Racal Electronics Plc
Annual Report & Accounts
2000

RACAL

contents

Board of Directors

Racal Electronics PLC

Sir Colin Chandler	Chairman
Brigitte Bouquot	Director
Alex Dorrian	Non-executive director
Lord Freeman	Non-executive director
Antoine Lagomarsino	Financial director
José Massol	Acting Chairman, Industrial Electronics and Transportation Services
Richard Moon	Chairman, Defence Electronics

Brigitte Bouquot	Company Secretary

Registered Office:
Western Road, Bracknell, Berkshire RG12 1RG.

Report of the Directors

The directors submit their annual report and audited financial statements for the year ended 31 March 2000.

REVIEW OF THE GROUP'S BUSINESS

Racal Electronics Plc is the parent company of a group whose principal activities during the year were Defence Electronics, Industrial Electronics and Transportation Services. The principal companies which materially contribute to the assets and profits appear on pages 12 and 13.

Group

Total turnover from continuing operations (including joint ventures) for the year ended 31 March 2000 amounted to £772.4 million (1998/99: £799.9 million). On-going operating profit inclusive of associates and joint ventures from continuing operations was £71.7 million (1998/99: £97.2 million) with the majority of the reduction being in Industrial Electronics which had a difficult year. (Note: on-going operating profit excludes compensation payment to option holders, see financial section below).

Defence Electronics

In Defence Electronics sales declined to £340.9 million (1998/99: £357.1 million) due in particular to delays in the receipt of a number of naval electronic warfare orders. Operating profit was £23.7 million (1998/99: £24.3 million) before reorganisation costs of £5.5 million (1998/99: £2.5 million). Despite lower turnover, operating margins improved from 6.8 per cent to 7.0 per cent. A very successful year for Avionics offset some order intake slippage in other parts of Defence Electronics leaving the order book at a similar level to last year of some £500 million.

Industrial Electronics

Industrial Electronics sales were £297.0 million (1998/99: £320.9 million) with operating profit of £23.9 million (1998/99: £39.8 million) before reorganisation costs of £3.0 million (1998/99: £1.0 million) and margins reduced from 12.4 per cent to 8.0 per cent. The reductions in sales, operating profit and margins were primarily attributable to a downturn in the Survey and Instruments' businesses. As indicated in December, Survey was impacted by low oil prices and restructuring among its major customers, while Instruments' sales and margins reduced significantly due to the completion of a major US equipment supply contract during the first half of 1998/99.

Transportation Services

Sales were £151.3 million (1998/99: £152.9 million) producing operating profit of £17.0 million before reorganisation costs of £0.1 million (1998/99: £19.3 million with no reorganisation costs). The results were impacted by a competitive trading environment particularly associated with expected tariff reductions on maintenance and other contracts in the railway sector. The 'Connect' contract for London Underground's new radio and telecommunications network, which was awarded to Citylink Telecommunications in which the Group has a 33 per cent shareholding, benefited performance in the second half of the year. In addition to Racal being the largest shareholder, Translink is a major subcontractor for the project.

Other Associates and Joint Ventures

Other associates and joint ventures continue to make an important contribution to the performance of the Company with profits in the year of £17.1 million (1998/99: £18.9 million). SIS continues to perform well. The profit contribution from Camelot declined primarily due to a rise in operating costs because of increased marketing investment for the future benefit of the National Lottery Distribution Fund and The National Lottery brands.

Group Results

The Group's financial position has been significantly strengthened by the disposal of Racal Telecom during the year. At the end of the year the Group had net cash of £123.6 million compared to a debt of £303.7 million in the prior year and shareholders' funds had increased to £483.1 million (1998/99: £367.2 million).

As referred to in our announcement of the interim results in December 1999, a charge has been made to operating profits of £12.4 million in order to provide compensation to members of the Company's share option schemes. This is in respect of the special dividend paid on 28 January 2000 to shareholders on the register on 14 January 2000 which was associated with the disposal of Racal Telecom. Exclusive of this charge and inclusive of associates and joint ventures, the operating profit from continuing operations was £71.7 million (1998/99: £97.2 million), after charging reorganisation costs that increased to £8.7 million from £3.6 million in 1998/99.

The sale of Racal Telecom to Global Crossing was completed on 24 November 1999 and the results for this business, together with those of a number of small operations, have been treated as discontinued. Operating losses were £13.8 million (1998/99: profit of £0.8 million). The comparative figures for discontinued operations also include those of the Racal Data Group, which was sold in September 1998.

Exceptional items amounted to a profit of £587.8 million (1998/99: exceptional profit of £1.4 million) mainly due to a gain from the disposal of Racal Telecom of £597.0 million after writing-off goodwill of £120.4 million. Of this latter item £118.8 million had no effect on shareholders' funds. The cost of the fundamental reorganisation in Racal Telecom in the period prior to the disposal was £4.0 million (1998/99: £10.2 million).

The Group generated a profit of £6.9 million from the sale of other fixed asset investments (1998/99: £3.5 million). This related to the completion of the sale of share warrants in a US business, which had been retained following the sale of the Racal Data Group.

Net interest payable reduced to £8.7 million (1998/99: £22.1 million) as a result of the sale of Racal Telecom and the elimination of net debt in the second half of the year.

Pre-tax profit amounted to £631.5 million compared with £80.8 million in 1998/99.

Taxation for the year is estimated at £142.6 million (1998/99: £15.3 million) which includes a charge of £125 million in respect of the capital gain made on the disposal of Racal Telecom. This estimated charge has benefited from the deduction of approximately £100 million being the effect of the utilisation of capital losses that are subject to agreement with the Inland Revenue. The tax rate for continuing operations is 27.2 per cent (1998/99: 17.0 per cent).

Shareholder returns

Basic earnings per share was 168.78p (1998/99: 23.09p per share). Adjusting for discontinued operations the figure becomes 17.51p per share (23.66p per share in 1998/99).

No final dividend is proposed due to the acquisition of the Company by Thomson-CSF, giving a total of 169.1p net per share for the year, of which 167.0p per share was paid as a special dividend from the sale of Racal Telecom (1998/99: 6.0p net per share).

Cash Flow

Net cash inflow of £381.0 million occurred in the year (1998/99: £9.0 million), leaving net cash (inclusive of finance leases) of £123.6 million (net debt of £303.7 million at 31 March 1999). There was an inflow of £958.1 million before disposal costs from the sale of Racal Telecom to Global Crossing from which £489.4 million was returned to shareholders through the payment of a special dividend.

Report of the Directors

Capital expenditure was £93.6 million (1998/99: £118.9 million) with most of the reduction being attributable to the sale of Racal Telecom during the year.

Research and development

The Group maintains extensive laboratory facilities and continues to invest considerable resources in the development of new and existing products.

Future developments

The offer from Thomson-CSF Invest Limited for the issued share capital of the Company went unconditional on 15 June 2000 and as a consequence the Company is now a subsidiary of Thomson-CSF SA.

Share capital

A statement of changes in the share capital of the Company appears on page 32 in Note 25.

Employee involvement

The Company positively encourages the involvement of employees within the business and a variety of communication processes have been established throughout the Group to ensure regular contact and exchange of information. These include, but are not limited to, team briefings, staff councils, trade union committees, focus groups and departmental meetings.

Disabled persons

The Group is very conscious of the difficulties experienced by people with disabilities. Its attitude to 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 and is based on ability, qualifications and suitability for the work.

The Group is a member of the Employers' Forum on Disability.

Charitable and political contributions

During the year ended 31 March 2000 charitable contributions amounted to £219,000 (1999: £218,000).

No political contributions were made.

Goodwill

As a result of acquisitions, £7.4 million of goodwill was capitalised on the consolidated balance sheet during the year. This was reduced by a disposal of £1.6 million and amortisation charges of £0.5 million. £118.8 million of goodwill charged to reserves in prior years was disposed of in the year. (1999: £2.9 million of goodwill on acquisitions was capitalised, which was reduced by a disposal of £0.4 million and amortisation charges of £0.1 million.)

Payments to creditors

It is the Group's normal practice to make payments to suppliers promptly provided that the supplier has performed in accordance with the relevant terms and conditions. Group trade creditors at 31 March 2000 were equivalent to 56 days' average daily amount invoiced by suppliers during the year (1999: 54 days).

Employee Share Ownership Trust

The Company has established an Employee Share Ownership Trust to purchase shares in the market for distribution at a later date in accordance with the terms of the Racal Share Option Scheme 1992, the Racal Share Option Scheme 1995 and the Racal Share Option Scheme 1997 and to subscribe for the Company's ordinary shares so that such shares can be used to satisfy options granted and to be granted under the terms of the Racal Share Option Scheme 1992, the Racal Share Option Scheme 1997 and the Racal Share Savings Plan (1990). The shares are held by an independent trustee and the right to dividend on the shares has been waived apart from a nominal amount. Accordingly, the executive directors and other executives of the Company have an interest in the shares held within the Trust. As at 31 March 2000, the number of shares held by the Trust totalled 190,798 shares (1999: 2,980,000 shares) and the cost of such shares amounted to £482,000 (1999: £7,706,000). These shares, whilst legally not the property of the Company, have been included in fixed asset investments as shown on page 27 in Note 14.

Directors

The directors throughout the year were B J Clarke, Lord Inge, R J Moon, M R Richardson, Sir Clive Whitmore, D Whittaker and A R Wood. Sir Colin Chandler was appointed a director on 2 June 1999, Sir Gerald Whent resigned as a director on 4 August 1999, D C Elsbury resigned as a director on 13 October 1999 and Sir Ernest Harrison resigned as a director on 31 January 2000.

B J Clarke resigned as a director on 31 May 2000. On 16 June 2000, Lord Inge, M R Richardson, Sir Clive Whitmore, D Whittaker and A R Wood resigned as directors of the Company and B Bouquot, A Dorrian, Lord Freeman, A Lagomarsino and J Massol were appointed directors of the Company.

B Bouquot, A Dorrian, Lord Freeman, A Lagomarsino and J Massol, who have been appointed to the Board since the last Annual General Meeting, retire and being eligible, offer themselves for election.

In accordance with the Company's Articles of Association, R J Moon retires by rotation and, being eligible, offers himself for re-election.

None of the directors had a material interest in any contract of significance to which the parent company or a subsidiary was a party during the financial year.

Company Secretary

On 16 June 2000, D Whittaker resigned as company secretary and B Bouquot was appointed.

Directors' share interests

The directors' share interests are set out later in the Report of the Directors on page 8.

Substantial holdings

As at 28 June 2000 the directors had been informed of the following interests in the Company's ordinary share capital in excess of 3%:

Thomson-CSF Invest Limited	91.41%
Deutsche Bank AG	5.18%
Prudential Corporation plc*	3.64%
Morgan Stanley Securities Limited	3.15%

*includes shareholdings of subsidiary companies.

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

Interest in the Company's share capital is currently greater than 100% since Deutsche Bank AG, Prudential Corporation plc and Morgan Stanley Securities Limited have not yet formally notified the Company of the disposal of their investment to Thomson-CSF Invest Limited.

Year 2000

The Group experienced very few problems and, with one exception, those were of a minor nature, were quickly corrected and had no material impact upon the Group's provision of products and services to its customers. The one exception was a problem with certain card payment terminals between 27 December and 31 December 1999, for which a proven workaround was made available within 24 hours. Claims made by a small number of affected customers have been settled.

The directors continue to be alert to the potential risks and uncertainties surrounding the Year 2000 issue. Any future costs associated with this issue cannot be quantified but are not expected to be significant.

Report of the Directors

European Monetary Union

The Group recognises the importance of European Economic and Monetary Union (EMU), particularly for its businesses operating in those countries which have introduced the euro as their common currency. In the short term, we believe that the impact of EMU on the Group will be minimal. The Group is assessing the risks and opportunities of EMU in the longer term. The financial costs of preparation for EMU are not expected to be material in the context of the Group.

Going concern

The directors are required to report that the business is a going concern, with supporting assumptions or qualifications as necessary.

After making enquiries, the directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. Consequently, they have continued to adopt the going concern basis in preparing the financial statements.

CORPORATE GOVERNANCE

Application of the principles of the Combined Code

The following narrative statement explains how the Company has applied the principles set out in section 1 of the Combined Code in accordance with the requirements of Rule 12.43A of the Listing Rules for the year ended 31 March 2000.

The information set out in this statement is based on arrangements through to 15 June 2000, before the offer for the share capital of the Company by Thomson-CSF was declared unconditional and consequent changes to the management of the Company were made. The Company intends to delist its shares following the completion of the takeover and will in future be part of the Thomson-CSF Group. As part of the Thomson-CSF Group the Company will be subject to the policies and procedures operating within Thomson-CSF.

A. DIRECTORS

1. *The board*

   The Company is headed by a board, consisting of both executive and non-executive directors, which undertakes the dual roles of leading and controlling the Company and the Group. The names of the six executive directors (including the Chairman) and two non-executive directors as at 31 March 2000 are detailed on page 3. Sir Colin Chandler was appointed as a director on 2 June 1999. Sir Gerald Whent, Mr David Elsbury and Sir Ernest Harrison retired from office with effect from 4 August 1999, 13 October 1999 and 31 January 2000 respectively. Mr Barton Clarke retired from office on 31 May 2000. The board is responsible for policy and strategy. It meets at regular intervals to review progress and the Group's financial performance and has agreed a formal schedule of matters reserved to it for collective decision.

   The board has established a number of committees which operate within defined terms of reference. Minutes of the committee meetings are circulated to and reviewed by the board. The principal committees are the Remuneration, Audit and Nomination Committees, each of which are referred to further in this report.

2. *Chairman and Chief Executive*

   Mr David Elsbury, the Chief Executive Officer of the Company brought forward his retirement and left the Company with effect from 13 October 1999. With effect from that date, Sir Ernest Harrison, Chairman, also assumed the position of Chief Executive of the Company. Upon the retirement of Sir Ernest Harrison from office with effect from 31 January 2000, Sir Colin Chandler assumed the role of Executive Chairman of the Company. It was considered unnecessary to appoint a Chief Executive Officer for the Company until the outcome of the offer for the share capital of the Company made by Thomson-CSF was known.

   The directors' responsibilities are carried out on the understanding that they must report to and consult with the board as a whole on all matters materially affecting the business under their control and/or responsibility. In this way, the individual directors' powers and authority are appropriately controlled and monitored such that no individual has completely unfettered powers of decision.

3. *Board balance*

   At 31 March 2000 the board included a balance of executive and non-executive directors, with six executive directors and, two independent non-executive directors, namely Sir Clive Whitmore and Lord Inge, and no individual or small group of individuals can dominate the board's decision taking. As well as their role of safeguarding minority interests and ensuring good governance, the non-executives provided the board as a whole with a valuable contribution to the development of the Company's strategy and the board works as a cohesive team to further the Company's interests.

4. *Supply of information*

   The Chairman, in conjunction with the Company Secretary, ensures that the board is supplied with information in a timely manner and in a form and of a quality appropriate to enable it to discharge its duties effectively. The Chairman takes particular responsibility and care to ensure that all directors are properly briefed on issues arising at board meetings.

   Following the appointment of new directors to the board an induction programme is arranged, including visits to the Group's businesses and meetings with senior management, as appropriate, to facilitate their understanding of the Group and the responsibilities of their role.

5. *Appointments to the board*

   The Company has a formal and transparent procedure for the appointment of new directors to the board. The Cadbury committee recommended, but did not oblige, companies to establish a nomination committee. The Company recognises this as good practice and since 1992 has delegated authority for the nomination of new directors to its Nomination Committee.

   The members of the Nomination Committee at 31 March 2000 were Sir Clive Whitmore – Chairman, Lord Inge and Sir Colin Chandler. The Committee meets as necessary and the Company Secretary attends these meetings as Secretary to the Committee.

   The Nomination Committee assesses the suitability of persons for appointment as executive directors and non-executive directors and, when appropriate, makes its recommendations to the board as a whole which considers and, if thought fit, approves the appointment of those directors. In making such recommendations and appointments, the Committee and board each recognise that, as well as speaking for the business area or function for which the new appointee is directly responsible, that person should be capable of exercising independent judgement on every issue coming before the board, in the overall interests of the Company. They will need to be able to express views to the board in a considered way which may be different from those of the other board members, including the Chief Executive. Board appointments are not regarded simply as a reward for good performance in an executive role.

The minutes of the Nomination Committee meetings are circulated to all directors.

6. *Re-election*
The Company's current Articles of Association provide that a director who has attained the age of 70 shall retire and be eligible for re-election at each Annual General Meeting and in each year the number nearest to one third of the directors for the time being, generally being those who have been longest in office since their last election or appointment, (excluding those over 70 referred to above) shall retire and be eligible for re-election. In accordance with the requirements of the Combined Code, all directors of the Company submit themselves for re-election every three years.

B. DIRECTORS' REMUNERATION

1. *The level and composition of remuneration*
In accordance with the best practice recommendations of the earlier Greenbury Report, the board considers that levels of remuneration should be sufficient to attract and retain the directors needed to run the Group successfully whilst avoiding paying more than is necessary for this purpose. The Remuneration Committee therefore considers the remuneration of each executive director individually against the needs of the Group for talent at board level at the particular time and the then prevailing market. The board's executive directors' remuneration policy is that an appropriate proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance without being prescriptive as to the balance of such elements in any individual case. At the present time, the board and its Remuneration Committee believe that the best method of achieving this balance is through the use of share options so that rewards are linked closely to increases in shareholder value. No bonus arrangements are presently in place for the executive directors with the exception of R J Moon who participates in a performance-related bonus arrangement relating to his Defence Electronics Group responsibilities.

2. *Procedure*
The Remuneration Committee has responsibility for the development of executive directors' remuneration policy and the fixing of the individual remuneration of the executive directors. The board is responsible for approving the policy.

The members of the Remuneration Committee at 31 March 2000 were Sir Clive Whitmore – Chairman and Lord Inge.

The Hampel Report amends the earlier Cadbury and Greenbury recommendations upon the composition and scope of the remit of the Remuneration Committee, in stating that the Remuneration Committee is responsible to the board "who have final responsibility for remuneration policy". Accordingly, the Committee's policy has been formally approved by the board as a whole, taking into account the advice of the Committee.

The remuneration of the non-executive directors is determined by the board as a whole with the non-executive directors abstaining.

No director is involved in deciding his own remuneration.

3. *Disclosure*
This Annual Report contains a statement of remuneration policy and details of the remuneration of each director on pages 7 to 9.

C. RELATIONS WITH SHAREHOLDERS

1. *Dialogue with institutional shareholders*
The Company endorses the idea of dialogue between its representatives and those of its major investors and, where appropriate, enters into a dialogue with institutional shareholders based on the mutual understanding of objectives. The board, however, recognises that its duties are owed to the Company meaning, generally, the shareholders collectively both present and future, and not the shareholders at a given point in time, and recognises that institutional investors are not an homogeneous group but often have different investment objectives. The board considers that those institutions committed to retaining substantial holdings in the Company over a longer period of time will share the board's interest in maintaining and improving the Company's performance. Informal dialogue from time to time between the Company's representatives and such investors can in the opinion of the board strengthen overall shareholder commitment and support.

Such dialogue includes the exchange of views and information (subject of course to regulatory constraints, in particular those governing the provision of price sensitive information) on strategy, performance and quality of management, as well as enabling the investors to articulate their investment objectives and provide feedback on the Company's strategies and performance.

The Company also makes regular formal presentations to institutional investors and others as part of its communication of interim and full year results and from time to time makes other presentations on specific business matters.

2. *Constructive use of the AGM*
The board has for many years used the AGM to communicate with private investors as well as institutional shareholders and encourages their participation through open floor question and answer sessions chaired by the Chairman.

D. ACCOUNTABILITY AND AUDIT

1. *Financial reporting*
The board believes that its Annual Reports and Accounts represent a balanced and understandable assessment of the Company's position and prospects whilst also complying with the legal and regulatory requirements for financial reporting relevant to the Company.

2. *Internal financial control*
The directors acknowledge that they are responsible for the Group's systems of internal financial control.

On behalf of the board, the Audit Committee monitors the effectiveness of these systems. This is achieved primarily through a review of the internal audit programme and its findings and a review of the nature and scope of the external audit. Any identified risks are closely examined so that appropriate action can be taken.

The systems of internal financial control are designed to provide reasonable, but not absolute, assurance against material misstatement or loss. They operate within an established organisational structure with formally defined areas of responsibility. They include:

- A comprehensive budgeting system with an annual budget approved by the board;
- Regular consideration by the board of actual results compared with budgets, forecasts and the prior year;

Report of the Directors

- Regular reviews by the board of forecasts which are updated every four weeks;
- Regular reporting to the board on treasury, pensions, legal and insurance matters. All of these areas are subject to clearly defined policies and procedures;
- A continuous assessment of business risk by the executive directors in conjunction with operating management. Wherever practicable, steps are taken to mitigate these risks. The executive directors regularly report to the board;
- An internal audit function located both in the UK and the USA, which reviews the systems and procedures in major operating companies and reports to the Audit Committee at least twice a year.

The external auditors independently report to the Audit Committee.

The directors have reviewed the effectiveness of the Group's systems of internal financial control. Whilst the directors are generally satisfied and consider the controls appropriate for their business, a number of areas have been identified for improvement and appropriate actions have been agreed. None of these areas identified for improvement has resulted in any material loss or misstatement as at 31 March 2000.

The board has restricted its statements on internal controls by reporting on internal financial control in accordance with the guidance for directors on internal controls and financial reporting that was issued by the Rutteman Working Group in December 1994. The recommendations of the Turnbull Committee on the scope, extent, nature and review of internal controls to which this Code principle D.2 refers have not been implemented by the Company as during the course of the financial year ended 31 March 2000 the proposed take-over of the Company was announced. It was, therefore, considered inappropriate to expend the resources necessary to implement the guidance until the outcome of the offer was known.

3. *Audit Committee and auditors*

The board has a formal and transparent arrangement for considering how it should apply the financial reporting and internal control principles and maintaining an appropriate relationship with the Company's auditors. The Company has delegated authority for these matters to its Audit Committee.

The members of the Audit Committee at 31 March 2000 were Sir Clive Whitmore – Chairman and Lord Inge.

The Committee meets at least twice a year and the Company Secretary attends these meetings as Secretary to the Committee. The Financial Director and the auditors are invited to attend, as appropriate.

The Committee reviews the annual audit and interim accounts, internal financial controls and reports from the Company's internal and external auditors.

The duties of the Audit Committee include keeping under review the scope and results of the external and internal audit functions and the cost effectiveness and the independence and objectivity of the external auditors.

The auditors of the Company are invited to meet with the Audit Committee on a regular basis and can do so at any time on request.

Statement of compliance throughout the accounting period with the provisions of the Combined Code

The Company has complied with the Code provisions set out in Section 1 of the Combined Code throughout the accounting period except in the following respects:-

Code provision A.2.1

The roles of Chairman and Chief Executive were combined from 13 October 1999 onwards. It was considered unnecessary to appoint a Chief Executive Officer for the Company until the outcome of the offer for the share capital of the Company made by Thomson-CSF was known.

Code provision A.3.1

Between 1 April 1999 and 31 January 2000 there were three, and between 1 February 2000 and 31 March 2000 there were two, non-executive directors. It was considered unnecessary to appoint an additional non-executive director until the outcome of the offer by Thomson-CSF was known. The one-third requirement of this section of the Code was not met prior to 2 June 1999, between 4 August 1999 and 13 October 1999 and subsequent to 1 February 2000.

Code provision A.6.2

Under the Company's Articles of Association it is technically possible that from time to time a director may not have been subject to re-election at intervals of no more than three years.

Code provision B.1.7

The board has determined that, as an objective, notice or contract periods for 12 months should be offered to executive directors in the future. Longer periods will be avoided wherever possible. M R Richardson and D Whittaker each had agreements with a rolling 36 month term which was the recognised term for agreements of this nature when they entered into their service agreements in 1990.

Code provision C.2.4

This provision requires companies to arrange for the Notice of Annual General Meeting and related papers to be sent to shareholders at least 20 working days before the meeting. This had not been formally introduced at the time of the Company's last Annual General Meeting. It was not practicable to comply with this provision in respect of the last Annual General Meeting although the Company complied with its statutory obligations in this respect.

Code provision D.2.1

The board has restricted its statements on internal control by reporting on internal financial control in accordance with the guidance for directors on internal controls and financial reporting that was issued by the Rutteman Working Group in December 1994. The board chose not to commence the implementation of the recommendations of the Turnbull Committee due to the offer by Thomson-CSF and, therefore, had not put in place all the necessary procedures prior to 1 April 2000.

Code provision D.3.1

The Audit Committee included an executive director, Sir Ernest Harrison, in its membership until 23 November 1999 whilst this section of the Code requires membership to be restricted to non-executive directors. The code also required membership to include at least three non-executive directors. This was not complied with from 1 February 2000 onwards.

DIRECTORS' REMUNERATION

The following is the report to the shareholders by the board required by Listing Rule 12.43A(c).

The Company's policy on executive directors' remuneration

The policy of the board in respect of the remuneration of the executive directors of the Company is to ensure that:

(i) individuals are fairly rewarded for their personal contribution to the Company's overall performance in the short and longer term;

(ii) the Company is able to attract, retain and motivate directors of the highest calibre; and

(iii) due regard is given to the interests of the Company's shareholders and to the financial and commercial health of the Company and its performance relative to that of other comparable companies.

This policy is applied by the board and the Remuneration Committee in carrying out their respective responsibilities to develop and implement remuneration packages which are based on maintaining a strong link between reward and performance to align the interests of executive directors and shareholders.

The executive directors' total remuneration is made up of two principal components: (i) salary and benefits, and (ii) long term incentive in the form of Executive Share Option Schemes. In addition, R J Moon participates in performance-related bonus arrangements.

Directors' emoluments

	Salary and fees	Annual bonus[1]	Benefits[2]	Total emoluments excluding pension costs 2000	1999
	£	£	£	£	£
Executive directors					
Sir Colin Chandler (from 1 February 2000)	57,000	–	–	57,000	–
Sir Ernest Harrison[3] (to 31 January 2000)	–	–	23,842	23,842	81,722
D C Elsbury (to 13 October 1999)	273,159	–	19,781	292,940	573,276
B J Clarke	303,952	–	19,995	323,947	302,401
P G Kozlowski[4] (to 14 October 1998)	–	–	–	–	432,038
R J Moon (from 10 December 1998)	190,800	30,000	17,146	237,946	83,781
M R Richardson	325,408	–	15,534	340,942	319,429
D Whittaker	303,952	–	14,876	318,828	300,713
A R Wood	273,650	–	15,753	289,403	268,130
Non-executive directors					
Sir Colin Chandler (from 2 June 1999 to 31 January 2000)	27,731	–	–	27,731	–
Lord Inge	49,022	–	–	49,022	46,688
Sir Gerald Whent (to 4 August 1999)	18,214	–	–	18,214	52,186
Sir Clive Whitmore	36,032	–	7,947	43,979	39,280
Total	1,858,920	30,000	134,874	2,023,794	2,499,644

Notes:

1. For the year ended 31 March 2000, only R J Moon participated in performance-related bonus arrangements.
2. Benefits include all assessable tax benefits arising from employment by the Company which mainly derive from the provision of a company car and private medical insurance.
3. Sir Ernest Harrison agreed with the Company in March 1999 to waive his contractual remuneration for the services provided by him to the Company in respect of the year ended 31 March 2000. In respect of that year, Sir Ernest Harrison agreed to waive all of his salary borne by the Company, namely £497,138 and £166,711 of his pension entitlement.

   Sir Ernest Harrison received a benefit of £156,501 in respect of a company car transferred to him on his retirement as a director of the Company on 31 January 2000. Sir Ernest Harrison paid the Company £421,535 in respect of the transfer to him of certain hospitality rights.
4. P G Kozlowski resigned as a director of the Company on 14 October 1998 and gave 12 months' notice under his contract of employment as of that date expiring on 13 October 1999. The amounts in respect of salary and fees, bonus and benefits shown in the above table relate to the period of his directorship to 14 October 1998. Payments made to P G Kozlowski in respect of the period 1 April 1999 to 13 October 1999 were as follows: salary and fees £161,906, benefits £28,779 (14 October 1998 to 31 March 1999: salary and fees: £169,550, benefits: £10,173) in accordance with his contractual entitlement.

   The amounts payable to P G Kozlowski in respect of his contractual entitlement during the notice period have been reimbursed by Platinum Holdings Inc. under the terms of the sale of the Racal Data Group.

   The amounts shown for P G Kozlowski are the UK sterling equivalent of US$ amounts using an exchange rate of US$1.6 to £1, being the rate at the close of business on 31 March 2000 (1999: US$1.61 to £1).

Report of the Directors

Directors' interests in the shares of Racal Electronics Plc

	31 March 2000	*1 April 1999
Sir Colin Chandler	–	–
B J Clarke	501,812	87,812
Lord Inge	8,695	8,609
R J Moon	2,000	2,000
M R Richardson	418,642	19,642
Sir Clive Whitmore	2,104	2,083
D Whittaker	522,511	97,527
A R Wood	216,294	15,294
	1,672,058	232,967

All the above interests are beneficial. * or date of appointment if later.

During the period 1 April to 15 June 2000, there has been no change in the directors' interests in the shares of the Company.
All of the directors above gave unconditional undertakings to accept the offer by Thomson-CSF Invest Limited to purchase their shares.
No director had since 1 April 1999 any interest in, or acquired any rights to, shares in the Company or any subsidiary except as stated.

Directors' share options

The board's policy in approving grants of share options to directors is that the directors' total remuneration package taken together with the option to be granted should not be excessive. Options should be granted in order to retain and motivate the director in question and to balance the elements of fixed and performance-related remuneration of their remuneration package. Before granting an option the Company should weigh this against the alternative kinds of long term incentive scheme. In normal circumstances, options granted should not be exercisable in under three years.

The options to be granted should be subject to appropriately challenging performance criteria. No options were granted to the directors during the year or lapsed under any of the following schemes. No options were exercised under the terms of the Racal Share Savings Plan (1990).

Options were exercised under the Racal Share Option Scheme 1992 and the relevant details are shown below. The closing mid-market value of an ordinary share on 31 March 2000 was 421.75p and during the year the mid-market value ranged from 369.5p to 591p.

The following table sets out the details of the directors' outstanding share options at 31 March 2000:

	Racal Share Savings Plan (1990)[1]	Racal Share Option Scheme 1992[2]	Racal Share Option Scheme 1997[3]
B J Clarke	3,484	–	100,000
R J Moon	3,484	12,000	38,000
M R Richardson	3,484	–	100,000
D Whittaker	3,484	–	100,000
A R Wood	3,484	–	100,000

Note 1: Racal Share Savings Plan (1990)
Options granted during the year to 31 March 1998, exercisable at 198p per share during the period 1 April 2003 to 30 September 2003.

Note 2: Racal Share Option Scheme 1992
Option granted on 12 December 1997 and exercisable at 235p per share during the period 12 December 2000 to 11 December 2007 provided the Company achieves growth in its earnings per share over a three year period in excess of the Index of Retail Prices by an average of 3% per year.

Note 3: Racal Share Option Scheme 1997
Options granted on 12 December 1997, exercisable between 12 December 2000 and 11 December 2004 at the price of 235p per share provided the Company achieves growth in its earnings per share over a three year period in excess of the Index of Retail Prices by an average of 3% per year.

Following the declaration that the Thomson-CSF offer was unconditional on 15 June 2000 all outstanding options are now exercisable.

Exercise of options

The following options were exercised on 5 January 2000 under the terms of the Racal Share Option Scheme 1992:

	No of shares	Option price	Market value on date of exercise
B J Clarke	163,500 54,500 82,000 114,000	130.5p 114p 243p 270p	575.5p 575.5p 575.5p 575.5p
M R Richardson	163,500 54,500 100,000 81,000	130.5p 114p 243p 270p	575.5p 575.5p 575.5p 575.5p
D Whittaker	170,250 56,750 82,000 115,000	130.5p 114p 243p 270p	575.5p 575.5p 575.5p 575.5p
A R Wood	35,000 166,000	251p 270p	575.5p 575.5p

Report of the Directors

Service Contracts

Executive directors

None of the executive directors has service contracts with the Company other than R J Moon who has a service agreement with the Company which is terminable by the Company or the director on 12 months' notice.

R J Moon will be standing for re-election at the forthcoming Annual General Meeting.

Non-executive directors

The remuneration of the non-executive directors is determined by the board with the non-executive directors abstaining.

The non-executive directors who served during the year ended 31 March 2000 did so under Letters of Appointment.

Pension benefits

	(1) Contributions by Company to defined contribution retirement benefit arrangements	(2) Transfer value of increase in year of per annum pension payable at Normal Retirement Age (calculated on the basis of actuarial guidance note GN11) less director's contributions	(3) Accumulated total accrued pension representing amount payable annually at Normal Retirement Age based on Service to 31 March of year	(4) Increase in accrued annual pension over year, excluding inflation
	2000	2000	2000	2000
	£	£	£	£
Sir Ernest Harrison [1]	–	–	–	–
R J Moon	–	241,074	90,099	20,130
M R Richardson	–	190,573	139,507	13,906
D Whittaker	–	171,982	163,910	14,627
A R Wood	–	193,564	91,907	15,719

Notes:

1. Sir Ernest Harrison agreed with the Company in March 1999 to waive his contractual remuneration for the services provided by him to the Company in respect of the year ended 31 March 2000. In respect of that year, Sir Ernest Harrison agreed to waive £166,711 of his pension entitlement.

General notes regarding pension disclosures

B J Clarke had retired from pensionable service under the Group's defined benefit pension arrangements and therefore did not accrue pension benefits. The non-executive directors have no pension arrangements with any Group company.

R J Moon, M R Richardson, D Whittaker and A R Wood participate in the Company's defined benefit scheme for the Group's directors and have the option to pay additional voluntary contributions. Neither those additional voluntary contributions nor the resulting benefits are included in the above table.

The transfer values disclosed above do not represent a sum paid or payable to the individual director. Instead, they represent a potential liability of the pension scheme.

By Order of the Board
Sir Colin Chandler
Chairman

30 June 2000

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the Group's systems of internal financial controls and for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Auditors

Auditors' report to the members of Racal Electronics Plc
We have audited the financial statements on pages 12 to 40 which have been prepared under the accounting policies set out on page 14. We have also audited the information which is specified by the UK Listing Authority to be audited in respect of directors' remuneration, share options and pension entitlements and which is set out in the sections headed directors' emoluments, directors' share options and pension benefits in the Report of the Directors on pages 7, 8 and 9 respectively.

Respective responsibilities of directors and auditors
The directors are responsible for preparing the Annual Report, including, as described above, preparation of the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the UK Listing Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the corporate governance statement on page 6 reflects the compliance with the seven provisions of the Combined Code specified for our review by the UK Listing Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion
We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall presentation of information in the financial statements.

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2000 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors
Hill House
1 Little New Street
London EC4A 3TR
25 July 2000

Comparative Summary for Five Years

	1996* £m	1997* £m	1998* £m	1999 £m	2000 £m
Turnover					
Continuing operations	565.4	680.7	755.2	799.9	772.4
Discontinued operations	494.9	505.4	390.7	253.0	123.8
Total	1,060.3	1,186.1	1,145.9	1,052.9	896.2
Less: joint ventures – continuing operations	(0.6)	(1.1)	(1.3)	(4.6)	(4.5)
– discontinued operations	–	–	–	(0.4)	(0.6)
Total Group	1,059.7	1,185.0	1,144.6	1,047.9	891.1
Profit					
Continuing operations					
Operating profit	62.0	66.3	65.6	77.0	40.3
Operating profit % sales	11.0%	9.7%	8.7%	9.6%	5.2%
Discontinued operations					
Operating (loss)/profit	(3.3)	(2.1)	(44.5)	1.0	(13.4)
Group operating profit	58.7	64.2	21.1	78.0	26.9
Share of operating profit/(loss) in:					
Joint ventures – continuing operations	0.2	0.2	(0.5)	(1.1)	(2.1)
– discontinued operations	–	–	–	(0.2)	(0.4)
Associates	18.4	16.7	22.2	21.3	21.1
Total operating profit	77.3	81.1	42.8	98.0	45.5
Exceptional profit/(loss)	3.9	(19.3)	(224.5)	1.4	587.8
Income from other fixed asset investments	–	–	–	3.5	6.9
Amounts written off investments	–	–	(2.1)	–	–
Net interest payable	(9.1)	(20.7)	(21.4)	(22.1)	(8.7)
Profit/(loss) before taxation	72.1	41.1	(205.2)	80.8	631.5
Profit/(loss) after taxation and minority interests	47.4	32.3	(217.1)	66.3	488.0
Dividends per share	6.0p	6.0p	6.0p	6.0p	169.1p
Earnings/(loss) per share	17.01p	11.47p	(76.73)p	23.09p	168.78p
Adjusted earnings per share	16.44p	17.97p	18.39p	23.66p	17.51p
Balance sheets					
Fixed assets	406.8	475.5	488.0	480.0	237.5
Working capital	406.9	371.8	280.2	247.8	269.1
Other net liabilities	(36.4)	(40.1)	(27.2)	(21.8)	(109.9)
Net (debt)/cash	(323.9)	(339.3)	(307.5)	(303.7)	123.6
Provisions for liabilities and charges	(23.9)	(23.9)	(111.2)	(33.5)	(35.8)
	429.5	444.0	322.3	368.8	484.5
Equity shareholders' funds	428.2	443.0	321.4	367.2	483.1
Equity minority interests	1.3	1.0	0.9	1.6	1.4
	429.5	444.0	322.3	368.8	484.5

* Prior years have been restated to reflect changes in accounting policies as a result of the implementation of Financial Reporting Standard Nos. 9 and 12.

Principal Subsidiaries of Racal Electronics Plc

At 31 March 2000

United Kingdom

(Registered in England and Wales except where stated)
(The country of registration is also the principal place of operation except where stated)
Wholly owned except where stated: sub-subsidiaries are shown inset

	Business activity
Decca Limited	Holding company
Fibre Form Limited	Polyurethane and fibre mouldings
Racal-Decca Limited	Holding company
Racal Survey Limited	Survey and positioning services
Racal Survey Group Limited	Survey and positioning services
Racal Tracs Limited	Survey and positioning services
Racal Survey Overseas Limited†	Survey and positioning services
Racal Acoustics Limited	Electro-acoustics products
Racal Antennas Limited	Antennas
Racal Defence Holdings Limited	Holding company
Racal Avionics Limited	Avionics products
Racal Defence Electronics Limited	Defence radar and radio communications
Racal-MESL Limited (Scotland)	Microwave components and sub-systems
Racal Group Services Limited	Central services
Racal Instruments Group Limited	Holding company
Racal Instruments Limited	Test and measurement products
Racal Recorders Limited	Data and communications recording
Racal International Limited	Holding company
Racal Messenger Limited	'Talon'
Racal Properties Limited	Property management
Racal Research Limited	Research and development
Racal Services (Communications) Limited	Transportation services
Racal Training Services Limited	Training and education
Racal-Transcom Limited	Point of sale terminals and management systems
Zaxus Limited	Secure payment systems

Associated companies and joint ventures	
Archer Communications Systems Limited (30%)*	Radio communications
Camelot Group plc (26.67%)	Lotteries
Citylink Telecommunications Limited (33%)*	Telecommunications services
Global Telematics Plc (50%)*	Vehicle telematic products and services
Racal Thomson Networks Limited (50%)*	Radio communications
Satellite Information Services (Holdings) Limited (21.96%)	Satellite communications

† *Principal place of operation – Abu Dhabi*

* *Held by a subsidiary company.*

Principal Subsidiaries of Racal Electronics Plc

At 31 March 2000

International

(The country of incorporation is also the principal place of operation)

Wholly owned except where stated: no subsidiary listed below is directly owned by Racal Electronics Plc except where stated

	Country of incorporation	*Business activity*
The Racal Corporation	USA	Holding company
Racal Avionics Inc.	USA	Avionics products
Racal Communications Inc.	USA	Radio communications
Racal Instruments Inc.	USA	Test and measurement products
Racal NCS Inc.	USA	Survey and positioning services
Racal Pelagos Inc.	USA	Survey and positioning services
Racal Recorders Inc.	USA	Data and communications recording
Zaxus Inc.	USA	Network encryption products
Racal Systems Electronique SA	France	Test and measurement products*
Racal Electronics Deutschland Holding GmbH	Germany	Holding company
Racal-Heim Systems GmbH	Germany	Data and communications recording
Racal Instruments GmbH	Germany	Test and measurement products*
Racal Systems Elettronica Srl	Italy	Test and measurement products
NESA BV	Netherlands	Survey and positioning services
Racal Electronics Europe BV	Netherlands	Holding company
Racal Survey Norge A/S	Norway	Survey and positioning services
Racal Australia Pty Limited	Australia	Distributor for group products
Racal Survey Australia Limited	Australia	Survey and positioning services
Saracen Insurance Company Limited†	Bermuda	Insurance services
The Racal Corporation Canada Inc.	Canada	Holding company
Racal Pelagos Canada Limited	Canada	Survey and positioning services
Zaxus (Canada) Inc.	Canada	Secure payment systems
Ingenieria Subacuatica SA de CV (56%)	Mexico	Survey and positioning services
Racal Survey Mexicana SA de CV	Mexico	Survey and positioning services
Zaxus (Asia) Limited	Hong Kong	Distributor for group products
Racal Survey (Malaysia) Sdn Bhd	Malaysia	Survey and positioning services
Racal Survey (Singapore) Private Limited	Singapore	Survey and positioning services
Racal Survey Services Singapore Pte Limited	Singapore	Manufacture of remotely operated submersible vehicles
Racal Electronics South Africa Pty Limited	South Africa	Distributor for group products

Joint venture

China Offshore Racal Positioning and Survey (Tianjin) Company Limited (50%)	People's Republic of China	Survey and positioning services

* *also distributor for other group products*

† *directly owned by Racal Electronics Plc*

Statement of Accounting Policies

The financial statements have been prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

1 Basis of accounting
The accounts are prepared under the historical cost convention modified by the revaluation of certain tangible fixed assets.

2 Basis of consolidation
The Group financial statements are the result of the consolidation of the accounts of the Company and its subsidiaries and also include the Group's share of the results of associated companies and joint ventures. For other joint activities the Group accounts for the assets, liabilities and cash flows within those joint activities which are attributable to the Group. The accounts of all companies are made up to 31 March 2000. Where subsidiary companies, associated companies or joint ventures are acquired during the year, the surplus of cost over fair value attributed to the assets acquired (goodwill) is capitalised and, where appropriate, amortised over its estimated useful life which it is anticipated will not be more than twenty years. As a matter of accounting policy, goodwill arising on acquisitions prior to 31 March 1998 has been eliminated against reserves.

3 Turnover
Turnover represents invoiced sales (net of sales related taxes) by the Group to outside customers and in the case of long term contracts an estimate of the selling value of work done. The equivalent sales value of equipment sold under a finance lease arrangement is included in turnover. Revenue from equipment leased to customers under operating leases is recorded as turnover in equal amounts over the life of the leases.

4 Foreign currencies
The accounts of overseas subsidiary companies, associated companies and joint ventures, and assets and liabilities denominated in foreign currencies held by United Kingdom companies, have been translated at the rates ruling on 31 March 2000. Exchange differences arising on the retranslation of these accounts at the beginning of the year, and differences on long term foreign currency loans which relate to investments in overseas companies, are dealt with as a movement in reserves. All other differences are taken to profit and loss account. United Kingdom exports in foreign currencies are converted at the rates relative to the period of shipment.

5 Stocks
Stocks and work in progress are valued at the lower of cost and estimated net realisable value less progress payments received. Cost includes manufacturing overheads. Long term contract work in progress is valued at cost less foreseeable losses, less progress payments received.

6 Leases
Tangible fixed assets held under finance leases and the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the lease. The excesses of the lease payments over the recorded lease obligations are treated as finance charges which are amortised over each lease term to give a constant rate of charge on the remaining balance of the obligations.

Rental costs under operating leases are charged to profit and loss account in equal annual amounts over the periods of the leases.

7 Research and development
Private venture research and development expenditure is written off in the year in which it is incurred. Uninvoiced research and development fully funded by customers is carried forward as work in progress.

8 Provision for asset impairment
Provision is made for asset impairment if the asset's recoverable amount (the higher of net realisable value and value in use) falls below its carrying value.

9 Depreciation
Depreciation is provided on all tangible fixed assets, except freehold land, at such rates as to write off the cost of those assets in equal instalments over their expected useful lives as follows:

Freehold buildings and long term leaseholds	50 years
Short term leaseholds	the term of the lease
Plant, machinery, furniture and vehicles	2-15 years
Equipment on lease or hire	3-10 years
Data and navigation transmitting networks (excluding freehold land and buildings and leasehold premises)	3-21 years

10 Know how
Payments made to acquire manufacturing licences for specific products are amortised against profits over a period of three to five years being the period of utilisation of such manufacturing knowledge.

11 Start up costs
Start up costs associated with customer networks are amortised against profits over the period of the contract or a shorter period if it is deemed more appropriate.

12 Provisions
Provision is made for the anticipated costs of post-sale rectification and support of products supplied to customers. Provision is also made for contracts where the unavoidable costs of meeting the obligations exceed the economic benefit expected to be received under those contracts. The amount of the provision is based on the anticipated net cost of onerous contracts discounted to their net present value.

13 Investment in finance leases
The total net investment in finance leases included in the balance sheet 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.

14 Deferred taxation
Deferred taxation is provided at the anticipated tax rates on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future, with the exception of timing differences arising on pension surpluses where full provision is made irrespective of whether a liability or asset will crystallise in the foreseeable future.

15 Government grants
Grants in connection with fixed assets are released to trading profits over the expected useful life of the particular asset to which the grant relates. Grants relating to revenue expenditure are credited to revenue as they become receivable.

16 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 2000

Note		Continuing operations excluding *exceptional share option compensation 2000 £m	Discontinued operations and *exceptional share option compensation 2000 £m	Total 2000 £m	Total 1999 £m
1 & 2	**Turnover**				
	Continuing operations (total including joint ventures £772.4m; 1998/99: £799.9m)			767.9	795.3
	Discontinued operations (total including joint ventures £123.8m; 1998/99: £253.0m)			123.2	252.6
	Total (total including joint ventures £896.2m; 1998/99: £1,052.9m)			891.1	1,047.9
1 & 2	**Operating profit/(loss)**				
	Continuing operations	52.7	(12.4)*	40.3	77.0
	Discontinued operations	–	(13.4)	(13.4)	1.0
	Group operating profit			26.9	78.0
	Share of operating profit/(loss) in:				
	Joint ventures – continuing operations	(2.1)	–	(2.1)	(1.1)
	– discontinued operations	–	(0.4)	(0.4)	(0.2)
	Associates	21.1	–	21.1	21.3
	Total	71.7	(26.2)	45.5	98.0
3	Exceptional items – continuing operations:				
	Profit on sale of fixed assets			0.8	2.3
4	Exceptional items – discontinued operations:				
	Cost of fundamental reorganisation			(4.0)	(10.2)
	Gain on disposal or closure of operations net of goodwill of £118.8 million written off to reserves on acquisitions in prior years			591.0	9.3
	Trading profit			633.3	99.4
5	Income from other fixed asset investments			6.9	3.5
6	Net interest payable			(8.7)	(22.1)
	Profit on ordinary activities before taxation			631.5	80.8
9	Tax on profit on ordinary activities			(142.6)	(15.3)
	Profit on ordinary activities after taxation			488.9	65.5
	(Profit)/loss attributable to minority interests			(0.9)	0.8
	Profit on ordinary activities attributable to members of the parent company			488.0	66.3
10	Dividends			(495.6)	(17.3)
26	Retained (loss)/profit for the year			(7.6)	49.0
11	Earnings per share			168.78p	23.09p
11	Diluted earnings per share			164.56p	22.50p
11	Adjusted earnings per share			17.51p	23.66p

The profit calculated on the historical cost basis is not materially different from that shown above.

As provided by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not published as part of these accounts. The profit before dividends payable dealt with in the accounts of the Company is £542.6 million (1999: £68.4 million).

* An exceptional charge of £12.4 million has been made to operating profits in order to provide compensation to members of the Company's share option schemes. This is in respect of the special interim dividend paid on 28 January 2000 to shareholders on the register on 14 January 2000 which was associated with the disposal of Racal Telecom.

Consolidated Balance Sheet

At 31 March 2000

Note		2000 £m	2000 £m	1999 £m	1999 £m
	Fixed assets				
12	Intangible assets		7.7		2.5
13	Tangible assets		182.5		430.8
14	Investments:				
	Joint ventures:				
	Share of gross assets	6.8		17.2	
	Share of gross liabilities	(4.2)		(14.5)	
		2.6		2.7	
	Associates	43.1		35.1	
	Other	1.6		8.9	
			47.3		46.7
			237.5		480.0
	Current assets				
17	Stocks	130.7		127.1	
18	Debtors due within one year	354.7		359.4	
19	Debtors due after more than one year	92.3		80.8	
	Cash on deposit	153.7		42.1	
	Cash at bank and in hand	83.3		39.4	
		814.7		648.8	
20	**Creditors**: amounts falling due within one year	(424.7)		(334.3)	
	Net current assets		390.0		314.5
	Total assets less current liabilities		627.5		794.5
21	**Creditors**: amounts falling due after more than one year	(107.2)		(392.2)	
24	**Provisions for liabilities and charges**	(35.8)		(33.5)	
			(143.0)		(425.7)
	Net assets		484.5		368.8
	Capital and reserves				
25	Called up share capital		73.3		72.5
26	Share premium account		190.4		176.4
26	Capital redemption reserve		279.3		279.3
26	Revaluation reserve		2.0		2.1
26	Profit and loss account		(61.9)		(163.1)
	Equity shareholders' funds		483.1		367.2
	Equity minority interests		1.4		1.6
			484.5		368.8

These financial statements were approved by the Board on 30 June 2000 and were signed on its behalf by:

C CHANDLER Chairman

R J MOON Director

Balance Sheet

At 31 March 2000

Note		2000 £m	2000 £m	1999 £m	1999 £m
	Fixed assets				
14	Investments		722.8		690.5
	Current assets				
18	Debtors due within one year	314.1		335.3	
19	Debtors due after more than one year	0.1		1.1	
	Cash on deposit	131.0		23.8	
	Cash at bank and in hand	99.5		28.1	
		544.7		388.3	
20	**Creditors:** amounts falling due within one year	(525.8)		(204.1)	
	Net current assets		18.9		184.2
	Total assets less current liabilities		741.7		874.7
21	**Creditors:** amounts falling due after more than one year	(79.3)		(277.9)	
24	**Provisions for liabilities and charges**	(3.9)		(0.1)	
			(83.2)		(278.0)
	Net assets		658.5		596.7
	Capital and reserves				
25	Called up share capital		73.3		72.5
26	Share premium account		190.4		176.4
26	Capital redemption reserve		279.3		279.3
26	Profit and loss account		115.5		68.5
	Equity shareholders' funds		658.5		596.7

These financial statements were approved by the Board on 30 June 2000 and were signed on its behalf by:

C CHANDLER Chairman

R J MOON Director

Statement of Total Recognised Gains and Losses

For the year ended 31 March 2000

	2000 £m	1999 £m
Profit for the financial year	488.0	66.3
Currency translation differences on foreign currency net investments	(0.6)	(0.1)
Adjustment to Group share in net assets in associates relating to Camelot Group plc buy-back of shares	–	(4.4)
	487.4	61.8

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 March 2000

	2000 £m	2000 £m	1999 £m	1999 £m
Profit for the financial year		488.0		66.3
Currency translation differences on foreign currency net investments		(0.6)		(0.1)
Adjustment to Group share in net assets in associates relating to Camelot Group plc buy-back of shares		–		(4.4)
Goodwill in respect of discontinued businesses transferred to the profit and loss account		118.8		–
Dividends payable		(495.6)		(17.3)
		110.6		44.5
Issue of ordinary share capital	14.7		2.9	
Less: amounts received from subsidiary companies	(9.4)		(1.6)	
		5.3		1.3
Net additions to shareholders' funds		115.9		45.8
Opening shareholders' funds		367.2		321.4
Closing shareholders' funds		483.1		367.2

Consolidated Cash Flow Statement

• For the year ended 31 March 2000

Note		2000 £m	2000 £m	1999 £m	1999 £m
27	**Net cash inflow from operating activities**		76.3		106.0
	Dividends received from joint ventures and associates		4.4		21.4
28	**Returns on investments and servicing of finance**		(12.1)		(23.2)
	Taxation				
	UK corporation tax paid	(39.2)		(2.5)	
	Overseas tax paid	(1.5)		(1.1)	
			(40.7)		(3.6)
29	**Capital expenditure and financial investment**		(74.6)		(101.2)
30	**Acquisitions and disposals**		929.3		25.5
	Equity dividends paid		(506.9)		(17.2)
	Cash inflow before use of liquid resources and financing		375.7		7.7
	Management of liquid resources				
31	Increase in cash on deposit		(111.6)		(17.4)
	Financing				
	Issue of ordinary share capital	5.3		1.3	
	Net decrease in amounts borrowed	(197.8)		(25.3)	
	Capital element of finance lease/hire purchase payments	(8.2)		(13.1)	
	Net cash outflow from financing		(200.7)		(37.1)
	Net increase/(decrease) in cash in the year		63.4		(46.8)

Note		2000 £m	1999 £m
	Reconciliation of net cash flow to movement in net debt		
31	Increase/(decrease) in cash in the year	63.4	(46.8)
31	Cash outflow from decrease in debt and lease financing	206.0	38.4
31	Cash outflow from increase in liquid resources	111.6	17.4
	Change in net debt resulting from cash flows	381.0	9.0
31	New finance leases	(30.0)	(0.2)
31	Loans and finance leases disposed with subsidiaries	76.2	2.2
31	Exchange movement	0.1	(7.2)
	Movement in net debt in the year	427.3	3.8
31	Net debt at start of year	(303.7)	(307.5)
31	Net cash/(debt) at end of year	123.6	(303.7)

Note		2000 £m	1999 £m
31	**Net cash/(debt) at end of year**		
	Loans	(81.1)	(279.9)
	Bank overdrafts	(3.7)	(22.2)
	Cash on deposit	153.7	42.1
	Cash at bank and in hand	83.3	39.4
	Net cash/(borrowings)	152.2	(220.6)
	Obligations under finance leases	(28.6)	(83.1)
	Net cash/(debt)	123.6	(303.7)

Notes on the Financial Statements

1 Turnover, operating profit and net assets

a) Divisional analysis

	External turnover 2000 £m	External and inter-divisional turnover 2000 £m	Operating profit before reorganisation costs 2000 £m	Reorganisation costs 2000 £m	Operating profit 2000 £m	Net assets 2000 £m
Defence Electronics	340.9	341.0	23.7	(5.5)	18.2	210.0
Industrial Electronics	297.0	297.9	23.9	(3.0)	20.9	143.1
Transportation Services	151.3	151.3	17.0	(0.1)	16.9	94.5
Corporately funded Research and Development	–	–	(2.1)	–	(2.1)	3.0
Allocations to discontinued operations	–	–	0.8	(0.1)	0.7	0.1
	789.2	790.2	63.3	(8.7)	54.6	450.7
Less: Transportation Services' sales to discontinued operations	(20.2)	–	–	–	–	–
Less: Compensation payable to share option holders	–	–	(12.4)	–	(12.4)	–
Total continuing operations	769.0	790.2	50.9	(8.7)	42.2	450.7
Discontinued operations	123.8	124.1	(13.7)	(0.1)	(13.8)	1.0
Sub total	892.8	914.3	37.2	(8.8)	28.4	451.7
Other associates and joint ventures	3.4	3.4	17.1	–	17.1	32.5
Total	896.2	917.7	54.3	(8.8)	45.5	484.2

	1999 £m	1999 £m	1999 £m	1999 £m	1999 £m	1999 £m
Defence Electronics	357.1	357.2	24.3	(2.5)	21.8	191.9
Industrial Electronics	320.9	323.0	39.8	(1.0)	38.8	132.7
Transportation Services	152.9	152.9	19.3	–	19.3	91.3
Corporately funded Research and Development	–	–	(2.4)	–	(2.4)	2.9
Allocations to discontinued operations	–	–	0.9	(0.1)	0.8	10.9
	830.9	833.1	81.9	(3.6)	78.3	429.7
Less: Transportation Services' sales to discontinued operations	(31.7)	–	–	–	–	–
Total continuing operations	799.2	833.1	81.9	(3.6)	78.3	429.7
Discontinued operations	253.0	255.7	1.3	(0.5)	0.8	252.5
Sub total	1,052.2	1,088.8	83.2	(4.1)	79.1	682.2
Other associates and joint ventures	0.7	0.7	18.9	–	18.9	23.8
Total	1,052.9	1,089.5	102.1	(4.1)	98.0	706.0

Included above are the following relating to joint ventures and associates:

	External turnover 2000 £m	Operating profit 2000 £m	Net assets 2000 £m	External turnover 1999 £m	Operating profit 1999 £m	Net assets 1999 £m
Divisional associates and joint ventures:						
Associates – Defence Electronics	–	1.3	3.1	–	0.7	0.5
Joint ventures – Defence Electronics	–	(0.2)	(0.2)	–	–	–
Joint ventures – Industrial Electronics	1.1	0.1	1.3	3.9	0.6	1.1
Associates – Transportation Services	–	0.7	0.7	–	–	–
Joint ventures – Discontinued operations	0.6	(0.4)	–	0.4	(0.2)	1.6
	1.7	1.5	4.9	4.3	1.1	3.2
Other associates and joint ventures:						
Other associates	–	19.1	35.9	–	20.6	25.6
Other joint ventures	3.4	(2.0)	(3.4)	0.7	(1.7)	(1.8)
	3.4	17.1	32.5	0.7	18.9	23.8

1 Turnover, operating profit and net assets (continued)

b) Geographical analysis by origin

	External turnover 2000 £m	External and inter-regional turnover 2000 £m	Operating profit 2000 £m	Net assets 2000 £m
United Kingdom	620.0	655.5	60.7	387.8
Rest of Europe	31.6	32.7	0.4	9.6
The Americas	103.9	109.0	(0.7)	54.5
Asia and Australasia	30.2	39.3	(0.7)	29.9
Africa	6.9	8.4	(0.4)	1.4
	792.6	844.9	59.3	483.2
Less: Transportation Services' sales to discontinued operations	(20.2)	–	–	–
Total continuing operations (including associates and joint ventures)	772.4	844.9	59.3	483.2
Discontinued operations	123.8	124.1	(13.8)	1.0
Total	896.2	969.0	45.5	484.2
	1999 £m	1999 £m	1999 £m	1999 £m
United Kingdom	644.8	680.6	88.0	371.2
Rest of Europe	40.1	41.1	2.4	9.8
The Americas	109.0	112.5	1.3	43.6
Asia and Australasia	29.6	40.0	5.9	26.4
Africa	8.1	8.9	(0.4)	2.5
	831.6	883.1	97.2	453.5
Less: Transportation Services' sales to discontinued operations	(31.7)	–	–	–
Total continuing operations (including associates and joint ventures)	799.9	883.1	97.2	453.5
Discontinued operations	253.0	257.4	0.8	252.5
Total	1,052.9	1,140.5	98.0	706.0

c) Geographical analysis by destination

	Turnover 2000 £m	Turnover 1999 £m
United Kingdom	423.0	479.6
Rest of Europe	134.1	107.8
The Americas	146.3	135.9
Asia and Australasia	67.8	76.3
Africa	21.4	32.0
	792.6	831.6
Less: Transportation Services' sales to discontinued operations	(20.2)	(31.7)
Total continuing operations (including joint ventures)	772.4	799.9
Discontinued operations	123.8	253.0
Total	896.2	1,052.9

d) Net assets

Net assets employed are reconciled to the consolidated balance sheet as follows:

	2000 £m	1999 £m
Net assets employed	484.2	706.0
Less: outstanding tax liability on capital gain on disposal of Racal Telecom	(87.5)	–
Less: provisions for liabilities and charges	(35.8)	(33.5)
Net cash/(debt) (Note 31)	123.6	(303.7)
Net assets	484.5	368.8

2 Operating profit

	Continuing operations 2000 £m	Discontinued operations 2000 £m	Total Group 2000 £m	Interests in joint ventures 2000 £m	Interests in associates 2000 £m	Total 2000 £m
Turnover	767.9	123.2	891.1	5.1	–	896.2
Cost of sales	(572.4)	(119.5)	(691.9)	(4.4)	–	(696.3)
Gross profit	195.5	3.7	199.2	0.7	–	199.9
Selling and distribution costs	(63.9)	(5.9)	(69.8)	–	–	(69.8)
Administrative expenses	(91.3)	(11.2)	(102.5)	(3.2)	–	(105.7)
	40.3	(13.4)	26.9	(2.5)	–	24.4
Share of operating profit in associates	–	–	–	–	21.1	21.1
Total operating profit/(loss)	40.3	(13.4)	26.9	(2.5)	21.1	45.5
	1999 £m	1999 £m	1999 £m	1999 £m	1999 £m	1999 £m
Turnover	795.3	252.6	1,047.9	5.0	–	1,052.9
Cost of sales	(595.7)	(193.8)	(789.5)	(3.8)	–	(793.3)
Gross profit	199.6	58.8	258.4	1.2	–	259.6
Selling and distribution costs	(52.3)	(36.2)	(88.5)	(1.4)	–	(89.9)
Administrative expenses	(70.3)	(31.1)	(101.4)	(1.1)	–	(102.5)
	77.0	(8.5)	68.5	(1.3)	–	67.2
Release of provisions	–	9.5	9.5	–	–	9.5
Share of operating profit in associates	–	–	–	–	21.3	21.3
Total operating profit/(loss)	77.0	1.0	78.0	(1.3)	21.3	98.0

Operating profit has been arrived at after charging/(crediting):	2000 £m	1999 £m
Directors' emoluments excluding pension costs (Page 7)	2.0	2.5
Auditors' remuneration	0.9	1.0
Payments made to auditors in respect of non-audit work – UK only (see Note below)	0.4	0.2
Depreciation of tangible fixed assets:		
Own assets	52.8	59.8
Finance leased assets	10.8	14.1
Amortisation of intangible fixed assets	0.5	0.1
Research and development:		
Continuing operations	41.6	43.5
Discontinued operations	1.7	6.4
Reorganisation costs	8.8	4.1
Payments under operating leases:		
Land and buildings	9.9	17.2
Other assets	7.8	8.3
Receipts under operating leases	(4.4)	(4.7)
Exceptional share option compensation	12.4	–

Note: Total payments made to auditors in respect of non-audit work were £2.0 million (1999: £0.5 million). Of this amount £1.6 million (1999: £0.1 million) related to work on disposal of businesses and acquisitions and has been included as a reduction in the proceeds of the sale of businesses or included in the consideration paid for acquisitions and £nil (1999: £0.2 million) has been included in cost of fundamental reorganisation.

3 Exceptional items – continuing operations

Profit on sale of fixed assets

The profit on sale of fixed assets of £0.8 million arose from the sale of properties (1999: £2.3 million arose from the sale of shares in Camelot Group plc to International Computers Limited).

4 Exceptional items – discontinued operations

Cost of fundamental reorganisation

The cost of fundamental reorganisation represents the cost of the restructuring of Racal Telecom prior to its disposal on 24 November 1999. The costs relate to consultancy, redundancy and recruitment (1999: consultancy, redundancy and asset impairment).

Gains/(losses) on closure or disposal of operations:

	2000		1999	
	£m	£m	£m	£m
Disposal of Racal Telecom		597.0		–
Disposal of Data Communications	(5.2)		(62.8)	
Less release of provisions	–		74.0	
		(5.2)		11.2
Other discontinued operations		(0.8)		(1.9)
		591.0		9.3

The profit on disposal of Racal Telecom of £597.0 million is net of charging goodwill of £120.4 million of which £118.8 million had been written off to reserves on acquisitions in prior years.

5 Income from other fixed asset investments

The income from other fixed asset investments relates to the sale of share warrants retained in a US business which were retained following the sale of the Racal Data Group.

6 Net interest payable

	2000		1999	
	£m	£m	£m	£m
Interest payable:				
Bank overdrafts, loans and other borrowings repayable within five years	14.9		20.8	
Loans and other borrowings repayable wholly or in part after five years	–		0.1	
Finance charges on hire purchase contracts and finance leases	6.4		7.8	
Unwinding of discount on provisions	0.1		0.3	
Share of interest payable of associates and joint ventures	0.5		0.1	
		21.9		29.1
Less interest receivable:				
Loans and deposits	(9.6)		(3.3)	
Finance leases	(1.0)		(1.1)	
Share of interest receivable of associates	(2.6)		(2.6)	
		(13.2)		(7.0)
		8.7		22.1

7 Employees

	2000 Number	1999 Number
a) Average number of employees		
United Kingdom	8,510	9,293
Overseas	1,350	1,986
	9,860	11,279
	£m	£m
b) Staff costs (including directors)		
Wages and salaries	287.1	315.6
Social security costs	28.3	25.2
Pension costs	10.4	12.9
	325.8	353.7

8 Directors' emoluments

Details of emoluments by individual director are set out in the section headed directors' emoluments in the Report of the Directors on page 7.

9 Tax on profit on ordinary activities

	2000 £m	1999 £m
Tax on profit on ordinary activities was:		
United Kingdom:		
Corporation tax at 30% (1999: 31%)	138.9	1.3
Deferred taxation	(4.2)	4.5
Associated companies	6.7	7.8
	141.4	13.6
Overseas:		
Current taxation	2.2	1.7
Deferred taxation	(1.0)	(0.1)
Joint ventures	–	0.1
	142.6	15.3

The charge for United Kingdom corporation tax has been decreased by £1.5 million (1999: £3.6 million) as a result of capital allowances being greater than depreciation for which no provision has been made.

Taxation of £125 million arose on profits on disposal of operations (1999: £0.3 million). This estimated charge has benefited from deductions of approximately £100 million being the effect of the utilisation of capital losses which are subject to agreement with the Inland Revenue.

A further liability to taxation would arise if the retained profits of overseas subsidiaries were distributed.

10 Dividends

	2000 £m	1999 £m
Dividends on equity shares		
First interim 2.1p paid (1999: 2.1p)	6.2	6.1
Special interim dividend 167.0p paid (1999: nil)	489.4	–
Proposed final nil (1999: 3.9p)	–	11.2
	495.6	17.3

11 Earnings per share

i) Earnings per share has been calculated by reference to the average of 289.2 million (1999: 286.9 million) ordinary shares of 25p each in issue during the year based on the consolidated profit of £488.0 million (1999: £66.3 million) after deducting taxation and profits attributable to minority interests.

ii) Diluted earnings per share has been calculated by reference to the average during the year of 296.6 million ordinary shares of 25p each (1999: 294.3 million). The average number of ordinary shares used has included 7.4 million ordinary shares of 25p each (1999: 7.4 million) under option.

iii) Adjusted earnings per share has been calculated as follows:

	2000 Attributable profits £m	2000 Earnings per share p	1999 Attributable profits £m	1999 Earnings per share p
Consolidated profit and earnings per share	488.0	168.78	66.3	23.09
Adjustments:				
Discontinued operations	13.8		(0.9)	
Cost of fundamental reorganisation	4.0		10.2	
Gain on disposal of businesses	(591.0)		(9.3)	
Share option compensation	12.4		–	
Taxation on adjustments	123.4		1.6	
Adjusted consolidated profits and adjusted earnings per share	50.6	17.51	67.9	23.66

12 Intangible fixed assets

	Goodwill £m	Know how £m	Total £m
Cost			
Balance 1 April 1999	2.5	0.2	2.7
Acquisitions	7.4	–	7.4
Disposal of businesses	(1.7)	–	(1.7)
Disposals	–	(0.2)	(0.2)
Balance 31 March 2000	8.2	–	8.2
Aggregate amortisation			
Balance 1 April 1999	(0.1)	(0.1)	(0.2)
Charge for the year	(0.5)	–	(0.5)
Disposal of businesses	0.1	–	0.1
Disposals	–	0.1	0.1
Balance 31 March 2000	(0.5)	–	(0.5)
Net book value			
31 March 2000	7.7	–	7.7
31 March 1999	2.4	0.1	2.5

13 Tangible fixed assets

	Freehold premises £m	Leasehold premises Long term £m	Leasehold premises Short term £m	Plant machinery furniture and vehicles £m	Equipment on lease or hire £m	Data and navigation transmitting networks £m	Total £m
Cost or valuation							
Balance 1 April 1999	64.3	5.0	7.5	318.3	4.6	469.5	869.2
Exchange movement	–	0.1	–	(0.3)	–	–	(0.2)
Additions at cost	1.6	–	0.4	31.9	0.8	59.7	94.4
Additions from acquisitions	–	–	–	0.4	–	–	0.4
Disposals at cost	(4.2)	–	(0.1)	(19.3)	(0.2)	(8.5)	(32.3)
Disposal of businesses	(0.1)	–	(1.9)	(20.3)	(2.6)	(431.7)	(456.6)
Reclassification of assets	–	–	–	13.5	(0.6)	(12.9)	–
Balance 31 March 2000	61.6	5.1	5.9	324.2	2.0	76.1	474.9
Aggregate depreciation							
Balance 1 April 1999	(8.3)	(0.9)	(3.5)	(218.6)	(1.5)	(197.6)	(430.4)
Exchange movement	–	–	–	0.5	–	–	0.5
Charge for the year	(1.0)	(0.1)	(0.5)	(30.0)	(1.2)	(30.8)	(63.6)
Additions from acquisitions	–	–	–	(0.2)	–	–	(0.2)
Elimination on disposals	0.9	–	0.1	18.1	0.1	4.8	24.0
Disposal of businesses	–	–	0.8	11.4	1.5	165.3	179.0
Reclassification of assets	–	–	–	(11.5)	0.5	11.0	–
Balance 31 March 2000	(8.4)	(1.0)	(3.1)	(230.3)	(0.6)	(47.3)	(290.7)
Provision for asset impairment							
Balance 1 April 1999	–	–	–	–	–	(8.0)	(8.0)
Provision utilised	–	–	–	–	–	0.7	0.7
Provision released	–	–	–	–	–	1.0	1.0
Disposal of businesses	–	–	–	–	–	4.6	4.6
Balance 31 March 2000	–	–	–	–	–	(1.7)	(1.7)
Net book value							
31 March 2000	53.2	4.1	2.8	93.9	1.4	27.1	182.5
31 March 1999	56.0	4.1	4.0	99.7	3.1	263.9	430.8

A risk adjusted rate of 10% has been used for discounting the provision for asset impairment.

The net book value of the Group's tangible fixed assets includes £20.1 million (1999: £70.9 million) of assets held under finance leases and hire purchase contracts.

Certain of the Group's properties in the United Kingdom were valued on an open market basis at 31 March 1982.

In accordance with the transitional rules of Financial Reporting Standard No. 15, assets which were revalued in prior years have not been updated during the year. The carrying value relating to the previous valuation performed at 31 March 1982 has been carried forward in this year's accounts.

	Freehold premises £m	Leasehold premises – long term £m
Freehold and long term leasehold premises are analysed as follows:		
At cost	54.8	4.0
At valuation in 1982	6.8	1.1
	61.6	5.1
If these assets had not been revalued, the following amounts would have been included:		
31 March 2000		
Cost	60.4	4.8
Aggregate depreciation	(8.9)	(1.0)
Net book value	51.5	3.8
31 March 1999		
Cost	63.1	4.7
Aggregate depreciation	(8.9)	(0.9)
Net book value	54.2	3.8

14 Fixed asset investments

Group	Associated companies £m	Joint ventures £m	Other investments £m	Own shares £m	Total £m
Balance 1 April 1999	35.1	2.7	1.2	7.7	46.7
Additions	0.2	3.9	–	–	4.1
Disposals	–	–	(0.1)	(7.2)	(7.3)
Disposal of businesses	–	(3.1)	–	–	(3.1)
	35.3	3.5	1.1	0.5	40.4
Share of retained profits/(losses) for year:					
Results for the year net of tax	16.5	(2.5)			14.0
Loss allocated to creditors	–	1.6			1.6
	16.5	(0.9)	–	–	15.6
Dividends received	(4.4)	–			(4.4)
Dividend prepaid	(4.3)	–			(4.3)
	(8.7)	–	–	–	(8.7)
Balance 31 March 2000	43.1	2.6	1.1	0.5	47.3

The principal associated companies in which the Group has a direct interest are:	Country of incorporation	Business activity	Issued equity Class	Issued equity Value	Percentage of issued equity held	Latest financial accounts
Archer Communications Systems Limited	England	Radio communications	Ordinary shares	£1,000	30%	31.3.2000
Camelot Group plc†	England	Lotteries	Ordinary shares	£38,750,000	26.67%	31.3.2000
Citylink Telecommunications Limited	England	Telecommunications services	Ordinary shares	£1,000	33%	31.3.2000
Satellite Information Services (Holdings) Limited†	England	Satellite communications	Ordinary shares	£22,161	21.96%	31.3.2000
The principal joint ventures in which the Group has a direct interest are:						
Global Telematics Plc	England	Vehicle telematic products and services	Ordinary shares	£2,500,000	50%	31.3.2000
Racal Thomson Networks Limited	England	Radio Communications	Ordinary shares	£3,000,000	50%	31.3.2000
China Offshore Racal Positioning and Survey (Tianjin) Company Limited*	People's Rep. of China	Survey and positioning services	Registered capital	US$800,000	50%	31.3.2000

† *Interests held by Racal Electronics Plc.*

* *The results of this company brought into the consolidated accounts are derived from audited accounts to 31.12.1999 and management accounts for the three months to 31.3.2000.*

Company	Subsidiary companies £m	Associated companies £m	Other investments £m	Own shares £m	Total £m
Balance 1 April 1999	646.6	35.5	0.7	7.7	690.5
Additional investments in certain subsidiary companies	6.4	–	–	–	6.4
Additions	695.9	–	–	–	695.9
Disposals	(292.8)	–	–	(7.2)	(300.0)
	1,056.1	35.5	0.7	0.5	1,092.8
Provisions for impairment in value	(370.0)	–	–	–	(370.0)
Balance 31 March 2000	686.1	35.5	0.7	0.5	722.8

Details of the principal subsidiaries are given on pages 12 and 13.

Fixed asset investments are carried at cost less any provision for impairment in value. The cumulative provision at 31 March 2000 for impairment in value is £525.0 million (1999: £155.0 million).

Own shares relates to an Employee Share Ownership Trust (Note 16).

15 Associated companies

Due to the significance of associated companies to the Group's results, additional information is provided in this Note on the Group's share of the results of Camelot Group plc and other associates and the Group's share of their balance sheets. This can be summarised as follows:

	Camelot Group plc 2000 £m	Other associates 2000 £m	Total 2000 £m	Camelot Group plc 1999 £m	Other associates 1999 £m	Total 1999 £m
Turnover	1,358.3	46.8	1,405.1	1,374.1	31.7	1,405.8
Profit before taxation	14.9	8.3	23.2	18.5	5.3	23.8
Taxation	(4.7)	(2.0)	(6.7)	(5.7)	(2.1)	(7.8)
Profit after taxation	10.2	6.3	16.5	12.8	3.2	16.0
Fixed assets	9.8	20.9	30.7	14.6	4.5	19.1
Current assets	115.9	17.7	133.6	105.9	5.3	111.2
Liabilities due within one year	(86.8)	(22.5)	(109.3)	(82.9)	(9.0)	(91.9)
Liabilities falling due after more than one year	(0.6)	(17.8)	(18.4)	(3.5)	(8.8)	(12.3)

16 Own shares

The Company has established an Employee Share Ownership Trust to purchase shares in the market for distribution at a later date in accordance with the terms of the Racal Share Option Scheme 1992, the Racal Share Option Scheme 1995 and the Racal Share Option Scheme 1997 and to subscribe for the Company's ordinary shares so that such shares can be used to satisfy options granted and to be granted under the terms of the Racal Share Option Scheme 1992, the Racal Share Option Scheme 1997 and the Racal Share Savings Plan (1990). The shares are held by an independent trustee and the right to dividend on the shares has been waived apart from a nominal amount. As at 31 March 2000 the number of shares held by the Trust totalled 190,798 shares with a nominal value of £47,700 (1999: 2,980,000 shares with a nominal value of £745,000) and the cost of such shares amounted to £482,000 (1999: £7,706,000). These shares, whilst legally not the property of the Company, have been included in fixed asset investments as shown in Note 14. The market value of these shares at 31 March 2000 was £805,000 (1999: £11,905,000).

17 Stocks

	2000 £m	1999 £m
Raw materials and components	40.2	38.1
Work in progress	70.8	67.9
Finished goods stock	29.0	25.7
	140.0	131.7
Less: progress payments	(9.3)	(4.6)
	130.7	127.1
Work in progress and progress payments include the following in respect of long term contracts:		
Net cost less foreseeable losses	29.9	14.1
Less: applicable payments on account	(8.3)	(4.1)
	21.6	10.0

18 Debtors due within one year

	2000 Group £m	2000 Company £m	1999 Group £m	1999 Company £m
Trade debtors	210.1	–	202.0	–
Debtors – finance leases	4.8	–	6.9	–
Amounts owed by subsidiaries	–	312.4	–	320.5
Amounts owed by joint ventures	6.9	–	3.6	–
Amounts owed by associated companies	10.4	–	15.6	–
Other debtors	8.5	0.7	10.2	0.1
Amounts recoverable on contracts	68.7	–	70.3	–
Taxation recoverable	0.4	–	0.3	12.8
Prepayments and accrued income	44.4	1.0	50.5	1.9
Interest receivable	0.5	–	–	–
	354.7	314.1	359.4	335.3

The aggregate amounts receivable during the year in respect of finance leases were £5.4 million (1999: £12.0 million).

The cost of assets acquired during the year for the purpose of letting under finance leases was £1.4 million (1999: £4.4 million).

19 Debtors due after more than one year

	2000 Group £m	2000 Company £m	1999 Group £m	1999 Company £m
Debtors – finance leases	5.7	–	4.1	–
Other debtors	2.1	–	2.1	0.1
Amounts recoverable on contracts	10.1	–	13.2	–
Prepayments and accrued income	74.4	0.1	61.4	1.0
	92.3	0.1	80.8	1.1

20 Creditors: amounts falling due within one year

	2000 Group £m	2000 Company £m	1999 Group £m	1999 Company £m
Loans (Note 23)	0.1	–	0.2	–
Bank overdrafts	3.7	–	22.2	20.4
Trade creditors	99.4	–	121.7	–
Amounts owed to subsidiaries	–	383.6	–	163.3
Amounts owed to joint ventures	0.5	–	–	–
Advance receipts	36.8	–	18.9	–
Current corporation tax	110.5	134.8	8.8	5.2
Obligations under finance leases (Note 22)	10.9	–	14.0	–
Other taxes and social security costs	25.3	–	26.1	–
Other creditors	15.6	0.7	6.9	0.1
Accruals and deferred income	121.6	6.4	102.3	0.8
Interest payable	0.3	0.3	2.0	3.1
Proposed dividend	–	–	11.2	11.2
	424.7	525.8	334.3	204.1

21 Creditors: amounts falling due after more than one year

	2000 Group £m	2000 Company £m	1999 Group £m	1999 Company £m
Loans (Note 23)	81.0	79.3	279.7	277.9
Advance receipts	0.9	–	36.3	–
Corporation tax	–	–	0.1	–
Obligations under finance leases (Note 22)	17.7	–	69.1	–
Other creditors	0.2	–	2.9	–
Accruals and deferred income	7.3	–	4.1	–
Deferred purchase consideration	0.1	–	–	–
	107.2	79.3	392.2	277.9

22 Obligations under finance leases

Obligations under finance leases fall due as follows:

	2000 £m	1999 £m
(a) between one and two years	4.4	14.5
(b) between two and five years	9.3	21.5
(c) in more than five years	4.0	33.1
	17.7	69.1
(d) in one year or less	10.9	14.0
	28.6	83.1

23 Loans

	2000 Group £m	2000 Company £m	1999 Group £m	1999 Company £m
Bank loans				
Repayable other than by instalments within five years:				
Unsecured multi-currency loans	79.3	79.3	277.9	277.9
Repayable by instalments:				
Unsecured loans repayable within five years	–	–	0.1	–
Secured loans repayable between 1999 and 2011 with interest at 6% (secured by charges on buildings)	1.8	–	1.9	–
	81.1	79.3	279.9	277.9
Repayment of the above falls due as follows:				
(a) between one and two years	0.1	–	0.1	–
(b) between two and five years	79.8	79.3	278.3	277.9
(c) in more than five years	1.1	–	1.3	–
	81.0	79.3	279.7	277.9
(d) in one year or less	0.1	–	0.2	–
	81.1	79.3	279.9	277.9

24 Provisions for liabilities and charges

	Group Deferred taxation £m	Group Onerous lease provision £m	Group Post-sale rectification and support provision £m	Group Other provisions £m	Group Total £m	Company Other provisions £m
Balance 1 April 1999	24.2	1.8	4.7	2.8	33.5	0.1
Exchange restatement	–	–	–	(0.1)	(0.1)	–
Created during the year	–	0.4	2.5	8.6	11.5	3.9
Utilised during the year	–	(0.6)	(1.9)	(1.7)	(4.2)	(0.1)
Released during the year	(5.2)	(0.6)	(0.3)	–	(6.1)	–
Adjustment arising from unwinding of discount	–	0.1	–	–	0.1	–
Disposal of businesses	1.1	–	–	–	1.1	–
Balance 31 March 2000	20.1	1.1	5.0	9.6	35.8	3.9

The onerous lease provision relates to the anticipated net rental commitments under the terms of the leases of properties currently not required by Group companies. These leases expire in periods ranging from nine months to ten years.

The post-sale rectification and support provision relates to anticipated costs to be borne by the Group in respect of rectification costs, warranty obligations and support of products supplied to customers. It is expected that the majority of this expenditure will be incurred in the next three financial years.

Other provisions relate to the disposal of the Racal Data Group and Racal Telecommunications Group. It is expected that the majority of this expenditure will be incurred in the next financial year and all of it within two years.

Deferred taxation
Group

The provision for deferred taxation calculated on the liability method is as follows:	2000 Amount provided £m	2000 Potential liability £m	1999 Amount provided £m	1999 Potential liability £m
Accelerated capital allowances in the United Kingdom	0.2	1.5	7.5	17.8
Timing differences relating to pension surpluses allocated to the Racal Shared Cost Section of the Railways Pension Scheme	7.0	7.0	8.8	8.8
Other timing differences	12.9	12.9	7.9	7.9
	20.1	21.4	24.2	34.5

25 Called up share capital

At 31 March 2000, the authorised share capital of the Company was £400,000,000 in ordinary shares of 25p each (1999: £400,000,000 in ordinary shares of 25p each).

The issued share capital of the Company, all of which has been allotted, called up and fully paid, as at 31 March 2000 was £73,325,835.00 in ordinary shares of 25p each (1999: £72,564,034.25).

In August 1999, an issue of 416,855 ordinary shares (nominal value £104,213.75) was made at an effective price of 383.4p per share to shareholders who elected to receive such ordinary shares in lieu of the cash payment of the final dividend.

Allotments totalling 2,222,675 ordinary shares (nominal value £555,668.75) were made during the year in accordance with the rules of the Racal Share Option Scheme 1992. All of the shares were subscribed for by the Trustee of the Employee Share Ownership Trust at a total market value of £11,315,597. Of this amount, £2,831,228 was received from employees and £8,484,369 from the Company's subsidiaries. The option prices paid by the participants for the shares were as follows:

632,200	shares at 114p per share
1,560,475	shares at 130.5p per share
30,000	shares at 247p per share.

Allotments totalling 120,000 ordinary shares (nominal value £30,000.00) were made during the year in accordance with the rules of the Racal Share Option Scheme 1997. All of the shares were subscribed for by the Trustee of the Employee Share Ownership Trust at a total market value of £602,000. Of this amount £284,400 was received from employees and £317,600 from the Company's subsidiaries. The option prices paid by the participants for the shares were as follows:

100,000	shares at 235p each
20,000	shares at 247p each.

Allotments totalling 287,673 ordinary shares (nominal value £71,918.25) were made during the year in accordance with the rules of the Racal Share Savings Plan (1990), the shares being subscribed for by the Trustee of the Employee Share Ownership Trust at a total market value of £1,198,837. Of this amount £569,592 was received from employees and £629,245 from the Company's subsidiaries. The option price paid by the participants for the shares was 198p per share.

Under the rules of the Racal Share Option Scheme 1992, options were outstanding on 31 March 2000 for executives to acquire 536,000 ordinary shares in the Company as follows:

Number of shares	Option price	Exercise period				
36,000	235p	12 December	2000	to	11 December	2007
500,000	247p	21 January	2001	to	20 January	2008

The exercise of these options is subject to the Company achieving growth in its earnings per share over a three year period in excess of the Index of Retail Prices by an average of 3% per year.

At 31 March 2000, 190,798 ordinary shares of the Company for use in satisfying the share options granted under these Schemes were held in an independently managed Employee Share Ownership Trust which was originally formed to purchase shares in the Company on the open market. Options had not been granted in respect of all of the shares held by the Trust.

Under the rules of the Racal Share Option Scheme 1997, options were outstanding on 31 March 2000 for executives to acquire 1,304,000 ordinary shares in the Company as follows:

Number of shares	Option price	Exercise period				
814,000	235p	12 December	2000	to	11 December	2004
490,000	247p	21 January	2001	to	20 January	2005

The exercise of these options is subject to the Company achieving growth in its earnings per share over a three year period in excess of the Index of Retail Prices by an average of 3% per year.

Under the rules of the Racal Share Savings Plan (1990), options were outstanding on 31 March 2000 for employees to acquire 7,901,953 ordinary shares in the Company at the price of 198p per share exercisable during the period 1 April 2003 to 30 September 2003.

26 Reserves

a) Share premium account	Group £m	Company £m
Balance 1 April 1999	176.4	176.4
Premium on allotment of ordinary shares	14.0	14.0
Balance 31 March 2000	190.4	190.4

b) Capital redemption reserve	Group £m	Company £m
Balance 1 April 1999	279.3	279.3
Balance 31 March 2000	279.3	279.3

c) Revaluation reserve	Group £m
Balance 1 April 1999	2.1
Realised on disposals	(0.1)
Balance 31 March 2000	2.0

d) Profit and loss account	Group companies £m	Associated companies £m	Joint ventures £m	Group Total £m	Company £m
Balance 1 April 1999	(183.7)	23.3	(2.7)	(163.1)	68.5
Retranslation of net assets of overseas subsidiary and associated companies	(3.9)	–	–	(3.9)	–
Retranslation of long term foreign currency loans which relate to investments in overseas subsidiaries*	3.3	–	–	3.3	–
	(184.3)	23.3	(2.7)	(163.7)	68.5
Goodwill in respect of discontinued businesses transferred to the profit and loss account	118.3	–	0.5	118.8	–
Contributions to employee share trusts by subsidiary undertakings	(9.4)	–	–	(9.4)	–
Retained (loss)/profit for the year	(17.2)	12.1	(2.5)	(7.6)	47.0
Balance 31 March 2000	(92.6)	35.4	(4.7)	(61.9)	115.5

*The amount for retranslation of long term foreign currency loans which relate to investments in overseas subsidiaries is shown net of a related taxation adjustment of £1.3 million.

The profit and loss account at 31 March 2000 is stated net of goodwill arising on acquisitions prior to 31 March 1998 transferred direct to reserves of £115.7 million (1999: £234.5 million). This goodwill will be charged to the profit and loss account on the disposal of the businesses to which it relates.

27 Reconciliation of group operating profit to net cash inflow from operating activities

	2000 £m	1999 £m
Group operating profit	26.9	78.0
Depreciation	63.6	73.9
Utilisation of asset impairment provision	(1.7)	–
Amortisation of intangible fixed assets	0.5	0.1
Profit on sale of fixed assets	(0.9)	(1.6)
Net provisions created/(utilised)	0.4	(10.6)
(Increase)/decrease in stocks	(10.6)	8.7
Increase in debtors	(81.9)	(55.7)
Increase in creditors	84.9	16.9
Net cash inflow before exceptional items	81.2	109.7
Net cash outflow in respect of fundamental reorganisation	(4.9)	(3.7)
Net cash inflow from operating activities	76.3	106.0

Cash outflow in respect of reorganisation costs was £7.9 million (1999: £4.9 million).

Notes on the Financial Statements

28 Returns on investments and servicing of finance

	2000 £m	1999 £m
Interest received	10.1	4.4
Interest paid	(15.8)	(19.8)
Interest element of finance lease/hire purchase payments	(6.4)	(7.8)
	(12.1)	(23.2)

29 Capital expenditure and financial investment

	2000 £m	1999 £m
Purchase of tangible fixed assets	(93.6)	(118.9)
Purchase of intangible fixed assets	–	(0.4)
Purchase of investments	(4.1)	(3.9)
Sale of tangible fixed assets	8.9	11.2
Sale of investments	14.2	10.8
	(74.6)	(101.2)

30 Acquisitions and disposals

	2000 £m	1999 £m
Purchase of subsidiary undertakings (Note 32)	(8.6)	(1.8)
Cash at bank and in hand less bank overdrafts acquired with subsidiaries (Note 32)	(0.4)	0.5
Disposal of businesses (Note 33)	940.2	28.3
Cash at bank and in hand less bank overdrafts disposed with businesses (Note 33)	(1.9)	(1.5)
	929.3	25.5

31 Analysis of net debt

	At 1 April 1999 £m	Cash flow £m	Acquisitions (excl. cash & overdrafts) £m	Disposals (excl. cash & overdrafts) £m	Other non-cash changes £m	Exchange movement £m	At 31 March 2000 £m
Net cash:							
Cash at bank and in hand	39.4	45.0	–	–	–	(1.1)	83.3
Bank overdrafts	(22.2)	18.4	–	–	–	0.1	(3.7)
	17.2	63.4	–	–	–	(1.0)	79.6
Liquid resources:							
Cash on deposit	42.1	111.6	–	–	–	–	153.7
Debt:							
Loans due within one year	(0.2)	0.2	–	–	(0.1)	–	(0.1)
Loans due in more than one year	(279.7)	197.5	–	–	0.1	1.1	(81.0)
Obligations under finance leases	(83.1)	8.3	(0.1)	76.2	(29.9)	–	(28.6)
	(363.0)	206.0	(0.1)	76.2	(29.9)	1.1	(109.7)
Net debt	(303.7)	381.0	(0.1)	76.2	(29.9)	0.1	123.6

32 Purchase of subsidiary undertakings

	2000 £m	1999 £m
Tangible fixed assets	0.2	1.2
Investments	–	(0.5)
Stocks and work in progress	0.3	–
Debtors	0.6	6.0
Cash at bank and in hand less bank overdrafts (Note 30)	(0.4)	0.5
Creditors	(0.3)	(6.9)
Obligations under finance leases and hire purchase contracts	(0.1)	–
Minority interests	1.0	(1.4)
Net assets acquired	1.3	(1.1)
Goodwill	7.4	2.9
Cost of acquisitions	8.7	1.8
Less payments due under deferred purchase consideration	(0.1)	–
Cash outflow in respect of purchase of subsidiary undertakings (Note 30)	8.6	1.8

33 Disposal of businesses

	2000 £m	1999 £m
Net assets disposed:		
Intangible fixed assets	–	0.3
Tangible fixed assets	273.0	23.7
Investments	3.1	6.3
Stocks	6.0	20.3
Debtors	131.8	53.8
Cash at bank and in hand less bank overdrafts (Note 30)	1.9	1.5
Taxation recoverable	–	0.1
Creditors	(341.5)	(32.7)
Obligations under finance leases	(76.2)	(0.5)
Loans	–	(1.7)
Deferred tax asset/(provision)	0.9	(0.7)
Total net assets disposed	(1.0)	70.4
Assets written off	2.4	1.0
Accrued costs of disposal	14.6	1.3
Proceeds from property disposal	–	20.2
Provisions released	–	(74.0)
Pension surplus recognised on disposal of business	–	(0.3)
Goodwill	1.6	0.4
Goodwill previously written off to reserves	118.8	–
Repayments of inter-company balances	212.8	–
Gain on disposal or closure of operations (Note 4)	591.0	9.3
Cash inflow in respect of disposal of subsidiary undertakings (Note 30)	940.2	28.3

Businesses which were sold during the year had a net cash inflow of £22.2 million from operating activities, an outflow of £15.2 million in respect of returns on investments and servicing of finance, an inflow of £5.4 million in respect of taxation, an outflow of £62.1 million for capital expenditure and financial investment, and an outflow of £7.4 million for financing.

34 Acquisitions

The principal acquisitions during the year were:

The 20% minority interest in Racal Survey Services Singapore Pte Limited (formerly Techno Transfer Industries Pte Limited) was acquired on 22 August 1999. The fair value of the assets acquired was £1.4 million and the consideration was £4.7 million giving rise to goodwill of £3.3 million. This goodwill is being amortised over a period of ten years.

On 1 January 2000 the Group acquired Inotek Limited. The fair value of the liabilities acquired was £0.1 million and the consideration was £4.0 million giving rise to goodwill of £4.1 million. This goodwill is being amortised over a period of twenty years. The profit before tax included in the consolidated profit and loss account for the year ended 31 March 1999 was £nil. Prior to the acquisition the profit before tax for Inotek Limited for the year ended 31 December 1999 was £nil.

35 Pension schemes

The Group operates a number of schemes throughout the world for the benefit of employees. The schemes are both defined benefit schemes and defined contribution schemes. The Group charge for pensions amounted to £10.4 million (1999: £12.9 million).

The principal schemes are in the UK and are defined benefit schemes operated on a prefunded basis. The assets of these schemes are held in separate trustee administered funds. The UK schemes are subject to triennial valuations and annual interim investigations by independent actuaries. The last valuation for each of the principal schemes was carried out as at 1 April 1998 using the projected unit method in which the actuarial liability makes allowance for projected pensionable earnings.

The main financial assumptions used for both the valuation of the principal schemes and for the purposes of Statement of Standard Accounting Practice No. 24 (SSAP 24) are as follows:

Investment returns	7.5% per annum
General salary growth	5.5% per annum
Equity dividend growth	4.5% per annum
Equity capital growth	5.0% per annum

In addition to the principal schemes, Racal Services (Communications) Limited is the designated employer of the Racal Shared Cost Section of the Railways Pension Scheme (a defined benefit scheme operated on a prefunded basis). The last triennial valuation of this scheme was carried out as at 31 December 1998. For the purposes of SSAP 24 the assumptions applied to the principal schemes have also been applied to the Racal Shared Cost Section of the Railways Pension Scheme.

At 1 April 1999, the market value of the assets of the UK schemes was £924.9 million and the corresponding actuarial value was sufficient to cover 122% of the benefits which had accrued to members allowing for assumed increases in earnings.

The pension costs for the UK schemes amounted to £8.1 million (1999: £9.9 million). The pension costs of the Group's overseas schemes amounted to £2.3 million (1999: £3.0 million) having been determined in accordance either with SSAP 24, or with the accounting standard of the countries concerned. In the case of the latter, the costs of the overseas schemes would not be significantly different had they been calculated in accordance with SSAP 24.

A prepayment of £73.0 million (1999: £59.3 million) is included in prepayments due after more than one year. This represents the excess of the amounts funded over accumulated pension costs.

36 Future Group capital expenditure

	2000 £m	1999 £m
Contracted for but not provided for in the financial statements	7.6	19.5

37 Contingent liabilities

There are contingent liabilities in the event of any claim for breach or non-performance of the terms of overseas contracts against which bank guarantees have been issued amounting to £84.1 million (1999: £99.1 million). In addition, the Company has issued a guarantee, not limited in value, in respect of the due and punctual performance of two subsidiaries under various agreements in relation to a European defence project.

Under the terms of an agreement entered into between Camelot Group plc and all of its shareholders, the Company has a contingent liability in an amount not exceeding £9 million in the unlikely event of Camelot's licence to operate the National Lottery being revoked by the Secretary of State for Culture, Media and Sport.

The Company has issued two guarantees, not limited in value, in respect of the performance of a subsidiary company and of an associated company of their respective obligations under various agreements in relation to a United Kingdom defence project. The guarantee in respect of the associated company's obligations is joint and several with the other shareholders of that company.

38 Financial commitments

Group

Group companies have commitments under various operating lease agreements in connection with land and buildings and other assets. Under these agreements the payments to which the companies are committed during the next financial year are as follows:

	2000 Land and buildings £m	2000 Other assets £m	1999 Land and buildings £m	1999 Other assets £m
Payable on operating leases that expire within one year	1.8	3.5	1.4	1.1
Payable on operating leases that expire between two and five years	2.7	4.3	4.6	8.3
Payable on operating leases that expire after five years	5.1	–	6.3	0.1
	9.6	7.8	12.3	9.5

Company

The Company had no commitments under operating leases.

39 Financial instruments

The Group has a central treasury function which operates under strict rules approved by the board. It is the Group's policy not to speculate in derivative financial instruments or foreign currency. Counterparties credit risk is closely monitored and controlled. UK and overseas treasury activities are subject to close management supervision and audit.

In March 1999 the Group arranged a £370 million facility with a syndicate of banks which matures in September 2002. In November 1999, following the disposal of Racal Telecom, this facility was reduced to £200 million. The Group has complied with covenants which are associated with interest cover, net debt to EBITDA (earnings before interest, tax, depreciation and amortisation) and tangible net worth. Under the arrangement the Group has maintained borrowings in the UK, denominated in a range of currencies, in order to hedge approximately 80% of overseas net assets.

Fixed rate borrowings at 31 March 2000 were £28.6 million (31 March 1999 £83.1 million) with a weighted average fixed interest rate of 8.6% and an average period to maturity of 5.2 years. These borrowings are finance lease obligations and predominately relate to Transportation Services.

Floating rate borrowings at 31 March 2000 were £84.8 million (31 March 1999 £302.1 million) which mostly related to the currency borrowings maintained in the UK to hedge overseas assets. These loans bear interest at rates based on the relevant LIBOR for the currency concerned.

Surplus funds have been invested during the year with counterparties which have high credit ratings to ensure security of principal.

It is the Group's policy not to hedge translation exposure of the profit and loss account. However, for significant transactions denominated in a currency other than the functional currency of the particular group company involved, the currency exposure is hedged by forward contracts. At 31 March 2000 the Group had outstanding forward contracts with a fair value of £0.4 million.

The currency profile of the Group's total borrowings (including finance lease obligations) at 31 March 2000 was:

				Weighted averages for fixed rate borrowings	
	Total £m	Floating rate borrowings £m	Fixed rate borrowings £m	Interest rate %	Time for which rate is fixed years
Sterling	28.4	–	28.4	8.6	5.2
US Dollar	42.7	42.5	0.2	10.8	1.8
Euro currencies	10.5	10.5	–	–	–
Singapore Dollar	18.9	18.9	–	–	–
Norwegian Krone	2.4	2.4	–	–	–
Canadian Dollar	8.2	8.2	–	–	–
Australian Dollar	2.3	2.3	–	–	–
	113.4	84.8	28.6	8.6	5.2

The floating rate borrowings comprise bank overdrafts of £3.7 million and loans of £81.1 million bearing interest at rates based on LIBOR and, for some of the Singapore dollar borrowings, SINBOR and Hong Kong Bank prime rate.

39 Financial instruments (Continued)

The currency profile of the Group's total borrowings (including finance lease obligations) at 31 March 1999 was:

	Total £m	Floating rate borrowings £m	Fixed rate borrowings £m	Weighted averages for fixed rate borrowings: Interest rate %	Weighted averages for fixed rate borrowings: Time for which rate is fixed years
Sterling	327.0	244.0	83.0	8.6	8.8
US Dollar	31.2	31.1	0.1	6.5	3.3
Euro currencies	12.9	12.9	–	–	–
Singapore Dollar	11.4	11.4	–	–	–
Norwegian Krone	2.1	2.1	–	–	–
Other	0.6	0.6	–	–	–
	385.2	302.1	83.1	8.6	8.8

The floating rate borrowings comprise bank overdrafts of £22.2 million and loans of £279.9 million bearing interest at rates based on LIBOR and, for some of the Singapore dollar borrowings, SINBOR and Hong Kong Bank prime rate.

Monetary assets and liabilities by currency, excluding functional currency of each operation at 31 March 2000, were:

	Net foreign currency monetary assets/(liabilities)					
	Sterling £m	US Dollar £m	Euro currencies £m	Saudi Arabian Riyal £m	Other £m	Total £m
Functional currency of operation						
Sterling	–	(0.5)	0.6	1.1	(0.1)	1.1
South African Rand	–	0.7	–	–	–	0.7
Norwegian Krone	0.4	0.4	–	–	–	0.8
US Dollar	(0.2)	–	–	–	–	(0.2)
Other	–	0.2	–	–	(0.1)	0.1
Total	0.2	0.8	0.6	1.1	(0.2)	2.5

Monetary assets and liabilities by currency, excluding functional currency of each operation at 31 March 1999, were:

	Net foreign currency monetary assets/(liabilities)					
	Sterling £m	US Dollar £m	Euro currencies £m	Saudi Arabian Riyal £m	Other £m	Total £m
Functional currency of operation						
Sterling	–	1.0	–	0.3	(0.1)	1.2
South African Rand	–	0.5	–	–	–	0.5
Singapore Dollar	–	0.7	(0.2)	–	(0.2)	0.3
Euro currencies	(0.2)	0.4	–	–	(0.1)	0.1
Other	–	0.4	(0.2)	–	0.2	0.4
Total	(0.2)	3.0	(0.4)	0.3	(0.2)	2.5

The maturity profile of the Group's financial liabilities, other than short term creditors, was as follows:

	2000 £m	1999 £m
In one year or less or on demand	14.7	36.5
Between one and two years	6.5	18.8
Between two and five years	89.1	300.9
In more than five years	5.2	68.8
	115.5	425.0

39 Financial instruments (Continued)

Unrecognised gains and losses on hedges, being forward currency contracts, can be analysed as follows:

	Gains £m	Losses £m	Net gains/ (losses) £m
At 1 April 1999	0.3	(0.1)	0.2
Arising in previous years that were recognised in the year	–	–	–
Arising before 1 April 1999 that were not recognised in the year	0.3	(0.1)	0.2
Arising in the year that were not recognised in the year	0.2	–	0.2
At 31 March 2000	0.5	(0.1)	0.4
Expected to be recognised:			
In one year or less	0.4	(0.1)	0.3
In later years	0.1	–	0.1
	0.5	(0.1)	0.4

The following table summarises the book and fair values of financial assets and liabilities, excluding short term debtors and creditors:

	Book value 2000 £m	Fair value 2000 £m	Book value 1999 £m	Fair value 1999 £m
Cash at bank and on deposit	237.0	237.0	81.5	81.5
Bank overdrafts, loans and finance leases	(113.4)	(113.4)	(385.2)	(385.2)
Forward currency contracts (gross value £3.2 million, 1999: £13.0 million)	–	0.4	–	0.2
Other financial assets	15.9	15.9	17.4	24.5
Other financial liabilities	(2.1)	(2.1)	(39.8)	(39.8)

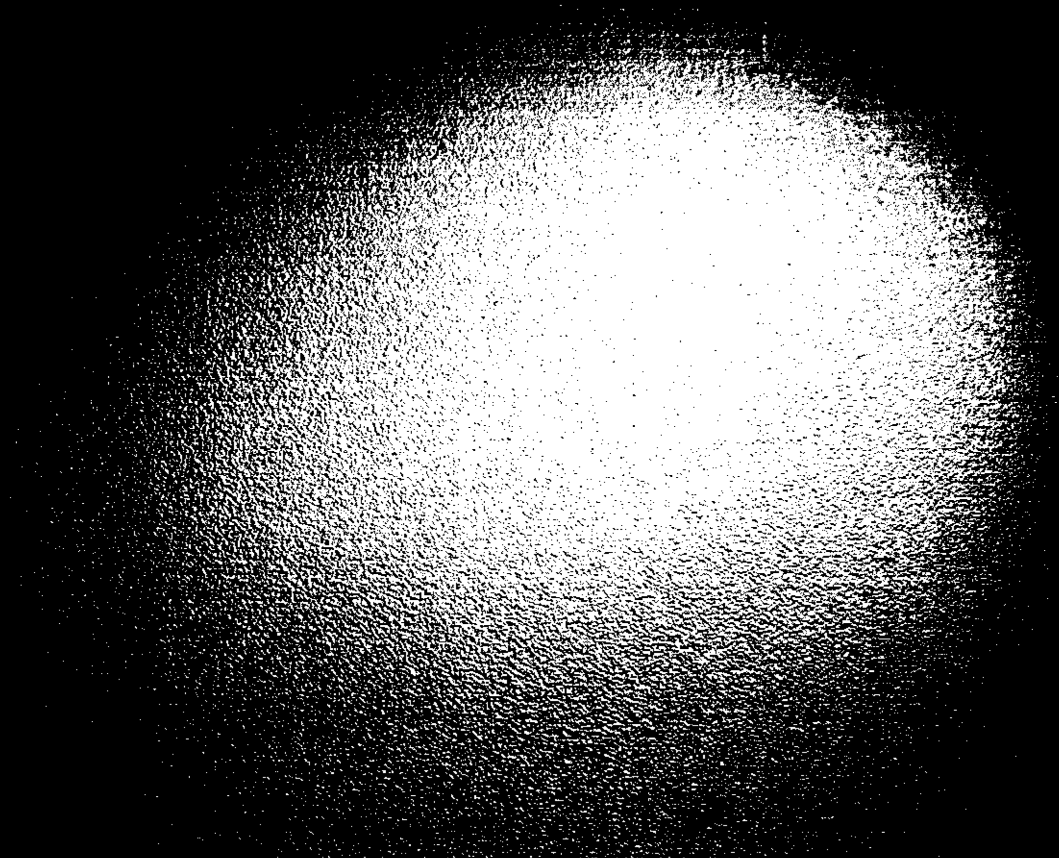
Fair values have been derived from estimated market values. In the case of cash at bank and on deposit, bank overdrafts and loans, fair value approximates to book value due to the short maturities involved. In the case of finance leases, fair values approximate to book value due to the closeness of the interest rates to fixed rates at which the Group could borrow funds with a similar maturity date.

40 Related party transactions

	2000 £m	1999 £m
Transactions with associates and joint ventures		
Turnover:		
Camelot Group plc	10.0	18.4
Citylink Telecommunications Limited	11.3	–
Archer Communications Systems Limited	27.9	16.6
Global Telematics Plc	2.7	1.3
Other joint ventures	2.6	2.3
	54.5	38.6
Purchases:		
Global Telematics Plc	0.1	–
Investments made:		
Global Telematics Plc	0.5	0.2
Racal Thomson Networks Limited	1.5	–
	2.0	0.2
Dividends received:		
Camelot Group plc	4.4	6.6
Satellite Information Services (Holdings) Limited	–	14.3
Other joint ventures	–	0.5
	4.4	21.4
Amounts due from associates and joint ventures (Note 18):		
Camelot Group plc	–	0.8
Archer Communications Systems Limited	10.2	14.8
Global Telematics Plc	6.4	3.3
Other joint ventures	0.7	0.3
	17.3	19.2
Amount due to joint venture (Note 20):		
Racal Thomson Networks Limited	0.5	–

41 Post Balance Sheet Event

On 15 June 2000 the offer for the issued share capital of the Company by Thomson-CSF Invest Limited was declared unconditional. Following the completion of the takeover, it is intended that the shares of the Company will no longer be listed by the UK Listing Authority. As a consequence of the takeover the Company becomes a member of the Thomson-CSF Group.



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