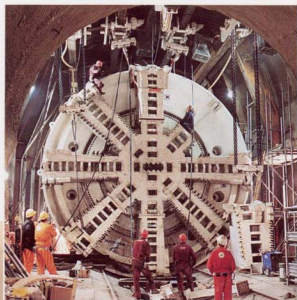
Under UK GAAP, interest on borrowings used to finance the construction of an asset is not required to be included in the cost of the asset. Under US GAAP, the interest cost on borrowings used to finance the construction of an asset is capitalised during the period of construction until the date that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

(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 Share

Earnings per ordinary share is calculated by dividing net income of £21,331,000 and £53,781,000 for the years ended 31 March 1988 and 1989 respectively by 800,000,000 and 886,000,000, the approximate weighted average number of ordinary shares outstanding for the years ended 31 March 1988 and 1989 respectively.



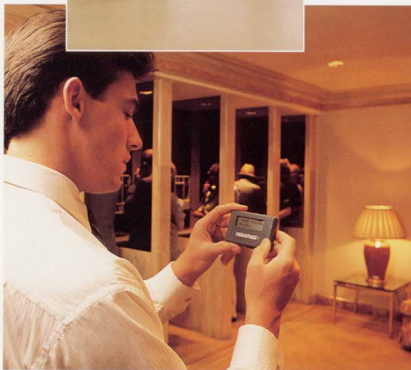
Racal Telecom is ideally placed to take advantage of the enormous potential for mobile communications which will be vital in the European free market.





The Orbital facilities have been designed to meet the engineering development and production of equipment for the present UK analogue and future Pan-European digital cellular markets.

Racal Telecom, in addition to operating a UK nationwide radio paging service through its subsidiary Racal-Vodapage, is also a member of the Europage consortium which will provide communications throughout many European countries.



SERVICE PROVIDERS

VODAFONE

Air Call Cellular	London Car Telephones
Astec Communications	Marconiphone
Avis Management Services	Metro Cellular
The Carphone Group	Mobilephone
Carphones of Britain	Mobile Telecommunications
C-Com International	Nationwide Cellular Telephones
Cellcom	National Telephones
Cellwest	Nokia Mobira
Connexions	Pinnacle Telephone
Digital Mobile Communications	Racal-Vodac
ECT Cellular	Robert Bosch
Europa Communications	Space-Tel Communications
Excell Communications	Storno Cellular Services
Intercell	UniqueAir
Intercity Mobile Communications	Woodend Leasing

VODAFONE & VODAPAGE

Airetel	Millicom Cellular UK
Cellular Communications	The Novafone Group
Contactors Communications	Philips Telecom
International Communications	Quadrant Communications
Martin Dawes Communications	Softcel Communications
	Wavetech Network Services

VODAPAGE

Chubb Alarms	Intercity Paging
ECT Paging	Radio Links Communications
Infopage	Talkland
	Unipage

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

Mobile and Hand-Portable Cellular Telephones

Private Mobile Radio

Radiopaging

Value Added Network Services

The Chief Executive and Chairman on the day the offer price for Racal Telecom was announced.



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