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1996

ANNUAL REPORT AND ACCOUNTS

The principal activities of Racal Electronics Plc are wide ranging and address customers' needs in three main markets:

VOICE & DATA COMMUNICATIONS

Communications networks – local, national and international – using a variety of digital and analogue transmission media. Radio and data communications and professional recording, based on a comprehensive range of products, systems and services.

DEFENCE ELECTRONICS

Main areas of activity are radio communications, electronic surveillance, radar systems, command information systems and navigation systems.

MARITIME & INDUSTRIAL SERVICES

A broad range of support services to a variety of users in shipping, hydrocarbons, heavy industry, process manufacturing, construction, agriculture and electronics.

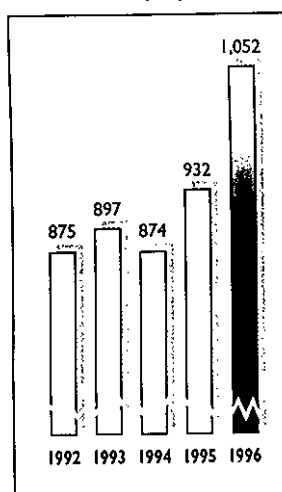
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AT 31 MARCH 1996

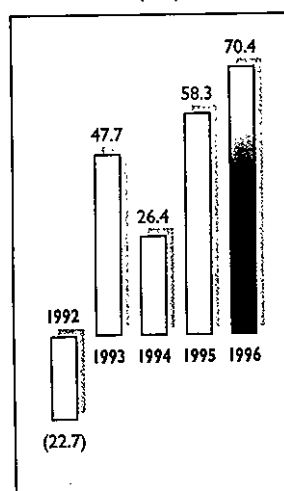
Throughout this report all statements on turnover and operating profit refer to continuing operations unless otherwise stated.

TURNOVER (£M)



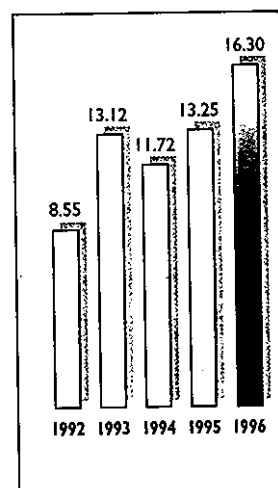
	1996 £m	1995 £m	% Change
TURNOVER	1,052.1	932.0	+13%
OPERATING PROFIT	76.6	60.3	+27%
OPERATING PROFIT % SALES	7.3%	6.5%	

PROFIT BEFORE TAXATION (£M)



PROFIT BEFORE TAXATION	70.4	58.3	+21%
PROFIT AFTER TAXATION	45.8	37.8	+21%

EARNINGS PER SHARE (P) ADJUSTED



EARNINGS PER SHARE			
FRS 3	16.54p	13.70p	+21%
Adjusted	16.30p	13.25p	+23%
DIVIDEND PER SHARE			
Net of tax	6.00p	5.00p	+20%

☎ SHARE PRICE INFORMATION

The current share price can be obtained by dialling the FT Cityline Service on 0336 433752.

Calls are charged at 39p per minute cheap rate and 49p per minute at all other times.

I am pleased to report that during the year the Group made significant progress in its main markets and recorded strong growth in both turnover and profit.

Turnover increased by 13% to £1,052 million.

Operating profit grew by 27% to £76.6 million.

Profit before taxation was £70.4 million, an increase of 21%.

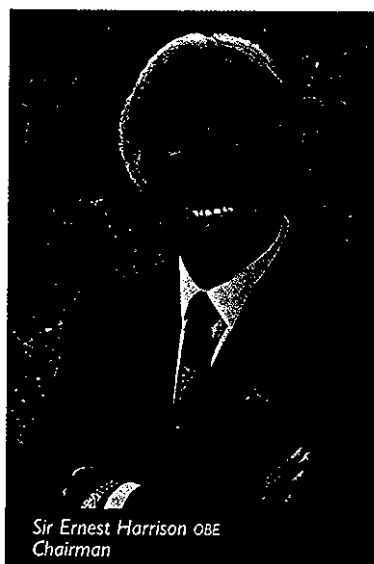
Earnings per share, on an adjusted basis, rose by 23% to 16.30p.

The directors are recommending the payment of a final dividend of 3.9p per share (net) making a total of 6.0p for the year, an increase of 20% on the total net dividend for 1994/95.

OUR BUSINESS

All our operating groups recorded increased sales, except for Radio Communications which faced increasingly competitive market conditions.

There have been a number of notable developments in the past year that have strengthened our core businesses. The integration of the Thorn Sensors division is proceeding well and has contributed significantly to the strong increase in the profit of the Defence Radar and Avionics group. Turnover growth in the Network Services group has continued and the acquisition, at the end of 1995, of BR Telecommunications (BRT) has boosted its revenues and profit. In particular, BRT will enhance the quality of earnings for shareholders through an increase in the level of recurring service revenues. The acquisition of both these new businesses is important for the strategic development of the Company.



The firming of oil prices helped the growth in profit of Marine and Energy. Specialised Businesses had another good

year and achieved an extremely satisfactory margin on sales of 16.5%. Investments were made in a number of new products and facilities that will produce benefits in future years.

Our main disappointment in the past year was the performance of the Data Products business which continued to incur losses. In June 1995, we appointed Paul Kozlowski as Chairman

of the Data Communications group. He has very wide experience of this industry and following the detailed strategic review of the Data Products business, which he undertook, the board has agreed that a fundamental restructuring of the business be implemented. This will give rise to an FRS 3 exceptional cost of the order of £20 million in 1996/97 and position this activity for a return to profitability in 1997/98.

During the year we have continued to pursue a number of major opportunities. We are awaiting the result of our bid to manage the Defence Fixed Telecommunications System (DFTS) for the Ministry of Defence (MoD). This contract, worth £1 billion over 10 years, is expected to be awarded in early 1997 and would add to our recurring revenues.

The single largest contract for which we are shortlisted is Bowman, the British Army's future tactical communications system, which will be worth £2.5 billion over 20 years and would generate additional income from export sales. Bowman is of fundamental importance to the British armed forces and, as such, has required a number of changes to the specification as technology develops. Unfortunately, this has resulted in delays and a consequential rise in cost that is being borne increasingly by your Company and its partner in the 'Yeoman' consortium. We are well positioned and are committed to pursuing this substantial business to a successful conclusion.

BOARD APPOINTMENT

Your board was strengthened by the appointment, in April 1996, of Paul Kozlowski, who has made considerable progress in reorganising and repositioning the Data Products business.

APPRECIATION

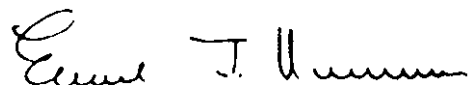
Throughout the Group there is a great commitment by all of our people to the Company and to the achievement of its future plans. Such dedication and enthusiasm have been a most important factor in our success. I would like, on your behalf, to thank all of those who have contributed so much.

THE FUTURE

In 1996/97, there will be a strong underlying trading performance aided by a full year contribution from BRT, and operating profit will be substantially ahead of that in 1995/96. However, the phasing of the exceptional restructuring costs will disproportionately affect the first half year results.

After absorbing the cost of restructuring the Data Products business and the increased interest charge resulting from the acquisition of BRT, the pre-tax profit for 1996/97 is expected to show an increase over the £70.4 million of 1995/96.

The strength of the Company has been markedly improved by the expansion embarked upon during 1995. Many substantial growth opportunities for the Company have been identified in the UK and overseas and will be pursued. These, coupled with the strong growth of our recurring revenues and a return to profit of the Data Products business, will ensure an exciting and promising future for the Company.



Sir Ernest Harrison OBE

A YEAR OF PROGRESS

The past year has been one of successful expansion for the Group.

Turnover from continuing operations grew by 13% to £1,052 million whilst operating profit grew by 27% to £76.6 million.

ACQUISITIONS

There were two significant acquisitions in calendar year 1995. The Thorn Sensors business, purchased in March, is being successfully integrated with our existing Radar Defence Systems business and has made a major contribution to the improved results from Defence Radar and Avionics. The purchase, in December, of BRT has greatly added to the strength of our Network Services group. Racal is now one of the UK's largest providers of managed network services with over 400,000 users in some 30 countries.

The Company is committed to increasing the level of its recurring revenues in order to improve the overall quality of earnings. This objective was significantly aided by the acquisition of BRT and on an annualised basis such revenues account for over a quarter of turnover and will exceed £350 million in 1996/97.



David C. Elsbury OBE
Chief Executive

OPERATING PERFORMANCE IN OUR MARKETS

We report the performance of the

five operating groups within the Company. These operate across our three principal markets;

Voice and Data Communications, Defence Electronics, and Maritime and Industrial Services.

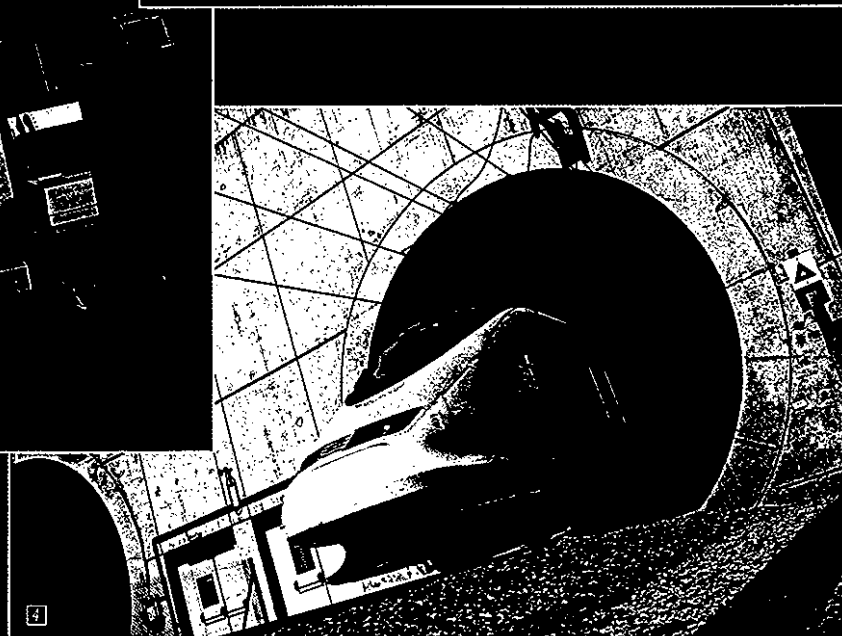
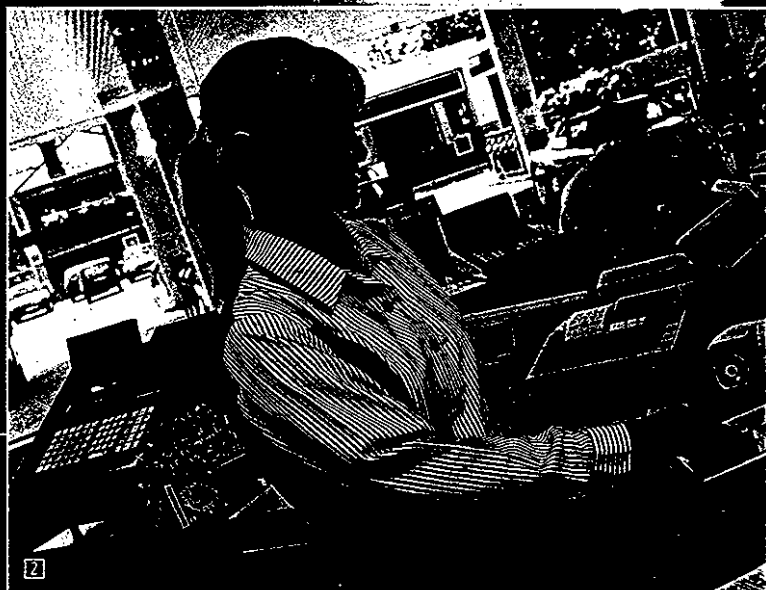
An analysis of the origin and market destination of our annualised revenues of £1.2 billion (incorporating a full year contribution from BRT) is shown in

the table below. We comment on the performance of each operating group in the section dealing with its principal market.

Source and Destination of Sales (%)

	Voice & Data Communications	Defence Electronics	Maritime & Industrial Services	Total
Data Communications	48%	—	—	48%
Defence Radar & Avionics	1%	13%	1%	15%
Radio Communications	2%	12%	—	14%
Marine & Energy	—	1%	9%	10%
Specialised Businesses	4%	1%	8%	13%
Total	55%	27%	18%	100%

Voice & DATA *communications*



The world's major airlines
were among our first data communications customers.

Air transportation continues

to be a market which provides
exciting opportunities

**We meet the communications needs
of customers worldwide, including
those in transportation, government,
banking, insurance, finance and retail.
Our activity in this market accounts for
over 55% of our annualised revenues.**

DATA COMMUNICATIONS

Data Communications turnover at
£429.3 million (1994/95 £384.2 million)
increased by 11.7% resulting from the
acquisition of BRT and the continuing growth
in Network Services. Revenues within the
Network Services group were £136.8 million,
an increase of over 80%. In 1996/97,
with a full year's contribution from BRT,
the Network Services group will account
for approximately half of the revenues of
the Data Communications group.

Profits grew by 48% to £21.2 million.
Included in the figure is profit amounting to
£15.2 million (1994/95 £8.4 million) from
our associate company, Camelot Group plc,
in which we have a 22.5% share.

Camelot has now completed its first full
year as the operator of the National Lottery
and independent research by Terri La Fleur
shows that it is the most efficient lottery
operator in the world with the largest
proportion of revenues going to the 'good
causes' and the lowest level of operator costs.
We are very proud of our contribution to this
achievement by Camelot which comprises the
rollout and management of its network.

Data Products

Considerable progress has been made,
since Paul Kozlowski's appointment in
June 1995 as Chairman of the Data
Communications group with a mandate to
achieve a return to profitability by the Data
Products division in 1997/98. Product policy
has been focused, a comprehensive product
management process implemented and
indirect distribution channels expanded.
A number of acknowledged technical
experts have been appointed in key senior
management positions and to date over
75 engineers specialising in the latest
technologies have been recruited.
An immediate cost reduction programme
has been implemented associated with a
reduction in management layers and an
increased span of control within the
worldwide group.

In parallel with these measures Paul
Kozlowski has undertaken a detailed strategic
review. His findings were presented to the
board of Racal Electronics at the end of
April 1996. It was then agreed that a
fundamental restructuring affecting the
nature and focus of the business should be
implemented in 1996/97 to position it
for a return to profitability in 1997/98.

This restructuring includes:

- ◆ Creating a globally integrated group from
17 stand-alone companies with sales and
marketing divided into three geographic
regions, namely, the Americas,
Europe/Middle East/Africa and the
Pacific Rim
- ◆ Consolidating all manufacturing activities
into the USA
- ◆ Exiting from non-core and loss making
businesses in Europe
- ◆ Exiting certain market segments
- ◆ Rationalising existing facilities in the USA
and Europe.

1. Our networking capability and managed network services benefit the
financial community worldwide.
2. Our products and services provide rapid, secure, financial transactions
at point-of-sale.
3. Racal Network Management Centres are key to running managed
network services for Government and commercial customers.
4. The acquisition of BRT will further advance opportunities in the rail
transportation market.



Voice **DATA** *communications*

This fundamental restructuring is giving rise to an exceptional cost, of the order of £20 million, in 1996/97.

The product policy is now focused on Access Products, Bandwidth Managers and WINhub (Wide area Information Network hub) utilising Leased Line, Dial-Up, ISDN (Integrated Services Digital Network), Frame Relay, ATM (Asynchronous Transfer Mode) and Private Fibre. The value of the addressable market for these product lines is US\$6.5 billion. We are targeting segments of the market with the aim of becoming one of the three leading providers, being differentiated by modularity, security and our management systems.

During the current financial year we will launch four new product platforms. Endorsement by our customers of our product policy and development strategy is demonstrated by the receipt of orders worth US\$43 million for new products in the first two months of 1996/97.

Our business in transaction terminals had a satisfactory year following an exceptional result in 1994/95. A notable success in the spring of 1996 was the adoption of our product by another UK clearing bank.

Network Services

The Network Services group now comprises four companies and over 3,000 employees.

The newly acquired BRT, now known as Racal-BR Telecommunications (Racal-BRT), is one of these companies and its integration is proceeding well. For example:

- ◆ Cost efficiencies of some £2 million per annum have already been identified
- ◆ Priorities for investment have been drawn up with plans totalling some £100 million over the next three years. These include an investment in Synchronous Digital Hierarchy (SDH) of £38 million over the next 18 months. This will help Racal achieve its aim to be the first Public Telecommunications Operator (PTO) to provide a full range of ATM services

- ◆ Collaboration is taking place with other Racal companies on engineering issues to address new opportunities.

The Racal-BRT Project and Works division has a full programme with good growth prospects. It has won orders worth £7 million in the first five months of 1996, has bid for a further £73 million and identified other potential new business worth over £300 million. This includes the telecommunications aspect of the West Coast Mainline project, Cab Secure Radio as well as projects overseas.

Discussions are taking place with UK PTO licence holders and other telecommunications operators regarding the supply of infrastructure.

In March 1996, we took up our right to a 4.5% stake in the HERMES international network which will provide cross border bandwidth to PTOs. The service will be operational in the UK by September 1996 and will link with five other countries by the end of the year, extending to 16 by mid-1999.

Racal-BRT contributed operating profit in 1995/96 of £12.8 million (pre-tax £7.6 million) on turnover of £55.2 million. This exceptional quarter is not expected to be repeated in the current year.

Other network services businesses achieved revenue growth in the year but profitability was impacted by the high cost of bidding for major new opportunities, and the slow down in the deployment of new lottery terminals for Camelot as the number of retail outlets approached the optimum level.

We are leading a consortium, named Rampart, which is bidding for the UK MoD's Defence Fixed Telecommunications System (DFTS). This is a project worth some £1 billion over 10 years.

The Home Office will shortly be issuing an invitation to tender for the Public Safety Radio Communications Project (PSRCP) to provide mobile communications services to meet the needs of the police and other users across England, Wales and Scotland. This service will represent one of the largest Private Mobile Radio (PMR) projects in Europe with an estimated value of £100 million per annum over fifteen years. Racal is forming a consortium to bid for this opportunity.

In June 1996, Racal took a 60% holding in a newly formed joint venture with Integrals. This will provide a secure, end-to-end, value added service on the Internet for corporate and government users. In this we take advantage of Racal's investment in a high quality, state of the art, ATM network to provide a high speed Internet service.

In 1996/97, the Network Services group will experience strong growth in turnover and profitability through a full year's contribution from Racal-BRT and continuing progress within the existing businesses.

OTHER VOICE AND DATA COMMUNICATIONS ACTIVITIES

The Racal/Honeywell team remains at the forefront of airborne satellite communications for airlines and business jets, holding a 70% world market share. A recent significant development is the penetration of the multi-channel 'Satcom' product into the military market, using Inmarsat satellites, and includes sales to the US Air Force for transport aircraft. With over 650 systems already installed and orders from 36 airlines, 'Satcom' is a substantial business and further growth is expected. The introduction of Automatic Dependent Surveillance (ADS), allowing greater use of air space and providing operational savings and enhanced safety for airlines, will greatly expand the market.

Our equipment for testing both base station and subscriber equipment for digital cellular telephone systems leads the world and demand continues to expand. A new range was launched during the year, and first sales to the USA of PCS standard equipment have been achieved. Orders worth several £millions for our test equipment in support of satellite based civil telecommunications programmes are also expected.

In the past year we have had particular success in the provision of specialised antennas for GSM and PCN cellular operators in the UK, Europe and Far East. Good opportunities are also emerging in North America.

A new range of digital communications recorders, 'Wordnet', has been successfully launched into the world market for voice recorders where we currently enjoy a 26% share. Orders for these are running at about £1 million per month. We have identified key areas for growth, including North America, and will be targeting these in the current year.

'Widanet' packet data over radio continues to attract interest from overseas customers. We have recently launched the 'Raicats' system which sends video images over standard wire telephones, cellular telephones and narrow band radio. Both this development and that of our automatic vehicle licence plate recognition system, 'Talon', are generating much interest from customers in the UK and around the world, and are expected to yield significant sales in future years.

In April 1996, Racal took a 12.5% holding in Utilities Consortium Limited, which has set up a subsidiary, CashStop! Services Limited, specifically to establish and operate a pre/part payment service for utilities in retail outlets across the country. We will be investing up to £2 million in this venture.

**In 1966, the success of 'Squadcal', the first
of our lightweight military man-pack radios
using single side band modulation,
enabled Racal to become one of the world's leading
suppliers of tactical, combat net radios, a position we still retain**

In defence electronics Racal has an acknowledged expertise in Electronic Surveillance, Radar Systems, Command Information Systems, Navigation Systems and Radio Communications. As a result of the acquisition of the Thorn Sensors division this market now accounts for 27% of our annualised revenues.

DEFENCE RADAR AND AVIONICS

An excellent performance was achieved by the Defence Radar and Avionics group, with an increase of 56% in turnover to £181.1 million and a trebling of operating profit to £19.8 million. These results reflect the addition of the Thorn Sensors division and the benefits coming from the initial stages of rationalisation. The group began 1996/97 with an order book of £275 million (1995/96 £239 million).

Profit for the Defence Radar and Avionics group for 1996/97 is expected to remain at a level similar to that achieved in 1995/96.

Electronic Surveillance

As the leading naval Electronic Warfare (EW) systems house in Europe we supply EW equipment to 40 navies with nearly 500 systems in service.

The acquisition of the Thorn Sensors division has greatly strengthened our position in this field, particularly in respect of the Royal Navy. A major contract has been received in the past year to provide new EW equipment for the Type 42 and Type 22 frigates. Attention is now being focused, in collaboration with French and Italian companies, on the EW system for Europe's Common New Generation Frigate.

In airborne EW, the equipment for the Royal Navy Merlin helicopter is entering production and provides the basis for a number of further opportunities. We are expecting to benefit from the UK Army Attack Helicopter programme.

Radar Systems

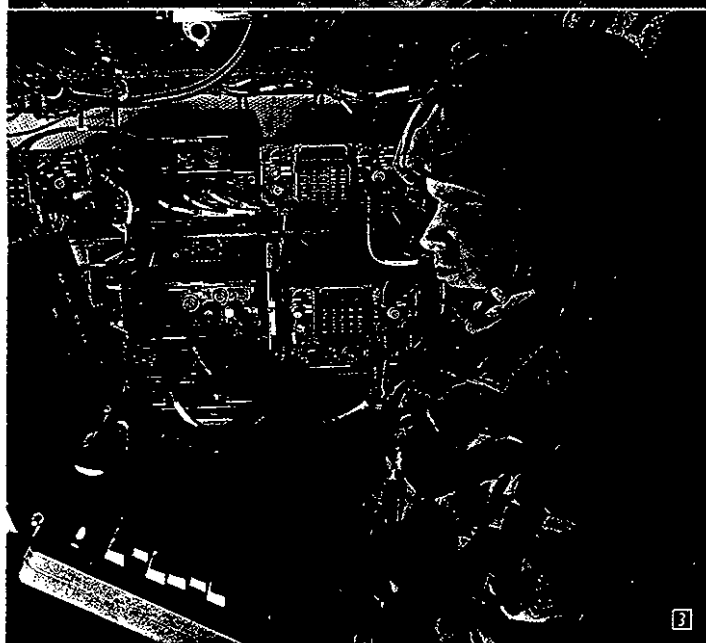
With the Thorn Sensors products, we have become the leading UK supplier of airborne surveillance radars. The future prospects for the next generation 'Searchwater' radar would be enhanced by its selection for two major UK programmes. The UK MoD is adjudicating bids for the mission and radar systems update for the Sea King AEW aircraft which currently has an earlier version of 'Searchwater' fitted. The Replacement Maritime Patrol Aircraft (RMPA) competition is entering its final phase and 'Searchwater' has been offered by all the competing prime contractors. The UK Airborne Stand Off Radar (ASTOR) programme, for which we are teamed with Lockheed Martin (Loral), represents a major opportunity to develop Racal's capabilities in a number of challenging fields of radar technology. The winning of these contracts would afford good export opportunities.

Ground radar continues to be an important area of business. The tri-national Counter Battery Radar (COBRA) programme is completing its development phase and live trials are encouraging. Negotiations on the production phase are taking place with the governments of the three participating countries, UK, France and Germany. Our man-portable surveillance radar (MSTAR) is proving to be an excellent product. A number of export sales have been made, and future prospects are good. The radar is also being manufactured under licence by a US partner, SEI Inc, for the US and Canadian forces. Updating the radars for the 'Rapier' air defence system remains an important activity.

1. Racal leads the programme to update navigation equipment with GPS in all Royal Navy frontline helicopters.
2. MSTAR, a man-portable surveillance radar, is an export success.
3. A new range of advanced, military, tactical radios is at the heart of the 'Yeoman' bid for the UK MoD Bowman programme.
4. We are the leading supplier of electronic surveillance systems to the Royal Navy.

DEFENCE

electronics.



DEFENCE *electronics*

Command Information Systems

We continue to have significant involvement in naval Command Information Systems, primarily through our relationship with BAe Sema on the Royal Navy Type 23 frigate for which we supply the consoles and displays. This association has achieved success overseas and further export opportunities are being pursued.

The acquisition of Thorn Sensors has strongly reinforced Racal's position in mission management and support systems. We now provide ground equipment and software for the Royal Air Force Nimrod aircraft and mission data loading computers for the Royal Navy Merlin helicopter.

Navigation Systems

In 1995, Racal was awarded an important prime contract to update the navigation equipment to include the Global Positioning System (GPS) for all of the Royal Navy's front line helicopters. This followed the successful completion of a prime contract which brought into service a completely new navigation system and enhanced cockpit display for 40 Royal Air Force Puma helicopters. Navigation and mission management computers remain a requirement for all civil and military aircraft. This year we have launched our latest product, the Control Display and Navigation Unit (CDNU), which has an embedded GPS module for satellite navigation. Orders for 500 CDNUs have already been received, mainly for UK MoD helicopter operations, and considerable further interest is expected from Europe and North America. Our ability to offer, as the prime contractor, a complete navigation solution is key to our success in this important market.

RADIO COMMUNICATIONS

Sales fell to £161.1 million (1994/95 £179.4 million) on a lower order intake. Trading margins reduced to 8% (1994/95 11.4%) owing to the lower sales volume, increasing competition and the need to continue funding Bowman. This contract, which has slipped another year, is now due to be awarded in late 1998.

While in 1995/96, the total turnover of the Radio Communications companies was depressed by an increasingly competitive market, we continue to offer a wide range of proprietary equipment and have technology transfer agreements for overseas manufacturing in 16 countries. Successes in 1995/96 include two such agreements with customers in Central European countries and two further agreements with Asian countries.

Among our established products, 'Jaguar', the world's most widely used frequency hopping radio, continues to do well. Sales now total some £400 million from 44 countries.

The new 'Panther' family of frequency hopping radios is a technological step forward from 'Jaguar' and has already attracted orders from a number of countries.

'Cougar' secure radio is in use in Great Britain with every police force as well as HM Customs & Excise, the Army, Royal Navy and MoD police. Sales have also been made to some 35 other countries and in the past six years have totalled over £140 million. We have invested in the further development of this equipment and during the past year the new 'Cougar 2000' has been launched. Many new capabilities have been introduced and the product is both backwards compatible and upgradable, providing migration towards Time Division Multiplex Analysis (TDMA) and secure communications into the next century.

Over US\$140 million of Scope Shield II tactical radio systems have been sold to all four of the US armed services and modified systems are being specified by a number of forces in other countries. The radio has been in operational use in Bosnia, Panama, Haiti and Somalia confirming its versatility. Significant future sales of this system to the US Department of Defense and other overseas defence forces are expected.

Development work is proceeding on a miniature, secure, handheld radio for the US Federal Bureau of Investigation and on 'Leprechaun', the world's smallest and lightest SINCGARS compatible radio. Both of these projects are nearing production and offer good sales prospects.

The past year saw the further development of the latest generation of our Covert Local Area Sensor System for Intruder Classification, 'Classic 2000', which is generating significant interest. We can provide 'Classic' as part of an integrated surveillance suite incorporating 'Raicats' for video over radio and 'MSTAR', man-portable radar. Contracts have been received for the supply of integrated suites from two countries.

Significant progress is being made towards meeting two major defence requirements, Bowman and the Vehicle Integrated Communications Distribution System (VICDS). Bowman is the new tactical radio system programme for the British Army with whom our equipment will undergo field trials in the latter half of 1996 with the production contract due to be awarded in the Autumn of 1998 for an in-service date of early 2001. Our proposed equipment for VICDS was field trialled in December 1992. In the light of the changing technical requirements for Bowman, and the need for compatibility between Bowman and VICDS, it is understood that VICDS will now be procured as an integral part of the Bowman contract. Development costs for both programmes continue to increase as MoD specifications change to accommodate advances in technology.

Racal is partnered with Siemens Plessey in the 'Yeoman' team to bid for Bowman and the latest delay in the award of this contract will impose considerable further costs on the consortium. This is the largest UK military communications programme ever with a value of some £2.5 billion in the UK and is of vital importance to the combat efficiency of the Army. Our commitment to winning the Bowman contract demonstrates a determination to continue at the forefront of tactical radio technology and position this business for growth well into the next century.

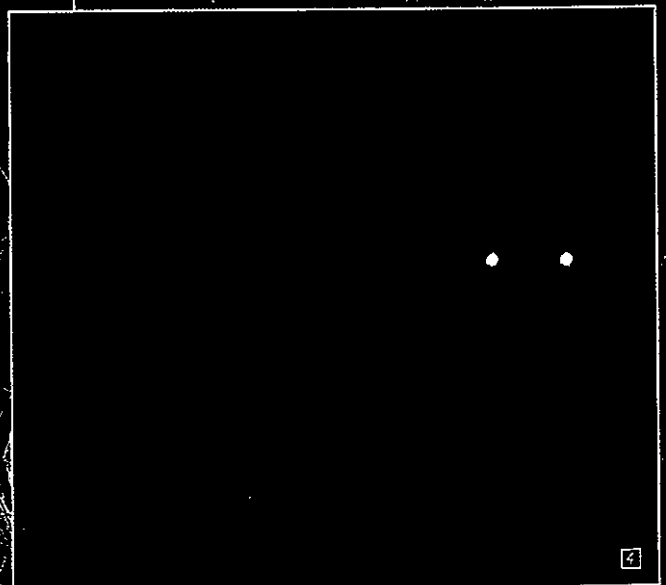
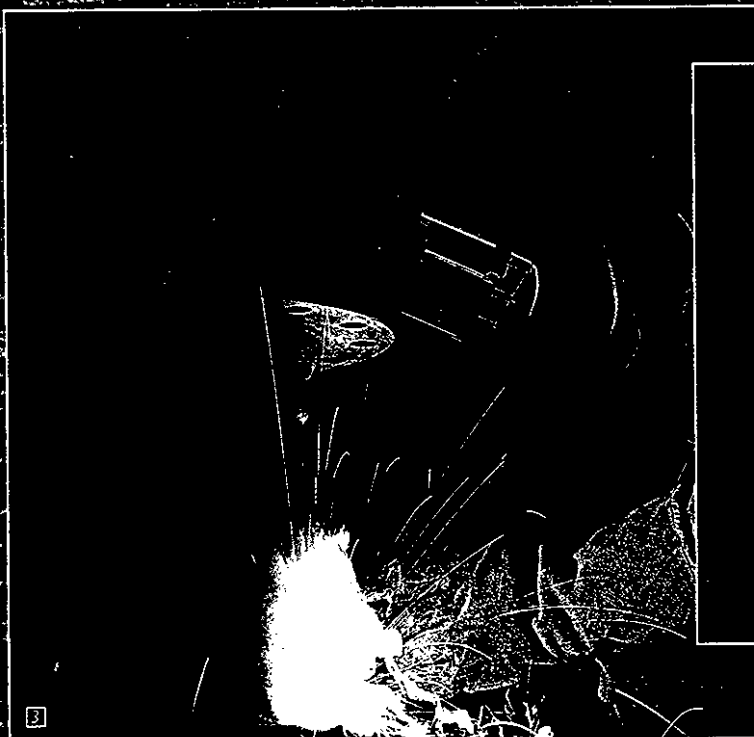
The radio ancillaries companies had a good year with turnover increasing by 30%. Acoustics was particularly successful in winning orders for the supply of Active Noise Reduction (ANR) headsets to the British armed forces. Racal is currently contracted to provide ANR protection to the armies of ten nations, including the UK, the United States and Canada. Our technology in this field leads the world. We are also leaders in this country in the development and supply of audio management systems for helicopters. Whilst the high volumes resulting from the UK ANR contract will not be repeated in 1996/97 the business outlook for the radio ancillaries businesses remains good.

The Radio Communications turnover in 1996/97 is expected to be similar to that of 1995/96 but the increasing research and development expenditure, largely associated with the requirements of the Bowman programme, will cause a further reduction in profitability.

OTHER DEFENCE ELECTRONICS ACTIVITIES

Our UK defence business for test instruments remains robust, with a 50% increase in orders achieved in the year. This strength principally flowed from avionics testing in support of the UK armed forces helicopter programmes. We expect that these improved levels of activity will continue.

Maritime & INDUSTRIAL *services*



'D-Day Crossing' photograph courtesy of The Imperial War Museum

Introduced for vessels taking part

in the 1944 D-Day Landings, the Decca Navigator
was the forerunner of the company's
extensive current range of
electronic marine navigation aids

Racal provides a range of services and equipment, including marine electronics, breathing protection apparatus, test and measurement devices and satellite, terrestrial and undersea survey services to a wide variety of customers in industry and commerce. This market accounts for 18% of our annualised revenues.

MARINE AND ENERGY

Turnover increased by 6.9% to £122.5 million (1994/95 £114.6 million) benefiting from an improvement in the Energy group following the hardening in world oil prices. This more than offset the slight reduction in Marine group revenues. Margins improved to 6.9% (1994/95 5.9%) due to better trading conditions for the Energy companies. As a result profit improved by 25% to £8.5 million.

In 1996/97, the Marine and Energy group, as a whole, will benefit from a continuing improvement in the performance of the Energy companies.

Marine

Margin pressures continued in a competitive environment serving a depressed shipping industry. This, coupled with the slight reduction in revenues, caused a small fall in profits despite the further rationalisation of our activities in the UK, Scandinavia and the Far East.

Revenue from the provision of navigation services to the General Lighthouse Authorities reduced by some 15%, as expected, as the fixed Decca chain contract approaches the end of its life.

Radar product sales were maintained and the Decca equipment remains a world leader in the marine radar field. Systems business, however, fell short of expectations with a decline in sales.

Prospects for the current year are for a similar performance to that of 1995/96. The level of sales of the main product, 'BridgeMaster', is expected to be maintained with a continuing high market share. A new generation of radars which will become available in 1997 will build on this success.

Energy

This business, principally engaged in providing precise positioning and related services for the offshore oil and gas markets, experienced its expected year of recovery as oil prices firmed and exploration and development activity began to expand. This occurred at a time when the continued expansion of low cost satellite based positioning services depressed operating margins. However, sales growth together with rationalisation of our ASEAN operations resulted in a good improvement in profit.

1. We lead the world in testing digital cellular telephone systems.
2. 'BridgeMaster' is one of the most successful marine radars with sales to date of over 6,500.
3. Racal products provide vital respiratory protection in many industrial environments.
4. Remotely operated vehicles for underwater applications enhance Racal's world renowned survey services.

Maritime INDUSTRIAL *services*

During 1995, we extended the scope of our Singapore based company which provides remotely operated underwater survey vehicles and associated services. New bases were opened in Aberdeen and Houston and ten vehicles are now active in the North Sea and the Gulf of Mexico.

In January 1996, 'LandStar', a satellite based precise positioning system for land based operations, was launched in Australasia and the USA, where it has been readily accepted by the agricultural industry.

In May 1996, we acquired the Houston based survey company, NCS International, for US\$6 million, thereby significantly enhancing our market share in the Gulf of Mexico. As activity builds up and moves to deeper water we will be well placed to take advantage of advanced technology already proven in North Sea operations.

With our broad range of capabilities and recently introduced services, the Energy business is well placed to achieve profitable growth.

SPECIALISED BUSINESSES

Turnover in Specialised Businesses increased by 14.9% to £158.2 million (1994/95 £137.7 million). Profitability was maintained at £26 million, on good margins of 16.5% (1994/95 19%). This result includes a contribution of £4.6 million (1994/95 £4.5 million) from our associate company, Satellite Information Services (SIS), which provides satellite communications services, principally for the horse racing and commercial broadcasting industries.

Continued growth in turnover is expected from Specialised Businesses in 1996/97 with a modest improvement in profit. These businesses remain alert to future opportunities over a wide field.

Recording

The Recorders group enjoyed another excellent year, with profit sustained at near record levels. Reference has already been made to the success of this business in satisfying the requirements of the Voice and Data Communications market. We continue to invest in professional recording systems to meet the demands of our markets and prospects remain good.

Health and Safety

Profit in the Health and Safety group was reduced by major investments made in the USA in the run-up to the launch of a new range of medical masks which have good prospects. Demand for vehicle air conditioning filters is set for rapid growth over the next few years with initial production based on our patented process technology beginning in the early summer. Sales of disposable masks grew by 72% in the year with further growth of some 30% expected in 1996/97.

The core industrial powered air respirator business remains stable and the introduction of a new generation of products for the welding industry offers the prospect of further growth.

Test and Measurement

Our Instrumentation companies achieved an improvement in both volume and margins following the launch of a new range of digital cellular radio test sets. Sales of VXIbus instrumentation, a relatively new technology in which an entire test instrument is built on a single card, continue to grow. Racal is one of the world's top five VXIbus suppliers to a market which has good potential for expansion.

ADVANCED TECHNOLOGY

Company growth is dependent upon our ability to provide the latest products and services for our customers. Key to meeting these requirements is the maintenance of a highly focused research and development programme.

The majority of product development is undertaken by the operating companies in co-operation with Racal Research which is charged with progressing new, market derived, technological concepts to the point at which they can be incorporated into commercial production.

TRAINING

The Racal College, which has ISO 9001(1994) accreditation by the British Standards Institute, provides training courses for customers, staff and outside organisations.

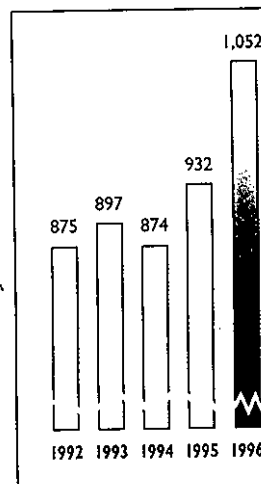
The College is based at Heckfield Place, Hampshire, affording easy access to Racal operating companies, London and its airports. It offers courses either residentially or on customer sites around the world and these can be delivered in the customer's own language.

GROUP RESULTS

Turnover

Turnover grew by £120.1 million to £1,052.1 million, an increase of 12.9% of which nearly 6% was provided by the acquisition of BRT.

Turnover (£m)



All business sectors except Radio Communications reported increased sales. The downturn in the Radio Communications group reflects the increasingly competitive nature of this market.

It is the Group policy to convert the results of all overseas subsidiaries at year end exchange rates. At the year end the pound had weakened against the North American currencies and was broadly unchanged against most of the major European currencies, except the Italian Lira.

Currency	31 March 1996	31 March 1995
United States Dollar	1.53	1.63
Canadian Dollar	2.08	2.28
French Franc	7.69	7.81
German Mark	2.25	2.23
Dutch Guilder	2.52	2.49
Italian Lira	2400	2760
Australian Dollar	1.95	2.22
Singapore Dollar	2.15	2.30

The effect of these exchange rate movements was to increase turnover by some 2.6%, or £24 million, on a comparable basis.

Profitability

Operating profit increased by 27% to £76.6 million, representing a margin of 7.3% on turnover compared to 6.5% in 1994/95.

These figures have been arrived at after charging redundancy, severance and reorganisation costs

amounting to £8.4 million (1994/95 £9.3 million),

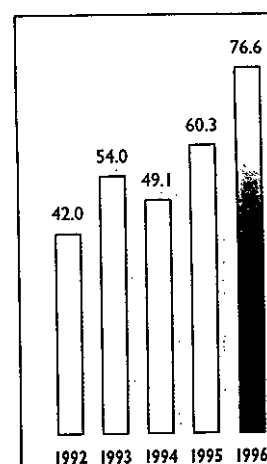
some 50% of which was attributable to the Data Communications group.

A similar charge for non-Data Communications group activities can be expected in 1996/97 but these ongoing costs of redundancy, severance and reorganisation will, in future, be subsumed within the operating profit of each business sector.

In 1996/97, a wide-ranging reorganisation programme, costing in the order of £20 million, will be implemented in the Data Products business. This reorganisation will fundamentally affect the nature and focus of the group's operations and will, therefore, be treated as exceptional under FRS 3.

BRT made an excellent start, contributing £12.8 million of operating profit and £7.6 million at the pre-tax level in its first 14 weeks as part of the Racal Group. This exceptional performance will not be repeated in 1996/97 due to tariff reductions on existing contracts and the investment requirement which will have some impact on costs.

Operating Profit (£m)



Our major associates, Camelot and SIS contributed pre tax profits of £15.2 million and £4.6 million respectively (£8.4 million and £4.5 million in 1994/95). In the case of Camelot this represents the first full year of operation (four and a half months only in 1994/95).

The discontinued operations consists of Weyrad Electronics, whose business was sold in the second half of 1995/96, and the residual trading of Redac. These produced a trading profit of £1 million including a small profit on the disposal.

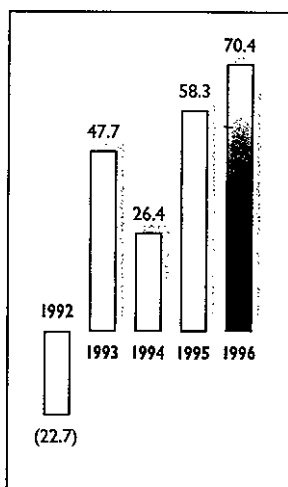
Exchange rate movements had no material effect on the profitability comparison with the prior year.

Exceptional items contributed profits of £3.9 million compared with £2.5 million in 1994/95. The increase of £1.4 million reflects additional income from the sale of property of £3.3 million offset by a reduction of

£1.9 million in profit on the sale of businesses.

Profit before tax increased by 21% to £70.4 million from £58.3 million, the second consecutive year of significant growth.

Profit Before Taxation (£m)



Interest

Interest costs in 1995/96 were £11 million, compared to £3.7 million in 1994/95.

The increase was principally caused by the acquisition of BRT where we incurred an interest charge of £5.2 million in the period between December 1995 and March 1996 in respect of financing the acquisition and finance lease interest. The balance of the interest charge amounted to £5.8 million (1994/95 £3.7 million) and increased mainly due to the hardening of interest rates on debt associated with hedging overseas assets, as well as a higher underlying level of debt principally arising from the purchase of the Thorn Sensors division in March 1995.

Interest cover for the year was 7.4 times (1994/95 16.6 times).

In 1996/97, we will have to absorb a full year's interest charge associated with the acquisition of BRT. Net interest charges will, therefore, be considerably higher than those incurred in 1995/96.

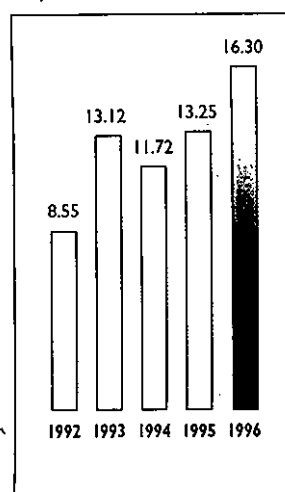
Taxation

The tax rate for 1995/96 was 34.9%, a slight improvement from the 35.2% rate of the previous year. It is expected that there will be some modest upward pressure on the tax rate in the current year as a result of some elements of the Data Communications group exceptional charge being incurred in territories where tax relief is currently not available.

SHAREHOLDERS' RETURNS

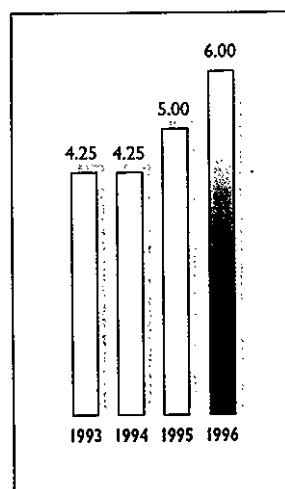
Earnings per share

Earnings Per Share (p)
Adjusted



Earnings per share increased by 20.7% to 16.54p at the FRS 3 level and by 23% to 16.30p at the adjusted level. There has been no material effect on this increase as a result of the issue of new shares during the year.

Dividend (p Per Share)



Dividends

A final dividend of 3.9p per share, net of tax, is proposed, making a total for the year to 31 March 1996 of 6.0p per share, an increase of 20% over the total 5.0p per share paid for the previous year.

Dividend cover of 2.7 times is the same as 1994/95 and is within our preferred target range of 2.5 to 3 times.

BALANCE SHEET

The balance sheet remains strong but has been impacted by the BRT acquisition.

Fixed assets have increased substantially to £406.7 million from £240.5 million due principally to the assets acquired with BRT of £123.0 million. Capital expenditure, net of disposals, of £85 million (1994/95 £59 million) increased over last year reflecting continuing expenditure on infrastructure for the Network Services group and property purchases amounting to £15.6 million (1994/95 £1.6 million).

Working capital* increased from £398.3 million at 31 March 1995 to £406.0 million at 31 March 1996. Exclusive of acquisitions/disposals and the effect of currency movements there was a small but welcome reduction of £10.1 million compared with a £2.1 million reduction during 1994/95. Further improvements in the utilisation of working capital remain a priority.

In the period under review almost £10 million of the provisions, established when Thorn Sensors was acquired, were used against planned reorganisation programmes and expected trading losses on major contracts. The remaining balance of this provision, £12 million, will be largely utilised by the end of 1996/97.

Net borrowings increased to £209.9 million from £49.2 million at 31 March 1995. The BRT acquisition caused an increase in the level of finance lease obligations from £3.6 million in March 1995 to £114.2 million on 31 March 1996. As a result the level of total debt rose during the year to £324 million from £53 million. On 31 March 1996 the debt/equity ratio including finance lease obligations was 74.9% (1994/95 9.9%). This was well within our previously stated target of 80% announced at the time of the BRT acquisition when gearing increased to approximately 95%. The deferment of the final payment for BRT, of approximately £8 million, improved the ratio by a little under 2%.

Shareholders' funds have fallen to £432.8 million from £530.6 million after deducting £135.2 million of goodwill, of which £134.3 million was in respect of the BRT acquisition.

* Excluding debtors/creditors associated with taxation and interest, dividends, cash and debt, finance lease obligations and provisions for liabilities and charges.

CASH FLOW

The Group uses a different method of calculating cash flow for internal management purposes from that defined in FRS 1 'Cash Flow Statements'. Cash flow is managed by reference to the movement in all cash and cash equivalents, net of all borrowings, and on this basis there was a cash outflow during the year of £139.0 million compared with an outflow last year of £41.3 million.

Reconciliation between FRS 1 and Racal basis cash flow

	1995/96 £000	1994/95 £000
Outflow per FRS 1	(15,432)	(54,569)
(Increase)/decrease in borrowings	(142,247)	10,388
Increase/(reduction) in cash on deposit	6,742	(1,189)
Cash and loan balances associated with acquisitions/disposals	11,957	4,097
Outflow Racal basis	(138,980)	(41,273)

The cost of acquisitions and investments (net of disposals and including cash and cash equivalents) was £134.9 million compared with £45.2 million during 1994/95. The major acquisition was BRT for £134.4 million (inclusive of expenses). Exclusive of all acquisitions, investments and net of disposals cash flow was broadly unchanged with a modest cash outflow of £4.1 million (1994/95 inflow £3.9 million).

In 1996/97 cash flow is expected to be marginally positive for the year as a whole, but there will be a bias towards the second half of the year which is consistent with the trading patterns of recent years.

Future Investment

Capital expenditure in 1996/97 will be greater than that in 1995/96 mainly owing to continued investment in the Network Services group, in particular for the Racal-BRT network infrastructure. There will also be some rise in the level of capital investment in the other parts of the Group.

TREASURY ACTIVITIES

The Company has a central treasury function which operates under strict rules approved by the board.

When BRT was acquired the Company arranged a new three year £400 million facility with a syndicate of banks. The Company's bi-lateral facilities existing at the time of this acquisition were subsumed into the new facility. The Group comfortably complied with a number of covenants associated with net and gross gearing, interest cover and net assets. We have maintained borrowings in United States Dollars, German Marks, French Francs, Dutch Guilders and Canadian Dollars in order to hedge assets denominated in those currencies in our overseas operations. This balance sheet hedging reduces the foreign currency exposure in the balance sheet to approximately 20% of shareholders' funds.

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 that of the particular Group company involved, the currency exposure is hedged by forward contracts. The Group policy is to take no speculative currency positions.

It is expected that internally generated funds will be sufficient to finance the Group's business activities in the coming financial year.

CHAIRMAN

*** Sir Ernest Harrison OBE**

*Hon DSc, Hon D Univ (Surrey), Hon D Univ (Edinburgh),
FCA, Comp IEE, Hon FCGI*

CHIEF EXECUTIVE

† David C Elsbury OBE

DIRECTORS

*** Sir Edward Ashmore GCB, DSC**

Non-executive



Barton J Clarke CBE

*Defence Radar
Avionics*

Paul G Kozlowski

Data Communications



Martin R Richardson BSc, FCMA

*Specialised Businesses
Marine and Energy*

*** Sir Gerald Whent CBE**

Non-executive



Sir Clive Whitmore GCB, CVO

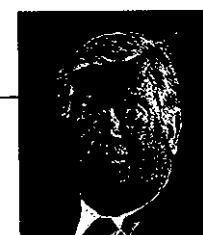
Non-executive

David Whittaker LLB, FCIS, FCCA, Solicitor

*Company Secretary
Legal Services*

Andrew R Wood ACMA

Finance



† Currently directly responsible for Radio Communications

* Member of the Audit Committee and the Nomination Committee

** Member of the Audit Committee, the Remuneration Committee
and the Nomination Committee

REGISTERED OFFICE

Western Road, Bracknell, Berkshire RG12 1RG

AUDITORS

Deloitte & Touche

Hill House, 1 Little New Street, London EC4A 3TR

REGISTRARS & TRANSFER OFFICE

Independent Registrars Group Limited

Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU

The directors submit their annual report and audited financial statements for the year ended 31 March 1996.

REVIEW OF THE GROUP'S BUSINESS

The Group's results, the proposed dividend and the development of the Group during the year are detailed in the Chairman's Statement, the Review of Operations and the Financial Review. The retained profit for the year of £29,281,000 (1995: £24,288,000) has been transferred to reserves.

Racal Electronics Plc is the parent company of a group whose principal activities during the year were Voice and Data Communications, Defence Electronics and Maritime and Industrial Services. The principal companies which materially contribute to the assets and profits appear on pages 32 and 33.

RESEARCH AND DEVELOPMENT

The Group maintains extensive laboratory facilities and continues to invest considerable resources in the development of new and existing products as referred to in the Chairman's Statement and the Review of Operations.

FUTURE DEVELOPMENTS

The Racal Electronics Group intends to continue its policy of growth as described in the Chairman's Statement and the Review of Operations.

SHARE CAPITAL

A statement of changes in the share capital of the Company appears on page 49 in Note 22.

TANGIBLE FIXED ASSETS

The movement in tangible fixed assets is set out on page 44 in Note 10.

STATUS

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

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.

The directors of the Company are committed to the principle of employee share participation in the Company through employee share schemes.

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 it will take sympathetic account of individual circumstances.

CHARITABLE AND POLITICAL CONTRIBUTIONS

During the year ended 31 March 1996 charitable contributions amounted to £146,000 (1995: £118,000). Of this amount, £99,000 (1995: £72,000) was contributed on behalf of your Company to charitable foundations and £47,000 (1995: £46,000) to support a university research project. Registered charities active in the field of medical research received a major contribution, the rest was shared mainly by organisations supporting children, the sick and the aged.

A contribution of £75,000 (1995: £nil) was made to the Conservative Party.

AUDITORS

On 1 February 1996 our auditors changed the name under which they practise to Deloitte & Touche and, accordingly, have signed their report in their new name. They have expressed their willingness to continue in office and a resolution will be proposed at the Annual General Meeting to re-appoint them as auditors to the Company.

GOODWILL

As a result of acquisitions £135,190,000 of goodwill has been transferred to reserves.

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.

SCRIP DIVIDEND SCHEME

At the preliminary announcement of the Company's results, the board announced that it intended to offer ordinary shareholders the choice of taking new fully paid ordinary shares of 25p each instead of cash in respect of the proposed final dividend for the year ended 31 March 1996. Resolution No. 6 permits shareholders to elect to receive the proposed final dividend for the financial year ended 31 March 1996 in shares rather than cash and authorises the directors to offer shareholders a scrip dividend in respect of any interim dividend(s) declared by the board before next year's Annual General Meeting.

SHARE CAPITAL - ALLOTMENT OF SHARES FOR CASH

In each of the last fourteen years, a resolution was passed enabling the directors, in certain limited circumstances, to allot unissued ordinary shares for cash other than to existing shareholders. The main purposes of this resolution, which is required to disapply the statutory pre-emption provisions of the Companies Acts, were to enable the directors to take advantage of favourable opportunities to raise funds in international markets and, in connection with a rights issue, to avoid exceptional costs in issuing ordinary shares to shareholders who were citizens of, or resident in, an overseas territory. Last year's resolution has effect until the completion of this year's Annual General Meeting.

For the same reasons the directors are proposing by means of resolution No. 7 to obtain an authority for the period to the earlier of the date of the 1997 Annual General Meeting and 6 November 1997 to allot up to £3,554,750 of the unissued ordinary share capital (which is equivalent to 5% of the present issued ordinary share capital) and, on a rights issue, to make arrangements to deal with fractional entitlements or problems arising under the laws of an overseas territory or the requirements of any regulatory authority or any stock exchange.

As in previous years, it is intended that the ordinary shares required for the Racal Electronics Corporate Personal Equity Plans will be allotted to participants by the directors under this authority.

ARTICLES OF ASSOCIATION

The directors propose that new Articles of Association should be adopted by the Company at the Annual General Meeting to be held on 7 August 1996. A summary of the principal differences between the new Articles of Association and the existing Articles of Association is given in the circular to shareholders dated 12 July 1996 accompanying this Report and Accounts.

CORPORATE GOVERNANCE

The Company has continued to comply with the Code of Best Practice issued by the Committee on the Financial Aspects of Corporate Governance – "The Cadbury Report".

The Board

The board of directors comprised six executive directors and three independent non-executive directors throughout the year. A seventh executive director has been appointed since the year end.

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.

Each of the non-executive directors has access to and is furnished with such information as he requires to enable him to bring an independent judgement to bear on issues brought before the board at board meetings and board committee meetings. The views of the non-executive directors carry significant weight in the board's decisions.

A formal procedure exists to allow the directors of the Company to take independent professional advice at the expense of the Company in appropriate circumstances. All directors have access to the Company Secretary for his advice and services.

Board Committees

The board has a number of committees of which the following are the most significant:

Remuneration Committee

Sir Gerald Whent – Chairman
Sir Edward Ashmore
Sir Clive Whitmore

Sir Ernest Harrison resigned from the Committee during the year.

The Committee meets as necessary and the Company Secretary attends these meetings as Secretary to the Committee. The Company Chairman and the Chief Executive are invited to attend the Committee meetings as the members consider appropriate.

The Committee decides upon all aspects related to the executive directors' pay and benefits.

The fees of the non-executive directors are decided by the board with the non-executive directors abstaining.

Audit Committee

Sir Clive Whitmore – Chairman
Sir Edward Ashmore
Sir Ernest Harrison
Sir Gerald Whent

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.

Although the Code recommends only non-executive directors for this Committee, the board considers that Sir Ernest Harrison's qualification as a Chartered Accountant makes his continued membership of this Committee entirely suitable.

Nomination Committee

Sir Gerald Whent – Chairman
Sir Edward Ashmore
Sir Ernest Harrison
Sir Clive Whitmore

The Committee meets as necessary and the Company Secretary attends these meetings as Secretary to the Committee.

The Committee assesses the suitability of persons for appointment as executive directors and non-executive directors and when appropriate nominates new candidates for the approval of the board.

Going Concern

After making enquiries, the directors consider that the Group has adequate resources and committed borrowing facilities to continue in operational existence for the foreseeable future. Consequently they have continued to adopt the Going Concern Basis in preparing the accounts.

Internal Financial Control

The directors acknowledge that they are responsible for the Group's system of internal financial control.

On behalf of the board, the Audit Committee monitors the effectiveness of these systems. This is achieved principally 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 organisation 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;
- regular reviews by the board of quarterly forecasts which are updated every period;
- 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 possible, 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 system 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 1996.

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 Rascal Share Option Scheme 1992 and the Rascal Share Option Scheme 1995. 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 1996, the number of shares purchased by the Trust totalled 3,184,000 shares and the cost of such purchases amounted to £8,234,000. These shares, whilst legally not the property of the Company, have been included in fixed asset investments as shown on page 45 in Note 11.

SUBSTANTIAL HOLDINGS

The Standard Life Assurance Company has informed the directors that the Standard Life Group has an interest in 3.115% of the Company's ordinary share capital.

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

DIRECTORS

The directors throughout the year were Sir Ernest Harrison, D C Elsbury, Sir Edward Ashmore, B J Clarke, M R Richardson, Sir Gerald Whent, Sir Clive Whitmore, D Whittaker and A R Wood.

P G Kozlowski was appointed a director on 26 April 1996.

In accordance with the Company's Articles of Association, Sir Ernest Harrison and D Whittaker retire by rotation and being eligible offer themselves for re-election. P G Kozlowski, who has been appointed by the board since the last Annual General Meeting, retires and being eligible offers himself for election.

Sir Ernest Harrison, who is aged 70 years, has a service agreement with the Company which is terminable on 12 months' notice. D Whittaker has a service agreement with the Company which is terminable on 36 months' notice. P G Kozlowski has a service agreement with a subsidiary company which is terminable by that company on 12 months' notice.

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.

Of the above directors, the following served as non-executive directors during the year:

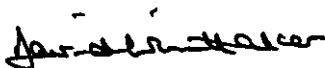
Admiral of the Fleet Sir Edward Ashmore
Appointed 30 June 1978 following his retirement as
Chief of the Defence Staff.

Sir Gerald Whent
Appointed 24 March 1982 and since 1984 has been Chief Executive of Vodafone Group Plc. He became non-executive in October 1988 on the flotation of Vodafone Group Plc.

Sir Clive Whitmore
Appointed 8 November 1994 following his retirement as Permanent Under Secretary of State at the Home Office. Sir Clive is also a non-executive director of N M Rothschild & Sons Limited, The Boots Company PLC and The Morgan Crucible Company PLC.

DIRECTORS' SHARE INTERESTS

The directors' share interests are set out in the Report of the Remuneration Committee on pages 27 and 28.



By Order of the Board
David Whittaker
Director and Secretary

1 July 1996

CONSTITUTION

During the year, a report has been published by the Study Group on Directors' Remuneration (the Greenbury Committee). Under the Listing Rules of the London Stock Exchange the Company is now required to report to shareholders on a number of key considerations affecting the Company's policy on directors' remuneration as well as to provide certain information upon the elements of each individual director's remuneration package.

For some time, the Company has had a Remuneration and Nomination Committee with agreed terms of reference to determine, inter alia, the Company's policy on executive directors' remuneration and to set the remuneration of each executive director including pension rights and any compensation payments. During the course of the year, following the publication of the Greenbury Committee report and the amendments to the Listing Rules of the London Stock Exchange, the composition of the Committee has been changed to its current membership, its terms of reference have been amended and in addition it is no longer responsible for nomination of directors for the approval of the board.

The current members of the Remuneration Committee are Sir Gerald Whent, Sir Edward Ashmore and Sir Clive Whitmore. The Chairman of the Committee is Sir Gerald Whent and D Whittaker, the Company Secretary, attends as Secretary to the Committee.

The current composition of the Committee is therefore restricted to non-executive directors, although the Committee consults, as appropriate, with both the Company Chairman and the Chief Executive.

Following these changes, the Company is in compliance with Section A of the best practice provisions annexed to the Listing Rules of the London Stock Exchange.

The following report of the Committee includes all relevant information which is required by the Listing Rules of the London Stock Exchange in respect of this accounting period.

THE COMPANY'S POLICY ON EXECUTIVE DIRECTORS' REMUNERATION

The key policy objectives of the Committee in respect of the remuneration of the executive directors of the Company are 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.

These policy objectives are applied by the Committee in carrying out its responsibilities to develop and implement remuneration packages which, (subject only to the Company's existing legal obligations to the executive directors under service agreements which cannot be varied without consent and without payment of compensation), are based on maintaining a strong link between reward and performance to align the interests of executive directors and shareholders.

In framing and implementing this remuneration policy the Committee gives full consideration to Section B of the best practice provisions annexed to the Listing Rules of the London Stock Exchange as required for the accounting period commencing 1 April 1996.

DIRECTORS' SERVICE AGREEMENTS

Executive directors

All of the executive directors other than P G Kozlowski presently have service agreements with the Company which are terminable by the Company or the director on 12 months' notice with the exception of M R Richardson and D Whittaker who each have agreements with a rolling 36 month term. This was the recognised term for agreements of this nature when those persons entered into their service agreements. P G Kozlowski, a US citizen, has a service agreement with a subsidiary company which is terminable by that company on 12 months' notice.

Sir Ernest Harrison, D Whittaker and P G Kozlowski will be standing for re-election and election at the forthcoming Annual General Meeting.

The Committee has determined that notice or contract periods for 12 months should be offered to executive directors in the future. Longer periods will be avoided wherever possible.

Non-executive directors

The remuneration of the non-executive directors continues to be determined by the board with the non-executive directors abstaining. The non-executive directors currently serve under Letters of Appointment with a fixed 3 year term.

DIRECTORS' EMOLUMENTS

	Salary and fees	Benefits	Total emoluments excluding pension cost		Pension cost	
	£	£	1996	1995	1996	1995
Executive directors						
Sir Ernest Harrison*	672,969	26,570	699,539	657,428	226,571	209,788
D C Elsbury	528,710	32,745	561,455	534,471	112,059	160,763
B J Clarke	228,002	12,660	240,662	219,142	9,733	67,245
M R Richardson	257,002	12,636	269,638	262,173	74,055	85,767
D Whittaker	231,255	16,245	247,500	218,941	55,683	64,402
A R Wood (appointed 1 April 1995)	166,875	15,751	182,626	—	39,581	—
Former directors	—	—	—	275,120	—	78,842
Non-executive directors						
Sir Edward Ashmore	66,269	13,833	80,102	73,601	—	—
Sir Gerald Whent	45,080	—	45,080	42,934	—	—
Sir Clive Whitmore (appointed 8 November 1994)	31,125	—	31,125	11,951	—	—
TOTAL	2,227,287	130,440	2,357,727	2,295,761	517,682	666,807

Notes:

1. 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.
2. Pending the introduction of changes to the Listing Rules of the London Stock Exchange the pension costs are the amounts charged to the profit and loss account in respect of the directors' pension arrangements.
3. In the year ended 31 March 1996 there was no bonus scheme in operation. In the year ended 31 March 1995, B J Clarke earned a performance related bonus of £10,910 based on performance against budgeted operating profit, order intake and return on capital employed.

* The amounts charged to Vodafone Group Plc and Chubb Security Plc in respect of Sir Ernest Harrison's services as Chairman of those companies are as follows:

	1996 £	1995 £
Charged to Vodafone Group Plc.....	187,760	176,347
Charged to Chubb Security Plc.....	295,380	276,347
Borne by the Company.....	442,970	414,522

DIRECTORS' INTERESTS

DIRECTORS' INTERESTS IN THE SHARES OF RACAL ELECTRONICS PLC

	31 March 1996	1 April 1995
Sir Ernest Harrison	2,196,461	2,321,461
D C Elsbury	1,204,363	1,189,309
Sir Edward Ashmore	11,801	11,654
B J Clarke	70,170	70,170
M R Richardson	2,000	2,000
Sir Gerald Whent	38,334	38,334
Sir Clive Whitmore	2,025	2,000
D Whittaker	92,385	91,231
A R Wood	10,000	—
	3,627,539	3,726,159

All the above interests are beneficial.

During the period 1 April to 14 June 1996, there has been no change in the directors' interests in the shares of the Company.

No director had since 1 April 1995 any interest in, or acquired any rights to, shares in the Company or any subsidiary except as stated.

DIRECTORS' SHARE OPTIONS

1. Racial Share Option Scheme 1992

	Option	Ordinary shares under option					Option price	Market price on date of exercise
		1 April 1995	Granted during year	Exercised during year	Lapsed during year	31 March 1996		
Sir Ernest Harrison	A	570,000	—	—	—	570,000	130.5p	
	Parallel A	142,500	—	—	—	142,500	114p	
	B	250,000	—	—	—	250,000	243p	
	C	—	467,000	—	—	467,000	270p	
D C Elsbury	A	566,000	—	—	—	566,000	130.5p	
	Parallel A	141,500	—	—	—	141,500	114p	
	B	200,000	—	—	—	200,000	243p	
	C	—	210,000	—	—	210,000	270p	
B J Clarke	A	218,000	—	—	—	218,000	130.5p	
	Parallel A	54,500	—	—	—	54,500	114p	
	B	82,000	—	—	—	82,000	243p	
	C	—	114,000	—	—	114,000	270p	
M R Richardson	A	218,000	—	—	—	218,000	130.5p	
	Parallel A	54,500	—	—	—	54,500	114p	
	B	100,000	—	—	—	100,000	243p	
	C	—	81,000	—	—	81,000	270p	
D Whittaker	A	227,000	—	—	—	227,000	130.5p	
	Parallel A	56,750	—	—	—	56,750	114p	
	B	82,000	—	—	—	82,000	243p	
	C	—	115,000	—	—	115,000	270p	
A R Wood	A	35,000	—	35,000	—	—	130.5p	291p
	Parallel A	8,750	—	—	8,750	—	114p	
	B	35,000	—	—	—	35,000	251p	
	C	—	166,000	—	—	166,000	270p	

Notes:

Option A – Granted on 5 October 1992 and exercisable during the period 5 October 1995 to 4 October 2002.

Parallel A – Granted on 8 October 1992 and exercisable during the period 8 October 1997 to 7 October 2002 provided that the earnings per share of the Company has grown over a 5 year period by at least 10 percentage points more than the Index of Retail Prices has grown over the same period. This option runs in parallel with Option A and is not additional thereto.

Option B – Granted on 19 July 1994 and exercisable during the period 19 July 1997 to 18 July 2004.

Option C – Granted on 13 July 1995 and exercisable during the period 13 July 1998 to 12 July 2005.

2. Racial Share Savings Plan (1990)

Under the terms of the Racial Share Savings Plan (1990) the undermentioned directors have been granted options, exercisable between 1 December 1997 and 31 May 1998, to acquire ordinary shares in the Company at the price of 105p per share:

Sir Ernest Harrison	5,142 shares
D C Elsbury	5,142 shares
B J Clarke	5,142 shares
M R Richardson	5,142 shares
D Whittaker	5,142 shares
	25,710 shares

The closing market value of an ordinary share on 31 March 1996 was 326p and during the year the market value ranged from 235p to 327p.

On behalf of the Board
Sir Gerald Whent
Chairman, Remuneration Committee
1 July 1996

AUDITORS' REPORT ON CORPORATE GOVERNANCE

REVIEW REPORT TO RACAL ELECTRONICS PLC BY DELOITTE & TOUCHE ON CORPORATE GOVERNANCE MATTERS

In addition to and separate from our audit of the financial statements, we have reviewed the directors' statements on page 24 on the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code which is not disclosed.

We have also reviewed the statement of compliance with Section A of the best practice provisions on remuneration committees and the report to members by the Remuneration Committee set out respectively on pages 26 to 28 to the extent that they provide the disclosures specified by the Listing Rules and the best practice provisions annexed to the rules.

Our review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

Basis of opinion

We carried out our review in accordance with Bulletin 1995/1 'Disclosures relating to corporate governance' issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Company's system of internal financial control or its corporate governance procedures or on the appropriateness of the bases used in determining directors' remuneration or on the ability of the Company to continue in operational existence.

Opinion

With respect to the directors' statement on internal financial control on page 24 (other than their opinion on effectiveness and statements going beyond internal financial control which are outside the scope of our report), and going concern on page 24, in our opinion the directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement on page 24 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review. Also on this basis, in our opinion the directors' statements of compliance with Section A of the best practice provisions on remuneration committees and the report of the Remuneration Committee appropriately provide the disclosures specified by the Listing Rules and the best practice provisions and are not inconsistent with the information of which we have become aware from our audit work on the financial statements.

Deloitte & Touche

Deloitte & Touche

Chartered Accountants and Registered Auditors

Hill House

1 Little New Street

London EC4A 3TR

1 July 1996

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 the 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. They are also responsible 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

TO THE MEMBERS OF RACAL ELECTRONICS PLC

We have audited the financial statements on pages 32 to 54 which have been prepared under the accounting policies set out on page 34, and the detailed information disclosed in respect of any directors' remuneration and share options set out in the report to members by the Remuneration Committee on pages 26 to 28.

Respective responsibilities of directors and auditors

As described above the Company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

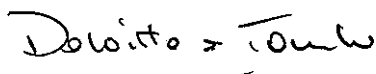
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 1996 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

Chartered Accountants and Registered Auditors

Hill House

1 Little New Street

London EC4A 3TR

1 July 1996

The following figures exclude Vodafone Group Plc and Chubb Security Plc which were approved for demerger from Racal Electronics Plc on 9 August 1991 and 2 October 1992 respectively.

	1992	1993	1994	1995	1996
	£000	£000	£000	£000	£000
TURNOVER					
Continuing operations	875,214	897,150	874,027	932,045	1,052,060
Discontinued operations	65,456	49,769	42,064	18,154	6,942
Total	940,670	946,919	916,091	950,199	1,059,002
PROFIT					
Continuing operations					
Operating profit	42,022	54,025	49,125	60,316	76,587
Operating profit % sales	4.8%	6.0%	5.6%	6.5%	7.3%
Operating (loss)/profit – discontinued operations	(15,229)	(7,026)	(5,107)	(792)	882
Exceptional (loss)/profit	(17,603)	118	(19,222)	2,508	3,945
Demerger and bid defence costs	(22,456)	(3,719)	(49)	–	–
Net interest (payable)/receivable	(9,388)	4,297	1,633	(3,730)	(11,003)
Profit before taxation	(22,654)	47,695	26,380	58,302	70,411
Profit after taxation and minority interests	(28,129)	28,569	15,297	38,237	46,126
Dividends per share†	5.0p	4.25p	4.25p	5.0p	6.0p
Earnings per share	(10.23p)	10.24p	5.47p	13.70p	16.54p
Adjusted earnings per share	8.55p	13.12p	11.72p	13.25p	16.30p
BALANCE SHEETS					
Fixed assets	223,923	213,566	204,014	240,451	406,664
Working capital	388,367	395,228	385,227	398,339	405,958
Other net liabilities	(24,997)	(38,549)	(28,470)	(29,922)	(36,292)
Net debt (including obligations under finance leases)	(67,581)	(41,879)	(20,042)	(52,708)	(324,089)
Provisions for liabilities and charges	(19,144)	(6,634)	(7,657)	(24,110)	(18,168)
	500,568	521,732	533,072	532,050	434,073
Equity shareholders' funds	496,327	517,698	530,491	530,595	432,833
Equity minority interests	4,241	4,034	2,581	1,455	1,240
	500,568	521,732	533,072	532,050	434,073

† The dividends for 1992 reflect earnings inclusive of Vodafone Group and Chubb Security.

PRINCIPAL SUBSIDIARIES OF RACAL ELECTRONICS PLC

AT 31 MARCH 1996

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

	<i>Business activity</i>
Decca Limited	Holding company
Decca Survey Overseas Limited†	Survey and positioning services
Fibre Form Limited	Polyurethane and fibre mouldings
Racal-Decca Limited	Holding company
Racal Avionics Limited	Avionics products
Racal-Decca Marine Limited	Marine products
Racal-Decca Marine Navigation Limited	Marine products
Racal Defence Radar Limited	Defence radar
Racal Radar Defence Systems Limited	Defence radar
Racal-MESL Limited (Scotland)	Microwave components and sub-systems
Racal Survey Limited	Survey and positioning services
Racal Acoustics Limited	Electro-acoustics products
Racal-Airtech Limited	Holding company
Airtech Security Limited	Data communications security
Computer Security Limited	Data communications security
Software Forge Limited	Data communications security
Racal Antennas Limited	Antennas
Racal-BR Telecommunications Limited	Managed network services
Racal-Datacom Limited	Data communications
Racal Engineering Limited	Metalwork machining
Racal Finance Limited	Financial services
Racal Group Services Limited	Central services
Racal Health and Safety Group Limited	Holding company
EFiC Limited	Lightweight compressed air cylinders
Racal Health and Safety Limited	Health and safety products
Racal Instrumentation Limited	Holding company
Racal Instruments Limited	Test and measurement products
Racal Recorders Limited	Data and communications recording
Racal International (Holdings) Limited	Holding company
Racal International Limited	Holding company
Racal Messenger Limited	'Widonet' and 'Talon'
Racal Network Services Holdings Limited	Holding company
Racal Managed Services Limited	Managed network services
Racal Network Services Limited	Managed network services
Racal Properties Limited	Property management
Racal Radio Limited	Radio communications
Racal Communications Limited	Radio communications
Racal Communications Systems Limited	Radio communications
Racal-Tacticom Limited	Radio communications
Racal-Mobilcal Limited	Radio communications
Racal Research Limited	Research and development
Racal Training Services Limited	Training and education
Racal-Transcom Limited	Point of sale terminals and services

ASSOCIATED COMPANIES

Camelot Group plc (22.5%)
Racal Insurance Services Limited (50%)
Satellite Information Services (Holdings) Limited (21.96%)

Lotteries
Insurance services
Satellite communications

† Principal place of operation – Abu Dhabi

AT 31 MARCH 1996

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
EFI Corporation	USA	Lightweight compressed air cylinders
Racal Avionics Inc.	USA	Avionics products
Racal Communications Inc.	USA	Radio communications
Racal Instruments Inc.	USA	Test and measurement products
Racal-Datcom Inc.	USA	Data communications
Racal-Guardata Inc.	USA	Data security
Racal Health & Safety Group Inc.	USA	Health and safety products
Racal InterLan Inc.	USA	Data communications
Racal Recorders Inc.	USA	Data and communications recording
Racal Survey USA Inc.	USA	Survey and positioning services
Racal-Datcom NV-SA	Belgium	Data communications
Racal-Decca Danmark A/S	Denmark	Marine products*
Racal-Datcom SA	France	Data communications
Racal-MESL (France) SARL	France	Microwave components and sub-systems
Racal Protection France SARL	France	Health and safety products
Racal Systems Electronique SA	France	Test and measurement products*
Racal Arbeitssicherheit GmbH	Germany	Health and safety products
Racal-Datcom GmbH	Germany	Data communications
Racal Electronics Deutschland Holding GmbH	Germany	Holding company
Racal Elektronik System GmbH	Germany	Data and communications recording*
A.R.E. - Applicazioni Radio Elettroniche SpA (90%)	Italy	Data communications
Racal Systems Elettronica Srl	Italy	Test and measurement products
Internationale Navigatie Apparaten BV	Netherlands	Marine products
Nederland Survey Projecten en Apparatuur BV	Netherlands	Survey and positioning services
Racal-Datcom BV	Netherlands	Data communications
Racal Electronics Europe BV	Netherlands	Holding company
Racal Norge A/S	Norway	Marine products
Racal Survey Norge A/S	Norway	Survey and positioning services
Racal Health & Safety AB	Sweden	Health and safety products
Racal Svenska AB	Sweden	Marine products*
Racal Australia Pty Limited	Australia	Distributor for group products
Racal Health & Safety Pty Limited	Australia	Health and safety products
Racal Survey Australia Limited	Australia	Survey and positioning services
Racal New Zealand Limited	New Zealand	Network services*
Saracen Insurance Company Limited†	Bermuda	Insurance services
The Racal Corporation Canada Inc.	Canada	Holding company
Racal (Canada) Inc.	Canada	Radio communications
Racal-Datcom (Canada) Inc.	Canada	Data communications
Racal-Decca Canada Inc.	Canada	Marine products
Racal Filter Technologies Inc.	Canada	Air filters
Racal Recorders (Canada) Inc.	Canada	Data and communications recording
Racal Asia Limited	Hong Kong	Marine and data communications
Racal Survey (Malaysia) Sdn Bhd (70%)	Malaysia	Survey and positioning services
Racal Electronics (Singapore) Private Limited	Singapore	Data communications*
Racal Survey (Singapore) Private Limited	Singapore	Survey and positioning services
Techno Transfer Industries Pte Limited (80%)	Singapore	Manufacture of remotely operated submersible vehicles
Decca (SA) Pty Limited	South Africa	Marine products*
Racal Electronics South Africa Pty Limited	South Africa	Distributor for group products

ASSOCIATED COMPANIES

China Bohai Racal Positioning and Survey Company Limited (50%)	People's Rep. of China
China Nanhai Racal Positioning and Survey Company Limited (50%)	People's Rep. of China
Decca Survey (Saudi Arabia) Limited (40%)	Saudi Arabia

* also distributor for other group products

† directly owned by Racal Electronics Plc

Survey and positioning services

Survey and positioning services

Survey and positioning services

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. The accounts of all companies are made up to 31 March 1996. Where subsidiary or associated companies are acquired during the year, the surplus of cost over fair value attributed to the assets acquired (goodwill) is transferred to the goodwill reserve.

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. In accordance with Statement of Standard Accounting Practice No. 21, 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 and associated companies, and assets and liabilities denominated in foreign currencies held by United Kingdom companies, have been translated at the rates ruling on 31 March 1996. 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 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

9 KNOW HOW

Payments made to acquire manufacturing licences for specific products are amortised against profits over a period of 3 to 5 years being the period of utilisation of such manufacturing knowledge.

10 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. Racal's share of Camelot Group's start up costs is amortised over 3 years.

11 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.

12 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.

13 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.

14 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 1996

Note	1996 Continuing operations £000	1996 Discontinued operations £000	1996 Total £000	1995 Continuing operations £000	1995 Discontinued operations £000	1995 Total £000
1 Turnover						
Existing.....	996,846	—	996,846	932,045	—	932,045
Acquisitions.....	55,214	—	55,214	—	—	—
Discontinued.....	—	6,942	6,942	—	18,154	18,154
Total	1,052,060	6,942	1,059,002	932,045	18,154	950,199
1 & 2 Operating profit/(loss)						
Existing.....	63,777	—	63,777	60,316	—	60,316
Acquisitions.....	12,810	—	12,810	—	—	—
Discontinued.....	—	847	847	—	(1,430)	(1,430)
Prior year provisions utilised.....	—	35	35	—	638	638
Total	76,587	882	77,469	60,316	(792)	59,524
Profit on sale of properties	3,839	—	3,839	522	—	522
Profit on disposal or closure of operations including goodwill written off on acquisition in prior years.....	—	106	106	—	1,986	1,986
Trading profit.....	80,426	988	81,414	60,838	1,194	62,032
3 Net interest payable			11,003			3,730
Profit on ordinary activities before taxation.....			70,411			58,302
6 Tax on profit on ordinary activities			24,575			20,543
Profit on ordinary activities after taxation			45,836			37,759
Loss attributable to equity minority interests			290			478
Profit on ordinary activities attributable to members of the parent company			46,126			38,237
7 Dividends.....			16,845			13,949
23 Retained profit for the year			29,281			24,288
8 Earnings per share.....			16.54p			13.70p
8 Adjusted earnings per share			16.30p			13.25p

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 £122,394,000 (1995: £672,000).

CONSOLIDATED BALANCE SHEET

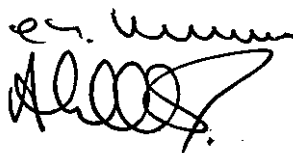
AT 31 MARCH 1996

Note	1996		1995	
	£000	£000	£000	£000
FIXED ASSETS				
9 Intangible assets		243		329
10 Tangible assets		370,807		216,059
11 Investments		35,614		24,063
		<u>406,664</u>		<u>240,451</u>
CURRENT ASSETS				
14 Stocks	234,992		249,370	
15 Debtors	419,372	-	366,260	
16 Debtors due after more than one year	85,431		88,583	
Cash on deposit	11,434		4,682	
Cash at bank and in hand	161,550		196,628	
	<u>912,779</u>		<u>905,523</u>	
17 CREDITORS: amounts falling due within one year	<u>378,286</u>		<u>342,390</u>	
NET CURRENT ASSETS		<u>534,493</u>		<u>563,133</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>941,157</u>		<u>803,584</u>
18 CREDITORS: amounts falling due after more than one year	488,916		247,424	
21 PROVISIONS FOR LIABILITIES AND CHARGES	<u>18,168</u>		<u>24,110</u>	
		<u>507,084</u>		<u>271,534</u>
		<u>434,073</u>		<u>532,050</u>
CAPITAL AND RESERVES				
22 Called up share capital		70,972		70,118
23 Share premium account		162,193		157,995
23 Capital redemption reserve		279,325		279,325
23 Revaluation reserve		2,260		2,302
23 Goodwill reserve		(353,677)		(218,487)
23 Profit and loss account		271,760		239,342
EQUITY SHAREHOLDERS' FUNDS		<u>432,833</u>		<u>530,595</u>
EQUITY MINORITY INTERESTS		<u>1,240</u>		<u>1,455</u>
		<u>434,073</u>		<u>532,050</u>

These financial statements were approved by the Board on 1 July 1996 and were signed on its behalf by:

E T HARRISON
A R WOOD

Chairman
Financial Director



BALANCE SHEET

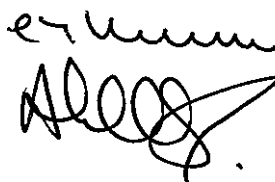
AT 31 MARCH 1996

Note	1996		1995	
	£000	£000	£000	£000
FIXED ASSETS				
11	Investments.....	730,681		579,606
CURRENT ASSETS				
15	Debtors	417,914	247,828	
16	Debtors due after more than one year	3,380	3,306	
	Cash at bank and in hand.....	57,250	122,871	
		478,544	374,005	
17	CREDITORS: amounts falling due within one year.....	223,168	233,276	
	NET CURRENT ASSETS	255,376	140,729	
	TOTAL ASSETS LESS CURRENT LIABILITIES	986,057	720,335	
18	CREDITORS: amounts falling due after more than one year	361,644	206,523	
		624,413	513,812	
CAPITAL AND RESERVES				
22	Called up share capital	70,972	70,118	
23	Share premium account.....	162,193	157,995	
23	Capital redemption reserve.....	279,325	279,325	
23	Profit and loss account.....	111,923	6,374	
	EQUITY SHAREHOLDERS' FUNDS	624,413	513,812	

These financial statements were approved by the Board on 1 July 1996 and were signed on its behalf by:

E T HARRISON
A R WOOD

Chairman
Financial Director



AND LOSSES

AND ACCUMULATED GAINS

FOR THE YEAR ENDED 31 MARCH 1996

	1996 £000	1995 £000
Profit for the financial year	46,126	38,237
Currency translation differences on foreign currency net investments.....	3,095	(984)
	<u>49,221</u>	<u>37,253</u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 MARCH 1996

	1996 £000	1995 £000
Profit for the financial year	46,126	38,237
Currency translation differences on foreign currency net investments.....	3,095	(984)
Dividends payable.....	(16,845)	(13,949)
Issue of ordinary share capital.....	5,052	1,561
Increase in goodwill reserve.....	(135,190)	(26,638)
Goodwill in respect of businesses discontinued transferred to profit and loss account.....	-	1,877
Net (reduction)/addition to shareholders' funds.....	<u>(97,762)</u>	<u>104</u>
Opening shareholders' funds	530,595	530,491
Closing shareholders' funds	<u>432,833</u>	<u>530,595</u>

Note	1996		1995	
	£000	£000	£000	£000
24	NET CASH INFLOW FROM OPERATING ACTIVITIES.....		112,596	93,486
	RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
	Interest received.....	11,257	12,609	
	Interest paid.....	(21,661)	(15,399)	
	Interest element of finance lease rental/hire purchase payments.....	(2,883)	(561)	
	Dividends paid.....	(14,939)	(12,575)	
	Dividends paid to minority interests.....	(53)	(48)	
	Dividends received from associated companies.....	4,980	68	
	Net cash outflow from returns on investments and servicing of finance.....	(23,299)	(15,906)	
	TAXATION			
	UK corporation tax paid.....	(11,096)	(10,981)	
	Overseas tax paid.....	(2,445)	(5,861)	
	Tax paid.....	(13,541)	(16,842)	
	INVESTING ACTIVITIES			
	Purchase of tangible fixed assets.....	(113,595)	(77,031)	
	Purchase of intangible fixed assets.....	(84)	(78)	
25	Purchase of subsidiary undertakings (net of cash and cash equivalents acquired).....	(147,402)	(43,706)	
	Purchase of investments.....	(5,772)	(15,943)	
	Net (increase)/reduction in cash on deposit.....	(6,742)	1,189	
	Sale of tangible fixed assets.....	34,382	19,483	
26	Disposal of businesses.....	5,058	12,157	
	Sale of investments.....	1,259	-	
	Investment received from minority interest.....	-	145	
	Net cash outflow from investing activities.....	(232,896)	(103,784)	
	Net cash outflow before financing.....	(157,140)	(43,046)	
	FINANCING			
	Issue of ordinary share capital.....	5,052	1,184	
	Net increase/(reduction) of amounts borrowed.....	142,247	(10,388)	
	Capital element of finance lease rental/hire purchase payments.....	(5,591)	(2,319)	
	Net cash inflow/(outflow) from financing.....	141,708	(11,523)	
27	Decrease in cash and cash equivalents.....	(15,432)	(54,569)	
	NET BORROWINGS AT END OF YEAR			
	Loans.....	(367,353)	(238,119)	
	Bank overdrafts and short term borrowings.....	(15,491)	(12,345)	
	Cash at bank and in hand.....	161,550	196,628	
	Cash on deposit (see Note below).....	11,434	4,682	
		(209,860)	(49,154)	

Note: Cash on deposit relates to amounts that were placed on deposit for a period of three months or more.

1 TURNOVER, OPERATING PROFIT AND NET ASSETS**a) Divisional analysis**

	External turnover 1996 £000	External and inter- divisional turnover 1996 £000	Operating profit 1996 £000	Net assets 1996 £000	External turnover 1995 £000	External and inter- divisional turnover 1995 £000	Operating profit 1995 £000	Net assets 1995 £000
Data Communications.....	429,258	429,683	21,154	304,766	384,246	384,280	14,320	249,082
Defence Radar and Avionics.....	181,056	181,065	19,825	105,786	116,066	116,144	6,666	116,861
Radio Communications.....	161,075	161,075	12,939	98,172	179,435	179,441	20,461	95,780
Marine and Energy.....	122,459	122,481	8,454	71,067	114,558	114,561	6,751	63,738
Specialised Businesses.....	158,212	163,426	26,156	77,550	137,740	142,640	26,178	69,644
Corporately funded Research and Development.....	-	-	(3,520)	4,760	-	-	(4,798)	4,192
Allocations to discontinued operations.....	-	-	-	-	-	-	54	1,163
	<u>1,052,060</u>	<u>1,057,730</u>	<u>85,008</u>	<u>662,101</u>	<u>932,045</u>	<u>937,066</u>	<u>69,632</u>	<u>600,460</u>
Redundancy, severance and reorganisation costs.....	-	-	(8,421)	-	-	-	(9,316)	-
Total continuing operations.....	<u>1,052,060</u>	<u>1,057,730</u>	<u>76,587</u>	<u>662,101</u>	<u>932,045</u>	<u>937,066</u>	<u>60,316</u>	<u>600,460</u>
Discontinued operations (including redundancy, severance and reorganisation costs).....	<u>6,942</u>	<u>6,942</u>	<u>882</u>	<u>-</u>	<u>18,154</u>	<u>18,265</u>	<u>(792)</u>	<u>4,854</u>
	<u>1,059,002</u>	<u>1,064,672</u>	<u>77,469</u>	<u>662,101</u>	<u>950,199</u>	<u>955,331</u>	<u>59,524</u>	<u>605,314</u>

The results of the acquired company BR Telecommunications Limited are included in Data Communications. The relevant figures are: external turnover £55,174,000; operating profit £12,843,000; and net assets £14,173,000.

Profits have been analysed at the operating profit level before redundancy, severance and reorganisation costs rather than trading profit as it is considered that disclosure of the latter would be prejudicial to the interests of the Group.

b) Geographic analysis by origin

	External turnover 1996 £000	External and inter- regional turnover 1996 £000	Operating profit 1996 £000	Net assets 1996 £000	External turnover 1995 £000	External and inter- regional turnover 1995 £000	Operating profit 1995 £000	Net assets 1995 £000
United Kingdom.....	610,754	658,740	84,947	408,501	525,911	574,749	68,086	385,534
Rest of Europe.....	109,808	111,473	(5,031)	38,464	110,224	112,121	(5,076)	39,622
The Americas.....	274,444	289,401	1,254	192,977	247,856	270,692	3,367	162,529
Asia and Australasia.....	51,022	53,739	3,265	21,221	42,291	42,977	2,720	11,683
Africa.....	6,032	6,307	573	938	5,763	6,085	535	1,092
	<u>1,052,060</u>	<u>1,119,660</u>	<u>85,008</u>	<u>662,101</u>	<u>932,045</u>	<u>1,006,624</u>	<u>69,632</u>	<u>600,460</u>
Redundancy, severance and reorganisation costs.....	-	-	(8,421)	-	-	-	(9,316)	-
Total continuing operations.....	<u>1,052,060</u>	<u>1,119,660</u>	<u>76,587</u>	<u>662,101</u>	<u>932,045</u>	<u>1,006,624</u>	<u>60,316</u>	<u>600,460</u>
Discontinued operations (including redundancy, severance and reorganisation costs).....	<u>6,942</u>	<u>7,054</u>	<u>882</u>	<u>-</u>	<u>18,154</u>	<u>18,779</u>	<u>(792)</u>	<u>4,854</u>
	<u>1,059,002</u>	<u>1,126,714</u>	<u>77,469</u>	<u>662,101</u>	<u>950,199</u>	<u>1,025,403</u>	<u>59,524</u>	<u>605,314</u>

Profits have been analysed at the operating profit level before redundancy, severance and reorganisation costs rather than trading profit as it is considered that disclosure of the latter would be prejudicial to the interests of the Group.

c) Geographic analysis by destination

	Turnover 1996 £000	Turnover 1995 £000
United Kingdom.....	419,825	314,911
Rest of Europe.....	170,295	165,805
The Americas.....	299,621	297,897
Asia and Australasia.....	132,173	115,479
Africa.....	30,146	37,953
Total continuing operations.....	<u>1,052,060</u>	<u>932,045</u>
Discontinued operations.....	<u>6,942</u>	<u>18,154</u>
	<u>1,059,002</u>	<u>950,199</u>

1 TURNOVER, OPERATING PROFIT AND NET ASSETS (continued)**d) Net assets**

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

	1996 £000	1995 £000
Shareholders' funds.....	432,833	530,595
Minority interests.....	1,240	1,455
Provisions for liabilities and charges.....	18,168	24,110
Net borrowings.....	209,860	49,154
	662,101	605,314

2 OPERATING PROFIT

	1996 Continuing operations Existing £000	1996 Acquisitions £000	1996 Discontinued operations £000	1996 Total £000	1995 Continuing operations £000	1995 Discontinued operations £000	1995 Total £000
Turnover.....	996,846	55,214	6,942	1,059,002	932,045	18,154	950,199
Cost of sales.....	716,232	31,497	5,143	752,872	657,878	13,371	671,249
Gross profit.....	280,614	23,717	1,799	306,130	274,167	4,783	278,950
Selling and distribution costs.....	135,790	796	682	137,268	128,975	2,908	131,883
Administrative expenses.....	101,580	10,111	270	111,961	97,871	3,305	101,176
	43,244	12,810	847	56,901	47,321	(1,430)	45,891
Share of profits of associated companies	20,533	-	-	20,533	12,995	-	12,995
	63,777	12,810	847	77,434	60,316	(1,430)	58,886
Prior year provisions utilised.....	-	-	35	35	-	638	638
Operating profit/(loss).....	63,777	12,810	882	77,469	60,316	(792)	59,524

Operating profit has been arrived at after:

	1996 £000	1995 £000
Directors' emoluments (Note 5).....	2,875	2,963
Auditors' remuneration.....	1,393	1,404
Payments made to auditors in respect of non-audit work – UK only (see Note below).....	256	355
Depreciation of tangible fixed assets:		
Own assets.....	49,881	44,229
Finance leased assets.....	6,645	1,561
Amortisation of know how.....	185	193
Research and development:		
Continuing operations.....	70,753	64,015
Discontinued operations.....	44	682
Payments under operating leases:		
Land and buildings.....	15,718	14,750
Other assets.....	9,894	9,069
Receipts under operating leases.....	11,915	12,605

Note: Total payments made to auditors in respect of non-audit work was £608,000 (1995: £525,000). Of this amount £352,000 (1995: £170,000) related to work on acquisitions and has been included in the consideration paid for acquisitions.

3 NET INTEREST PAYABLE

	1996 £000	1995 £000
Interest payable:		
Bank overdrafts, loans and other borrowings repayable within five years.....	18,571	15,519
Loans and other borrowings repayable wholly or in part after five years.....	338	293
Finance charges on hire purchase contracts and finance leases.....	2,883	561
	21,792	16,373
Less interest receivable:		
Loans and deposits.....	(7,892)	(9,392)
Finance leases.....	(2,897)	(3,251)
	(10,789)	(12,643)
	11,003	3,730

NOTES ON THE FINANCIAL STATEMENTS

4	EMPLOYEES	1996	1995
		Number	Number
a) Average number of employees			
	United Kingdom	8,483	6,714
	Overseas	4,372	4,611
		12,855	11,325
		£000	£000
b) Staff costs (including directors)			
	Wages and salaries.....	323,353	280,207
	Social security costs.....	31,896	29,514
	Pension costs.....	14,260	13,647
		369,509	323,368
5	DIRECTORS' EMOLUMENTS	1996	1995
		£	£
	Emoluments of the directors.....	2,357,727	2,295,761
	Pension costs.....	517,682	666,807
		2,875,409	2,962,568
	Emoluments of the Chairman		
	Remuneration.....	699,539	657,428
	Pension cost.....	226,571	209,788
		926,110	867,216
	Charged to Vodafone Group Plc.....	187,760	176,347
	Charged to Chubb Security Plc.....	295,380	276,347
	Borne by the Company.....	442,970	414,522
		926,110	867,216
The amounts charged to Vodafone Group Plc and Chubb Security Plc relate to the Chairman's services as Chairman of those companies.			
	Emoluments of the other directors.....	1,658,188	1,638,333
In the year ended 31 March 1996 there was no bonus scheme in operation. In the year ended 31 March 1995 one director earned a performance related bonus of £10,910 based on performance against budgeted operating profit, order intake and return on capital employed.			
Directors' emoluments were paid as follows:			
		Number	Number
£ 10,001-£ 15,000		—	1
£ 30,001-£ 35,000		1	1
£ 40,001-£ 45,000		—	1
£ 45,001-£ 50,000		1	—
£ 70,001-£ 75,000		—	1
£ 80,001-£ 85,000		1	—
£ 180,001-£ 185,000		1	—
£ 215,001-£ 220,000		—	2
£ 240,001-£ 245,000		1	1
£ 245,001-£ 250,000		1	—
£ 260,001-£ 265,000		—	1
£ 265,001-£ 270,000		1	—
£ 530,001-£ 535,000		—	1
£ 560,001-£ 565,000		1	—
£ 655,001-£ 660,000		—	1
£ 695,001-£ 700,000		1	—
6	TAX ON PROFIT ON ORDINARY ACTIVITIES	1996	1995
		£000	£000
Tax on profit on ordinary activities was:			
	United Kingdom		
	Corporation tax.....	11,253	12,780
	Deferred taxation.....	2,939	(388)
	Associated companies	6,698	5,156
		20,890	17,548
	Overseas		
	Current taxation.....	3,491	2,910
	Deferred taxation.....	4	39
	Associated companies	190	46
		24,575	20,543

The charge for United Kingdom corporation tax has been decreased by £523,000 (1995: £830,000) as a result of capital allowances being greater than depreciation for which no provision has been made.

The tax on profit on sale of properties and profits on disposal or closure of operations amounted to £nil (1995: £44,000 credit).

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

7 DIVIDENDS

	1996 £000	1995 £000
DIVIDENDS ON EQUITY SHARES		
Interim 2.1p paid (1995: 1.75p).....	5,869	4,879
Proposed final 3.9p (1995: 3.25p).....	10,976	9,070
	<u>16,845</u>	<u>13,949</u>

8 EARNINGS PER SHARE

i) Earnings per share has been calculated by reference to the average of 278,857,452 (1995: 279,090,214) ordinary shares of 25p each in issue during the year based on the consolidated profits of £46,126,000 (1995: £38,237,000) after deducting taxation and profits attributable to minority interests. The average number of shares in issue for 1995 has been restated to comply with UITF Abstract 13 which relates to shares held by an Employee Share Ownership Trust.

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

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

	1996 Attributable profits £000	1996 Earnings per share p	1995 Attributable profits £000	1995 Earnings per share p
Consolidated profits/earnings per share.....	46,126	16.54	38,237	13.70
Adjustments:				
Discontinued operations.....	(988)		(1,194)	
Taxation on discontinued operations.....	308		(58)	
Adjusted consolidated profits/earnings per share	<u>45,446</u>	<u>16.30</u>	<u>36,985</u>	<u>13.25</u>

The adjusted earnings per share has been shown for the continuing operations to give an understanding of the base for the future.

9 INTANGIBLE FIXED ASSETS

KNOW HOW

COST	£000
Balance 1 April 1995.....	1,554
Exchange movement.....	35
Additions.....	<u>84</u>
	1,673
Disposals.....	<u>(575)</u>
Balance 31 March 1996	<u>1,098</u>

AGGREGATE AMORTISATION

Balance 1 April 1995.....	1,225
Exchange movement.....	20
Charge for the year.....	<u>185</u>
	1,430
Disposals.....	<u>(575)</u>
Balance 31 March 1996	<u>855</u>

NET BOOK VALUE

31 March 1996	<u>243</u>
31 March 1995	<u>329</u>

TANGIBLE FIXED ASSETS

	Freehold premises £000	Leasehold Long term £000	premises Short term £000	Plant machinery furniture and vehicles £000	Equipment on lease or hire £000	Data and navigation transmitting networks £000	Total £000
COST OR VALUATION							
Balance 1 April 1995	91,567	5,529	11,305	369,893	24,177	89,342	591,813
Exchange movement	3,910	43	171	7,956	804	361	13,245
Additions at cost	16,357	3,509	540	37,109	21,806	35,052	114,373
Additions from acquisitions	-	-	-	5,769	-	166,279	172,048
Reclassification from stock	-	-	-	2,709	7	-	2,716
Disposals at cost	(5,048)	(48)	(252)	(23,225)	(21,830)	(5,767)	(56,170)
Disposal of businesses	-	-	(305)	(9,027)	(7)	-	(9,339)
Reclassification of assets	-	3	(3)	399	404	(803)	-
Balance 31 March 1996	106,786	9,036	11,456	391,583	25,361	284,464	828,686
AGGREGATE DEPRECIATION							
Balance 1 April 1995	24,324	2,048	6,221	275,198	22,195	45,768	375,754
Exchange movement	1,255	23	94	5,539	719	341	7,971
Charge for the year	3,061	227	700	33,128	1,106	18,304	56,526
Additions from acquisitions	-	-	-	5,371	-	43,654	49,025
Reclassification from stock	-	-	-	2,518	6	-	2,524
Elimination on disposals	(814)	(48)	(174)	(20,905)	(913)	(3,986)	(26,840)
Disposal of businesses	-	-	(305)	(6,773)	(3)	-	(7,081)
Reclassification of assets	-	3	(3)	388	277	(665)	-
Balance 31 March 1996	27,826	2,253	6,533	294,464	23,387	103,416	457,879
NET BOOK VALUE							
31 March 1996	78,960	6,783	4,923	97,119	1,974	181,048	370,807
31 March 1995	67,243	3,481	5,084	94,695	1,982	43,574	216,059

The net book value of the Group's tangible fixed assets includes £105,590,000 (1995: £4,074,000) 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.

	Freehold premises £000	Leasehold premises - long term £000	Data and navigation transmitting networks £000
Premises, data and navigation transmitting networks are analysed as follows:			
At cost	97,801	7,911	284,384
At valuation in 1982	8,985	1,125	80
	106,786	9,036	284,464
If these assets had not been revalued, the following amounts would have been included:			
31 March 1996			
Cost	105,576	8,769	284,455
Aggregate depreciation	28,496	2,311	103,462
Net book value	77,080	6,458	180,993
31 March 1995			
Cost	90,389	5,262	89,301
Aggregate depreciation	25,032	2,112	45,812
Net book value	65,357	3,150	43,489

11 FIXED ASSET INVESTMENTS

	Associated companies			Other investments	Own shares		Total	
GROUP	£000	£000	£000	£000	£000	£000	£000	£000
Balance 1 April 1995			19,350	1,190	3,523			24,063
Exchange restatement			212	77	-			289
Additions			-	1,061	4,711			5,772
Disposals			-	(1,259)	-			(1,259)
			19,562	1,069	8,234			28,865
Share of retained profits for year:								
Results for the year net of tax		15,134		-	-		15,134	
Accounting policy alignments*		(1,489)		-	-		(1,489)	
		13,645					13,645	
Dividends received	(4,980)			-	-	(4,980)		
Dividend prepaid in prior years	(1,916)			-	-	(1,916)		
		(6,896)					(6,896)	
			6,749					6,749
Balance 31 March 1996		26,311	1,069	8,234				35,614

*Adjustment required to bring the associated companies' accounting policies in line with the Group's accounting policies.

The principal associated companies in which the Group has a direct interest are:	Country of incorporation	Business activity	Class	Issued equity Value	Percentage of issued equity held	Latest financial accounts
Camelot Group plc†	England	Lotteries	Ordinary shares	£50,000,000	22.5%	31.3.96
Satellite Information Services (Holdings) Limited†	England	Satellite communications	Ordinary shares	£22,161	21.96%	31.3.96
China Bohai Racial Positioning and Survey Company Limited**	People's Rep. of China	Survey and positioning services	Registered capital	US\$800,000	50%	31.3.96
China Nanhai Racial Positioning and Survey Company Limited**	People's Rep. of China	Survey and positioning services	Registered capital	US\$2,600,000	50%	31.3.96
Decca Survey (Saudi Arabia) Limited	Saudi Arabia	Survey and positioning services	Ordinary capital	SRI,000,000	40%	31.3.96

† Interests held by Racial Electronics Plc.

**The results of these companies brought into the consolidated accounts are derived from audited accounts to 31.12.95 and management accounts for the three months to 31.3.96.

COMPANY	Subsidiary companies £000	Associated companies £000	Other investments £000	Own shares £000	Total £000
Balance 1 April 1995	541,021	35,062	-	3,523	579,606
Additional investments in certain subsidiary companies	3,100	-	-	-	3,100
Additions	146,405	-	235	4,711	151,351
	690,526	35,062	235	8,234	734,057
Less investments written down	(3,376)	-	-	-	(3,376)
Balance 31 March 1996	687,150	35,062	235	8,234	730,681

Details of the principal subsidiaries are given on pages 32 and 33.

Fixed asset investments are carried at cost less any provision for permanent diminutions in value. The cumulative provision for permanent diminutions in value is £42,967,000.

Own shares relates to an Employee Share Ownership Trust (Note 13).

12 CAMELOT GROUP PLC

Due to the significance of Camelot Group plc to the Group's results additional information is provided in this Note on the results of Camelot Group plc and its balance sheet. This can be summarised as follows:

	1996		1995	
	£m	£m	£m	£m
Total turnover		5,217.0		1,190.7
Total profits before taxation	77.5		10.8	
Accounting policy alignments*	(10.1)		26.5	
Adjusted total profit before taxation		67.4		37.3
Total depreciation charge		18.7		4.6
Total fixed assets		100.9		97.1
Total current assets		472.9		147.8
Total liabilities		484.8		188.6

The Group's share of the adjusted total profit before taxation was £15.2 million (1995: £8.4 million).

* Adjustment required to bring the accounting policies of Camelot Group plc in line with the Group's accounting policies.

13 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 and the Racal Share Option Scheme 1995. 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 1996 the number of shares purchased by the Trust totalled 3,184,000 shares (nominal value £796,000) and the cost of such purchases amounted to £8,234,000. These shares, whilst legally not the property of the Company, have been included in fixed asset investments as shown in Note 11. The market value of these shares at 31 March 1996 was £10,380,000.

14	STOCKS	1996 £000	1995 £000
	Raw materials and components	91,800	96,660
	Work in progress	89,244	80,585
	Finished goods stock	71,470	77,425
		<u>252,514</u>	<u>254,670</u>
	Less progress payments	<u>17,522</u>	<u>5,300</u>
		<u>234,992</u>	<u>249,370</u>
	Work in progress and progress payments include the following in respect of long term contracts:		
	Net cost less foreseeable losses	24,934	32,642
	Less applicable payments on account	<u>9,574</u>	<u>4,111</u>
		<u>15,360</u>	<u>28,531</u>

15	DEBTORS	1996 Group £000	1996 Company £000	1995 Group £000	1995 Company £000
	Trade debtors	275,146	—	226,811	—
	Debtors — finance leases	28,632	—	22,411	—
	Amounts owed by subsidiaries	—	407,611	—	243,037
	Amounts owed by associated companies	9,924	—	11,771	1,593
	Other debtors	16,469	2,073	22,423	24
	Amounts recoverable on contracts	42,561	—	51,501	—
	Taxation recoverable	1,245	7,709	1,863	2,659
	Prepayments and accrued income	45,203	392	28,844	409
	Interest receivable	192	129	636	106
		<u>419,372</u>	<u>417,914</u>	<u>366,260</u>	<u>247,828</u>

The aggregate amounts receivable during the year in respect of finance leases were £32,697,000 (1995: £27,573,000).

The cost of assets acquired during the year for the purpose of letting under finance leases was £15,560,000 (1995: £14,101,000).

16	DEBTORS DUE AFTER MORE THAN ONE YEAR	1996 Group £000	1996 Company £000	1995 Group £000	1995 Company £000
	Trade debtors	414	—	143	—
	Debtors — finance leases	45,832	—	43,556	—
	Other debtors	7,061	375	7,463	1,264
	Amounts recoverable on contracts	13,339	—	18,103	—
	Taxation recoverable	333	—	307	—
	Deferred taxation — other timing differences (Note 21)	—	519	—	1,552
	Advance corporation tax	—	569	—	490
	Prepayments and accrued income	<u>18,452</u>	<u>1,917</u>	<u>19,011</u>	<u>—</u>
		<u>85,431</u>	<u>3,380</u>	<u>88,583</u>	<u>3,306</u>

17	CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	1996	1996	1995	1995
		Group	Company	Group	Company
		£000	£000	£000	£000
	Loans (Note 20)	1,518	—	28,633	27,607
	Bank overdrafts and short term borrowings	15,491	53,559	12,345	63,725
	Trade creditors	139,291	—	124,750	—
	Amounts owed to subsidiaries	—	143,591	—	127,975
	Amounts owed to associated companies	25	—	1,528	—
	Advance receipts	27,041	—	25,207	—
	Current corporation tax	17,058	3,505	17,520	277
	Obligations under finance leases (Note 19)	14,635	—	1,213	—
	Other taxes and social security costs	26,823	—	18,728	—
	Other creditors	26,719	51	34,893	60
	Accruals and deferred income	88,713	1,847	62,385	68
	Interest payable	2,009	1,652	4,736	4,494
	Deferred purchase consideration	7,987	7,987	1,382	—
	Proposed dividend	10,976	10,976	9,070	9,070
		378,286	223,168	342,390	233,276

18	CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	1996	1996	1995	1995
		Group	Company	Group	Company
		£000	£000	£000	£000
	Loans (Note 20)	365,835	360,735	209,486	206,523
	Trade creditors	—	—	35	—
	Advance receipts	225	—	1,922	—
	Corporation tax	32	—	20	—
	Obligations under finance leases (Note 19)	99,594	—	2,341	—
	Other creditors	14,679	—	25,841	—
	Accruals and deferred income	8,551	909	7,779	—
		488,916	361,644	247,424	206,523

19	OBLIGATIONS UNDER FINANCE LEASES	1996	1995
		£000	£000
	Obligations under finance leases fall due as follows:		
	(a) between one and two years	13,001	954
	(b) between two and five years	40,472	858
	(c) in more than five years	46,121	529
		99,594	2,341
	(d) in one year or less	14,635	1,213
		114,229	3,554

20	LOANS	1996 Group £000	1996 Company £000	1995 Group £000	1995 Company £000
	BANK LOANS				
	Repayable other than by instalments within five years:				
	Unsecured multi-currency loans	360,735	360,735	234,130	234,130
	Repayable by instalments:				
	Unsecured loans repayable within five years	223	—	803	—
	Secured loans repayable 1996/2011 with interest at rates between 5% and 9% (secured by charges on buildings, plant and assets)	6,395	—	3,186	—
		<u>367,353</u>	<u>360,735</u>	<u>238,119</u>	<u>234,130</u>
	Repayment of the above falls due as follows:				
	(a) between one and two years	587	—	142,573	141,887
	(b) between two and five years	362,441	360,735	65,922	64,636
	(c) in more than five years	2,807	—	991	—
		<u>365,835</u>	<u>360,735</u>	<u>209,486</u>	<u>206,523</u>
	(d) in one year or less	1,518	—	28,633	27,607
		<u>367,353</u>	<u>360,735</u>	<u>238,119</u>	<u>234,130</u>

21	PROVISIONS FOR LIABILITIES AND CHARGES	Group Deferred taxation £000	Group Other provisions £000	Group Total £000	Company Deferred taxation £000
	Balance 1 April 1995	1,647	22,463	24,110	(1,552)
	Exchange restatement	162	49	211	—
	Acquisitions	901	—	901	—
	Profit and loss account	2,943	(35)	2,908	1,033
	Prior year acquisition provisions utilised	—	(9,883)	(9,883)	—
	Increase in the amount of advance corporation tax recoverable on proposed dividend offset against United Kingdom deferred taxation	(79)	—	(79)	—
	Balance 31 March 1996	<u>5,574</u>	<u>12,594</u>	<u>18,168</u>	<u>(519)</u>

Other provisions represent provision for disposals and closures of loss making overseas businesses, foreseeable losses on certain long-term contracts and reorganisation costs.

The deferred taxation asset of the Company is included in debtors due after more than one year (Note 16).

DEFERRED TAXATION GROUP

The provision for deferred taxation calculated on the liability method is as follows:	1996 Amount provided £000	1996 Potential liability £000	1995 Amount provided £000	1995 Potential liability £000
Accelerated capital allowances in the United Kingdom	2,869	7,135	3,396	8,315
Other timing differences	3,274	3,274	(1,259)	(1,259)
	<u>6,143</u>	<u>10,409</u>	<u>2,137</u>	<u>7,056</u>
Less advance corporation tax	<u>569</u>	<u>569</u>	<u>490</u>	<u>490</u>
	<u>5,574</u>	<u>9,840</u>	<u>1,647</u>	<u>6,566</u>

COMPANY

The provision for deferred taxation calculated on the liability method is as follows:	1996 Amount provided £000	1996 Potential liability £000	1995 Amount provided £000	1995 Potential liability £000
Timing differences	(519)	(519)	(1,552)	(1,552)

CALLED UP SHARE CAPITAL

At 31 March 1996, the authorised share capital of the Company was £400,000,000 in ordinary shares of 25p each (1995: £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 1996 was £70,971,994.00 in ordinary shares of 25p each (1995: £70,118,035.25).

In August 1995, an issue of 424,596 ordinary shares (nominal value £106,149.00) was made at an effective price of 256p per share to shareholders who elected to receive such ordinary shares in lieu of the cash payment of the final dividend.

Allotments totalling 2,804,190 ordinary shares (nominal value £701,047.50) were made during the year at the following prices to participants in accordance with the rules of the Racal Share Option Scheme 1992:

20,450 shares at 114p per share	-
2,783,740 shares at 130.5p per share.	

Allotments totalling 123,319 ordinary shares (nominal value £30,829.75) were made during the year at the price of 105p per share to participants in accordance with the rules of the Racal Share Savings Plan (1990).

Allotments totalling 63,730 ordinary shares (nominal value £15,932.50) were made to Bradford & Bingley (PEPs) Nominees Limited during the year at various prices in respect of the Racal Electronics General and Single Company Corporate Equity Plans (PEPs). The total consideration received amounted to £179,475.68.

Under the rules of the Racal Share Option Scheme 1992, options were outstanding on 31 March 1996 for executives to subscribe for 6,383,360 ordinary shares in the Company as follows:

Number of shares	Option price	Exercise period
3,799,360	130.5p	5 October 1995 to 4 October 2002
* 1,086,461	114p	8 October 1997 to 7 October 2002
† 714,000	243p	19 July 1997 to 18 July 2004
† 650,000	251p	19 July 1997 to 18 July 2004
† 67,000	231p	19 January 1998 to 18 January 2005
† 1,153,000	270p	13 July 1998 to 12 July 2005

* These options run in parallel to those granted at 130.5p per share and are not additional thereto. The parallel options become exercisable if the earnings per share of the Company has grown over a 5 year period by at least 10 percentage points more than the Index of Retail Prices has grown over the same period.

† Shares under option held in the Employee Share Ownership Trust (Note 13).

Under the rules of the Racal Share Option Scheme 1995, an option was outstanding for an executive to subscribe for 204,000 ordinary shares in the Company at the price of 275p per share exercisable during the period 18 July 1998 to 17 July 2005. The shares under option are held in the Employee Share Ownership Trust (Note 13).

At 31 March 1996, 3,184,000 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 formed to purchase shares in the Company on the open market. Options have not yet been granted in respect of some of the shares held by the Trust.

Under the rules of the Racal Share Savings Plan (1990), options were outstanding on 31 March 1996 for employees to subscribe for 4,658,052 ordinary shares in the Company at the price of 105p per share exercisable during the period 1 December 1997 to 31 May 1998.

RESERVES		Group £000	Company £000		
a) Share premium					
Balance 1 April 1995.....		157,995	157,995		
Premium on allotment of ordinary shares.....		4,198	4,198		
Balance 31 March 1996.....		162,193	162,193		
b) Capital redemption reserve					
Balance 1 April 1995.....		279,325	279,325		
Balance 31 March 1996.....		279,325	279,325		
c) Revaluation reserve					
Balance 1 April 1995.....		2,302			
Realised on disposals.....		(53)			
Amortisation.....		11			
Balance 31 March 1996.....		2,260			
d) Goodwill reserve					
Balance 1 April 1995.....		(218,487)			
Goodwill arising on acquisitions.....		(135,190)			
Balance 31 March 1996.....		(353,677)			
		Group companies £000	Associated companies £000	Group Total £000	Company £000
e) Profit and loss account					
Retained profits 1 April 1995.....		235,067	4,275	239,342	6,374
Retranslation of net assets of overseas subsidiary and associated companies.....		21,856	213	22,069	-
Retranslation of long term foreign currency loans which relate to investments in overseas subsidiaries.....		(18,974)	-	(18,974)	-
		237,949	4,488	242,437	6,374
Amortisation of revaluation reserve.....		(11)	-	(11)	-
Revaluation reserve realised on disposals.....		53	-	53	-
Retained profit for the year.....		20,616	8,665	29,281	105,549
Retained profits 31 March 1996.....		258,607	13,153	271,760	111,923

Following the acquisition of BR Telecommunications Limited, the cumulative amount of goodwill written off which relates to ongoing businesses has been shown as a separate goodwill reserve. In addition the directors have reviewed the value of cumulative goodwill written off. As a result £353,677,000 has been allocated to ongoing businesses and is shown separately as goodwill reserve. £11,851,000 relates to businesses discontinued prior to the introduction of UITF Abstract 3 and accordingly has not been presented as a separate reserve. The profit and loss account reserve at 1 April 1995 has been restated from £20,855,000 to £239,342,000 and an amount of £218,487,000 has been presented as goodwill reserve at 1 April 1995.

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RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1996 £000	1995 £000
Operating profit.....	77,469	59,524
Depreciation.....	56,526	45,790
Amortisation of intangible fixed assets.....	185	193
Profit on sale of fixed assets.....	(1,263)	(542)
Profits retained in associated companies.....	(20,533)	(12,995)
Investments written off.....	-	6
Decrease in stocks.....	19,431	11,193
Increase in debtors.....	(1,529)	(34,609)
(Decrease)/increase in creditors.....	(7,772)	25,564
Net cash inflow before exceptional non-trading items.....	122,514	94,124
Net cash outflow in respect of disposal or closure of operations.....	(35)	(638)
Net cash outflow in respect of prior year acquisition provisions.....	(9,883)	-
Net cash inflow from operating activities.....	112,596	93,486

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PURCHASE OF SUBSIDIARY UNDERTAKINGS

	1996 £000	1995 £000
Tangible fixed assets.....	123,023	12,507
Investment in associated companies.....	-	49
Stocks.....	1,766	34,465
Debtors.....	42,513	16,298
Creditors.....	(32,755)	(27,749)
Obligations under finance leases.....	(116,159)	(56)
Deferred purchase consideration.....	-	254
Loans.....	-	(1,558)
Provisions.....	-	(21,873)
Taxation.....	1,330	(96)
Deferred taxation.....	(901)	5,976
Minority interests.....	-	610
Goodwill.....	135,190	26,638
Cost excluding cash or cash equivalents.....	154,007	45,465
Cash or cash equivalents.....	(11,544)	(506)
	142,463	44,959
Cost excluding cash or cash equivalents.....	154,007	45,465
Less due under deferred purchase consideration.....	(7,987)	(1,382)
Less ordinary share capital issued as part consideration for the acquisition of ACS Ventures Limited.....	-	(377)
Add payments under deferred purchase consideration.....	1,382	-
Cash outflow in respect of purchase of subsidiary undertakings.....	147,402	43,706

Racal-BR Telecommunications Limited (formerly BR Telecommunications Limited), which was acquired during the year, contributed £22,559,000 to the Group's net operating cash inflow, paid £2,520,000 in respect of net returns on investments and servicing of finance and utilised £5,055,000 for investing activities and £4,467,000 for financing.

26	DISPOSAL OF BUSINESSES	1996	1995
		£000	£000
	Tangible fixed assets	2,258	3,194
	Stocks	2,105	1,177
	Debtors	3,723	8,544
	Creditors	(2,459)	(5,903)
	Obligations under finance leases	(675)	(92)
	Taxation	—	1,213
	Deferred taxation	—	161
	Profit on disposal	106	3,863
	Cash inflow in respect of disposal of businesses	5,058	12,157
	Cash or cash equivalents	413	3,591
	Proceeds including cash or cash equivalents	5,471	15,748

The disposal of businesses relate to Ablex Audio Video Limited and Weyrad Electronics Limited whose results have been included within discontinued operations (1995: the disposal of the Racal-Redac group of companies).

27	ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS DURING THE YEAR	1996	1995
		£000	£000
	Balance at beginning of year	184,283	246,723
	Net cash outflow	(15,432)	(54,569)
	Effect of foreign currency exchange rate changes	(22,792)	(7,871)
	Balance at end of year	146,059	184,283

28	ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS	1996	1995	Change in year
		£000	£000	£000
	Cash at bank and in hand	161,550	196,628	(35,078)
	Bank overdrafts and short term borrowings	(15,491)	(12,345)	(3,146)
		146,059	184,283	(38,224)

29	ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR	Share capital (including premium and capital redemption reserve)	Loan capital and finance lease obligations	Share capital (including premium and capital redemption reserve)	Loan capital and finance lease obligations
		1996	1996	1995	1995
		£000	£000	£000	£000
	Balance at beginning of year	507,438	241,673	505,877	272,668
	Effect of foreign currency exchange rate changes	—	(12,959)	—	(20,489)
	Issues of shares	5,052	—	1,561	—
	Net increase/(reduction) in loans and medium term borrowings ..	—	142,247	—	(10,388)
	New finance lease contracts taken out during the year	—	778	—	679
	Finance lease terminated during the year	—	(50)	—	—
	Capital element of finance lease repayments	—	(5,591)	—	(2,319)
	Reduction from disposal of businesses	—	(675)	—	(92)
	Addition from acquisitions	—	116,159	—	1,614
	Balance at end of year	512,490	481,582	507,438	241,673

ACQUISITIONS

The following table gives details of the value of the major categories of assets and liabilities at the date of the acquisitions included in the consolidated financial statements.

	BR Telecommunications Limited (a) £000	Other acquisitions (b) £000	Prior year acquisition adjustments (c) £000	Fair value to the Group £000
Tangible fixed assets	123,010	13	—	123,023
Stocks	1,757	9	—	1,766
Debtors	42,459	54	—	42,513
Tax recoverable	1,329	1	—	1,330
Bank overdrafts and short term borrowings less cash at bank	(11,548)	4	—	(11,544)
Creditors	(32,769)	(76)	90	(32,755)
Obligations under finance leases	(116,151)	(8)	—	(116,159)
Deferred taxation	—	—	(901)	(901)
	<u>8,087</u>	<u>(3)</u>	<u>(811)</u>	<u>7,273</u>

In respect of current year acquisitions, no fair value adjustments have been made to the book values of assets and liabilities as recorded in the acquired entities' books immediately before the acquisition.

(a) BR Telecommunications Limited was acquired on 21 December 1995. The consideration was £142,405,000 giving rise to goodwill of £134,318,000. £134,418,000 of the consideration was paid in cash with an amount of £7,987,000 being provided for deferred purchase consideration which will be paid upon final agreement of the value of the net assets acquired. Profits for the periods immediately prior to the acquisition were:

	38 weeks to 20 December 1995 £000	Year ended 31 March 1995 £000
Turnover	128,560	174,243
Operating profit	29,862	25,214
Profit on ordinary activities before taxation	24,862	17,625

There was no taxation on profit on ordinary activities for either period.

There were no recognised gains and losses for either period other than those stated above.

(b) Consideration of £58,000 for other acquisitions in aggregate has been paid in cash giving rise to goodwill of £61,000.

(c) Adjustments to fair value of prior year acquisitions.

The following details the movement during the year of the fair value provisions which are included in provisions:

	£000
Balance 1 April 1995	21,873
Used during year	<u>(9,883)</u>
Balance 31 March 1996	<u>11,990</u>

31 **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 £14,260,000 (1995: £13,647,000).

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 triennial valuations were carried out as at 1 April 1995 using the projected unit method in which the actuarial liability makes allowance for projected pensionable earnings.

The following actuarial assumptions were applied in the main schemes for valuation and Statement of Standard Accounting Practice No. 24 (SSAP 24) purposes:

Investment returns	9% per annum
General salary growth	7% per annum
Equity dividend growth	5% per annum

At 1 April 1995, the market value of the assets of the UK schemes was £353,988,000 and the corresponding actuarial value was sufficient to cover 118% of the benefits which had accrued to members allowing for assumed increases in earnings.

The pension costs of the UK schemes amounted to £6,119,000 (1995: £6,640,000). The pension costs of the Group's overseas schemes amounted to £8,141,000 (1995: £7,007,000) having been determined in accordance with the accounting standards of the countries concerned. The costs of the overseas schemes would not be significantly different had they been calculated in accordance with SSAP 24.

A prepayment of £16,150,000 (1995: £16,758,000) is included in prepayments due after more than one year. This represents the excess of the amounts funded over the accumulated pension costs.

32 **FUTURE GROUP CAPITAL EXPENDITURE**

	1996 £000	1995 £000
Contracted for but not provided in the financial statements	12,083	9,176

33 **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 £76,476,000 (1995: £74,470,000). 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.

On appeal the High Court found in favour of the Inland Revenue in the dispute over the deductibility of certain payments made in connection with the buy-out of minority interests in Racal Cellular Limited in 1986. Leading Tax Counsel has advised the Company that it has strong grounds for appealing this decision. Accordingly the Company has appealed and no provision has been made in respect of this matter. If the dispute was finally determined in favour of the Inland Revenue, the Company would become liable to pay in the order of £12 million.

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 National Heritage.

34 **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 and for which no provision has been made in these financial statements are as follows:

	1996 Land and buildings £000	1996 Other assets £000	1995 Land and buildings £000	1995 Other assets £000
Payable on operating leases that expire within one year	1,428	1,281	1,668	1,569
Payable on operating leases that expire between two and five years	4,846	2,899	3,487	2,152
Payable on operating leases that expire after five years	7,188	22	8,144	271
	<u>13,462</u>	<u>4,202</u>	<u>13,299</u>	<u>3,992</u>

COMPANY

The Company had no commitments under operating leases.

35 **POST BALANCE SHEET EVENT**

Following a detailed strategic review a fundamental restructuring of the Data Products business is being implemented. This will give rise to an FRS 3 exceptional cost of the order of £20 million in the year ending 31 March 1997.

REGISTRARS

Independent Registrars Group Limited, which bought the share registration business of Barclays Registrars from Barclays Bank PLC in March 1996, maintains the register of members of the Company. If you have any questions about your personal holding of Racal Electronics Plc shares please contact Independent Registrars Group Limited at the address shown on page 22 or telephone 0181 650 4866.

If you change your name or address or if the details on the form enclosed with this Report and Accounts, including your post code, are incorrect or incomplete, please notify the Registrars in writing.

SHAREHOLDER ENQUIRIES

If you have an enquiry about the Company's business, or about something affecting you as a shareholder (other than queries which are dealt with by the Registrars, as shown above), you should contact the Company Secretary by letter at the Company's registered office.

FINANCIAL CALENDAR 1996

Annual General Meeting – 7 August 1996

Calculation period for scrip dividend – 17-21 June 1996

Value of scrip dividend share – 301.2p

Record date for proposed final/scrip dividend – 25 June 1996

Payment date for proposed final/scrip dividend – 28 August 1996

The Company usually announces interim results in December and pays the interim dividend in February. Results for the full year are usually announced in June.

AMERICAN DEPOSITARY RECEIPTS

The Company has established a sponsored American Depositary Receipt (ADR) programme in the United States. Each ADR, which represents two ordinary shares of the Company, may be publicly traded in the US on the Over-The-Counter Market. The programme is administered on behalf of Racal Electronics Plc by The Bank of New York, ADR Division, 101 Barclay Street, New York, NY10286.

At 31 March 1996 there were 636 registered holders of ADRs representing approximately 4,000 beneficial holders.

CORPORATE PERSONAL EQUITY PLANS

The Racal Electronics General and Single Company Corporate Personal Equity Plans (PEPs) were introduced in 1993/94. A feature of these PEPs is that new Racal Electronics ordinary shares are issued thereby avoiding purchase costs and stamp duty. This allows shareholders to invest in the Company in a tax efficient and cost-effective manner.

For more details please contact Bradford & Bingley (PEPs) Limited, PO Box 1, Taunton Street, Shipley, West Yorkshire BD18 3YR. Telephone 01274 555700.

The PEPs are managed by Bradford & Bingley (PEPs) Limited which has approved this section and which is regulated by the Personal Investment Authority for Investment Business.

Please note that the levels and bases of taxation can change. The value of reliefs referred to depends upon individual circumstances. The value of shares can go down as well as up and as a result the return on a PEP may be less than the amount invested.

CAPITAL GAINS TAX

The market value of one of the Company's ordinary shares at 31 March 1982 as adjusted for the capitalisation issues made in August 1983 and August 1989 but before adjustment for the Vodafone Group demerger, the capital reorganisation and the Chubb Security demerger was 93.75p.

The demerger distribution rate of the Vodafone Group shares was 57.64622 ordinary shares of Vodafone Group for every 100 Racal Electronics shares held at 13 September 1991.

The following base cost apportionment will apply for UK capital gains tax purposes:

Racal Electronics	19.964%
Vodafone Group	80.036%

Under the terms of the Chubb Security demerger, which incorporated a capital reorganisation of Racal Electronics immediately prior to the demerger, shareholders received one Racal Electronics share and one Chubb Security share for every five Racal Electronics shares held at the close of business on 2 October 1992.

The following base cost apportionment will apply for UK capital gains tax purposes:

Racal Electronics	41.195%
Chubb Security	58.805%

ANALYSIS OF SHAREHOLDINGS IN RACAL ELECTRONICS PLC AT 31 MARCH 1996**Type of Shareholder**

	Number of accounts	% of total issued shares
Nominee companies	3,836	76.47
Assurance & Insurance companies	268	2.70
Pension funds & Pension trustees	13	1.20
Investment trusts & funds	288	7.06
Local & National institutions	57	0.93
Other corporate bodies	188	1.71
ADRs	1	0.69
Private individuals	20,593	9.24
	<u>25,244</u>	<u>100.00</u>

Shareholders

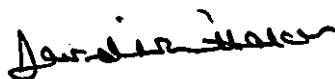
Number of shares held	Number of accounts	% of total issued shares
1 – 500	11,650	0.95
501 – 2,500	9,796	4.10
2,501 – 5,000	1,957	2.46
5,001 – 10,000	853	2.15
10,001 – 25,000	425	2.39
25,001 – 50,000	178	2.26
50,001 – 75,000	70	1.54
75,001 – 100,000	39	1.22
More than 100,000	276	82.93
	<hr/> 25,244	<hr/> 100.00

NOTICE OF MEETING

Notice is hereby given that the forty fourth Annual General Meeting of the Company will be held at The Waldorf Meridien Hotel, Aldwych, London WC2 on Wednesday 7 August 1996 at 11.45 a.m. to transact the following business:

- 1 To receive the report of the directors and financial statements for the year ended 31 March 1996 and to approve a final dividend of 15.6% (3.9p per share) net of tax on the ordinary shares.
- 2* To re-elect Sir Ernest Harrison as a director.
- 3* To re-elect Mr D Whittaker as a director.
- 4* To elect Mr P G Kozlowski as a director.
- 5 To re-appoint Deloitte & Touche as auditors to the Company until the next Annual General Meeting and to authorise the directors to determine their remuneration.
- 6* As special business to consider and, if thought fit, pass the following resolution which will be proposed as an ordinary resolution:
THAT the directors be and they are hereby authorised:
 - (a) to exercise the power contained in Article 136 of the Articles of Association of the Company so that, to the extent determined by the directors, the holders of ordinary shares be permitted to elect to receive new ordinary shares of 25p each in the capital of the Company credited as fully paid, instead of all or part of the final dividend for the financial period of the Company ended 31 March 1996 and instead of all or part of any interim dividend or dividends declared by the board before the Annual General Meeting to be held in 1997, and
 - (b) to capitalise the appropriate nominal amount of additional ordinary shares of 25p each, falling to be allotted pursuant to elections made as aforesaid, out of the amount standing to the credit of such reserve account of the Company as the directors may determine, to apply such sum in paying up ordinary shares and to allot the same to members of the Company validly making such elections.
- 7* As special business to consider and, if thought fit, pass the following resolution which will be proposed as a special resolution:
THAT the directors be and they are hereby empowered pursuant to section 95 of the Companies Act 1985 to allot equity securities (within the meaning of section 94 of the Companies Act 1985) for cash pursuant to the authority conferred by resolution No. 7 passed at the Annual General Meeting held on 3 August 1994 as if sub-section (1) of section 89 of the Companies Act 1985 did not apply to any such allotment provided that this power shall be limited:
 - (a) to the allotment of equity securities in connection with an offer by way of rights to ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them, subject to such exclusions or other arrangements as the directors may deem fit to deal with fractional entitlements or problems arising under the laws of any overseas territory or the requirements of any regulatory authority or any stock exchange, and
 - (b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £3,554,750, being 5% of the present issued share capital of the Companyand shall expire on the date of the next Annual General Meeting of the Company after the passing of this resolution or on 6 November 1997, whichever shall be the earlier, save that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offers or agreements as if the power conferred hereby had not expired.
- 8† As special business to consider and, if thought fit, pass the following resolution which will be proposed as a special resolution:
THAT the regulations contained in the document produced to the meeting and initialled by the chairman of the meeting for the purpose of identification be and the same are hereby approved and adopted as the Articles of Association of the Company in substitution for the existing Articles of Association.

By Order of the Board
David Whittaker
Director and Secretary



Western Road
Bracknell
Berkshire RG12 1RG
12 July 1996

Notes:

1. A member entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company, but, except in the case of a proxy for a corporate member, is not entitled to vote except on a poll. A form of proxy is enclosed.
2. Lodgement of a proxy will not preclude a shareholder from attending and voting at the Meeting.

* For further information see the report of the directors on pages 23 to 25.

† For further information see circular letter enclosed with the Report and Accounts. A copy of the existing Articles of Association and the proposed Articles of Association will be available for inspection as referred to in the circular letter.