

**MARCONI COMMUNICATIONS
NETWORK COMPONENTS AND
SERVICES - UK LIMITED (formerly
RELTEC (UK) Limited)**

Consolidated Report and Financial Statements

31 December 1998

**Deloitte & Touche
PO Box 500
201 Deansgate
Manchester
M60 2AT**



**MARCONI COMMUNICATIONS NETWORK COMPONENTS AND
SERVICES - UK LIMITED (formerly RELTEC (UK) Limited)**

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**MARCONI COMMUNICATIONS NETWORK COMPONENTS AND
SERVICES - UK LIMITED (formerly RELTEC (UK) Limited)**

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

B Houghton	(resigned 20 July 1998)
P Welker	(USA) (appointed 20 July 1998)
D P Sheffler	(USA)
J Wilson	(USA) (resigned 15 July 1999)
M Caulfield	(appointed 6 May 1999)
L Travis	(appointed 6 May 1999)

SECRETARY

S M Clark	(resigned 20 July 1998)
C Perone	(appointed 20 July 1998, resigned 6 May 1999)
P Bond	(appointed 6 May 1999, resigned 11 November 1999)
G I Foster	(appointed 12 November 1999)

REGISTERED OFFICE

To 4 January 1999:
Mill Lane
Rainford
St Helens
WA11 8LS

From 4 January 1999:
Uxbridge Avenue
New Century Park
Coventry
CV3 1RR

BANKERS

Lloyds Bank
PO Box 17328
11-15 Monument Street
London
EC3V 9JA

SOLICITORS

Dibb Lupton Alsop
177 The Headrow
Leeds
LS1 5JX

AUDITORS

Deloitte & Touche
Chartered Accountants
201 Deansgate
Manchester
M60 2AT

MARCONI COMMUNICATIONS NETWORK COMPONENTS AND SERVICES - UK LIMITED (formerly RELTEC (UK) Limited)

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 1998.

ACTIVITIES

The group is involved in the design, manufacture, marketing and distribution of base station cabinet enclosures for the telecommunications equipment industry and as established suppliers of electromagnetic protection equipment and systems.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The loss for the year after taxation amounted to £6,060,000 (1997 – profit of £2,552,000) and has been transferred from reserves. The loss for the year was due to a depressed market confirmed by customer volume reductions and the strengthening of sterling. The directors are confident that the market will recover and early indications support this.

On 4 June 1998, the shareholding in RELTEC (St Helens) Limited was transferred to Raintherm Limited, an associated undertaking, at net book value.

On 1 June 1999, the company changed its name to Marconi Communications Network Components and Services - UK Limited.

Since the completion of its overall direction and strategy review by Marconi plc, which is now focused on becoming a leading global player in broadband communications systems, the directors have been considering whether the future for this company may be best served outside the Marconi group. In November 1999 the directors therefore decided to seek a strategic buyer who is more specifically focussed on developing the business of this company. This provides short term uncertainty until the sale is completed but will provide a more secure and growth oriented environment for employees, customers and suppliers after the sale is completed. The directors have approached a number of potential purchasers and anticipate the sale will be completed by 28 February 1999.

DIVIDENDS AND TRANSFERS TO RESERVES

The directors do not recommend the payment of a dividend (1997 - £Nil), leaving a loss retained of £6,060,000 (1997 – profit of £2,552,000).

DIRECTORS AND THEIR INTERESTS

The directors in office at the end of the year are listed on page 1.

None of the directors had any beneficial interests in the shares of the company or any other UK group company at 31 December 1998 and at 1 January 1998, as recorded in the register maintained by the company in accordance with the provisions of the Companies Act 1985.

Details of the directors' interests in the shares of the company's parent undertaking are disclosed in that company's financial statements.

No director had, during or at the end of the year, a material interest in any contract which was significant in relation to the company's business.

DIRECTORS' AND OFFICERS' LIABILITY

Directors' and officers' liability insurance has been purchased by the company during the year.

**MARCONI COMMUNICATIONS NETWORK COMPONENTS AND
SERVICES - UK LIMITED (formerly RELTEC (UK) Limited)**

DIRECTORS' REPORT

DISABLED EMPLOYEES

The company maintains its policy of training and career development giving due consideration to all employees including the disabled for their advancement and promotion.

Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities. It is the policy of the group that training, career development and promotion opportunities should be available to all employees.

The company has continued its practice of keeping employees informed of matters effecting them as employees and the financial economic factors affecting the performance of the company. This is achieved through consultation with employee representatives.

YEAR 2000

The potential risks arising from the Year 2000 may affect the company's financial and operating systems as well as those of our customers and suppliers. Accordingly, the company has established a project team to assess the resultant risks and implement appropriate actions to address them.

Whilst the financial resources to ensure Year 2000 compliance cannot be certain, our assessment indicates that the remaining costs are unlikely to be significant in the context of the company's overall investment programme.

AUDITORS

A resolution for the reappointment of Deloitte & Touche as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

Secretary



10 December 1999

**MARCONI COMMUNICATIONS NETWORK COMPONENTS AND
SERVICES - UK LIMITED (formerly RELTEC (UK) Limited)**

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 company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the 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.



MARCONI COMMUNICATIONS NETWORK COMPONENTS AND SERVICES - UK LIMITED (formerly RELTEC (UK) Limited)

AUDITORS' REPORT TO THE MEMBERS

We have audited the financial statements on pages 6 to 19 which have been prepared under the accounting policies set out on pages 10 and 11.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of 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 group's and company's circumstances, consistently applied and adequately disclosed.

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

Fundamental uncertainty relating to the going concern basis

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 to the accounts concerning the uncertainty as to the potential sale of the company and the possible impact upon the going concern basis of accounting. In view of the significance of this uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the group and company as at 31 December 1998 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Chartered Accountants and Registered Auditors

13 December 1999

**MARCONI COMMUNICATIONS NETWORK COMPONENTS AND
SERVICES - UK LIMITED (formerly RELTEC (UK) Limited)**

CONSOLIDATED PROFIT AND LOSS ACCOUNT
Year ended 31 December 1998

	Note	1998 £'000	1997 £'000
TURNOVER	2	66,876	79,768
Cost of sales		60,109	59,520
Gross profit		<u>6,767</u>	<u>20,248</u>
Distribution costs		(1,674)	(1,560)
Administrative expenses		(13,126)	(14,813)
Other operating income		<u>-</u>	<u>406</u>
OPERATING (LOSS)/PROFIT	4	<u>(8,033)</u>	<u>4,281</u>
Income from shares in associated undertakings	9	720	425
Net interest payable	5	<u>(416)</u>	<u>(122)</u>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>(7,729)</u>	<u>4,584</u>
Tax on (loss)/profit on ordinary activities	6	<u>1,669</u>	<u>(2,032)</u>
RETAINED (LOSS)/PROFIT FOR THE FINANCIAL YEAR	17	<u><u>(6,060)</u></u>	<u><u>2,552</u></u>

All activities derive from continuing operations.

**MARCONI COMMUNICATIONS NETWORK COMPONENTS AND
SERVICES - UK LIMITED (formerly RELTEC (UK) Limited)**

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 31 December 1998

	1998 £'000	1997 £'000
(Loss)/profit for the financial year attributable to the members	(6,060)	2,552
Foreign exchange translation differences on foreign currency net investment in associated undertaking	<u>9</u>	<u>29</u>
Total recognised gains and losses for the year	<u>(6,051)</u>	<u>2,581</u>

**MARCONI COMMUNICATIONS NETWORK COMPONENTS AND
SERVICES - UK LIMITED (formerly RELTEC (UK) Limited)**

GROUP BALANCE SHEET
31 December 1998

	Note	£'000	1998 £'000	1997 £'000
FIXED ASSETS				
Intangible assets	7	450		483
Tangible assets	8	6,716		7,966
Investments	9	5,224		1,234
			12,390	9,683
CURRENT ASSETS				
Stocks	10	5,341		6,006
Debtors	11	13,253		18,745
Cash at bank and in hand		2,097		2,314
		20,691		27,065
CREDITORS: amounts falling due within one year	12	(31,115)		(28,279)
NET CURRENT LIABILITIES			(10,424)	(1,214)
TOTAL ASSETS LESS CURRENT LIABILITIES			1,966	8,469
CREDITORS: amounts falling due after more than one year	13		-	(452)
			1,966	8,017
CAPITAL AND RESERVES				
Called up share capital - equity	15,17		1,192	1,192
Share premium account	17		8,875	8,875
Capital redemption reserve	17		583	583
Profit and loss account	17		(8,684)	(2,633)
Equity shareholders' funds	18		1,966	8,017

These financial statements were approved by the Board of Directors on 10 December 1999
Signed on behalf of the Board of Directors




- Director

**MARCONI COMMUNICATIONS NETWORK COMPONENTS AND
SERVICES - UK LIMITED (formerly RELTEC (UK) Limited)**

COMPANY BALANCE SHEET
31 December 1998

	Note	£'000	1998 £'000	1997 £'000
FIXED ASSETS				
Intangible assets	7	450		483
Tangible assets	8	6,716		7,966
Investments	9	4,701		1,077
			11,867	9,526
CURRENT ASSETS				
Stocks	10	5,341		6,006
Debtors	11	13,314		18,745
Cash at bank and in hand		2,071		2,211
		20,726		26,962
CREDITORS: amounts falling due within one year	12	(31,115)		(28,279)
NET CURRENT LIABILITIES			(10,389)	(1,317)
TOTAL ASSETS LESS CURRENT LIABILITIES			1,478	8,209
CREDITORS: amounts falling due after more than one year	13		-	(452)
			1,478	7,757
CAPITAL AND RESERVES				
Called up share capital - equity	15,17		1,192	1,192
Share premium account	17		8,875	8,875
Capital redemption reserve	17		583	583
Profit and loss account	17		(9,172)	(2,893)
Equity shareholders' funds			1,478	7,757

These financial statements were approved by the Board of Directors on 10 December 1999
Signed on behalf of the Board of Directors

 - Director

**MARCONI COMMUNICATIONS NETWORK COMPONENTS AND
SERVICES - UK LIMITED (formerly RELTEC (UK) Limited)**

NOTES TO THE ACCOUNTS
Year ended 31 December 1998

1. ACCOUNTING POLICIES

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

Accounting convention

The financial statements are prepared under the historical cost convention.

Investments

Investments held as fixed assets are stated at cost less provision for any permanent diminution in value.

Depreciation

Depreciation is calculated on a straight line basis and aims to write down the cost of all tangible fixed assets, less estimated residual value, over their expected useful lives. The rates applicable are:

Freehold land and buildings	2.5% per annum
Short term lease improvements	Over the term of the lease
Plant and machinery	15% per annum
Motor vehicles	25% per annum
Fixtures and fittings	Between 10% and 20%

Deferred taxation

Deferred taxation is provided on timing differences, arising from the different treatment of items for accounts and taxation purposes, which are expected to reverse in the future, calculated at rates at which it is estimated that tax will arise.

Consolidation

The consolidated financial statements comprise the accounts of the parent and subsidiary undertakings, all of which were made up to 31 December. Profits or losses on intra-group transactions are eliminated in full.

Associated undertakings

Undertakings, other than subsidiary undertakings, in which the Group has an investment representing not less than 20% of the voting rights and over which it exerts significant influence are treated as associated undertakings. The Group accounts include the appropriate share of these undertakings results and reserves for the year.

Stocks

Stocks and work-in-progress other than long term contracts are stated at the lower of cost and net realisable value. Costs includes materials, direct labour and production overheads appropriate to the relevant stage of production. Net realisable value is based on estimated selling price less all further costs to completion and relevant marketing, selling and distribution costs.

Long term contracts

Long-term contract work-in-progress is stated at cost plus, where the outcome can be assessed with reasonable certainty, estimated profits attributable to the state of completion, less provision for any known or anticipated losses and progress payments received on account. Advance payments and deposits are included in creditors.

Leases

Assets obtained under finance leases and hire purchase contracts are capitalised at their fair value on acquisition and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital lease outstanding.

Operating lease rentals are charged to income in equal amounts over the lease term.

**MARCONI COMMUNICATIONS NETWORK COMPONENTS AND
SERVICES - UK LIMITED (formerly RELTEC (UK) Limited)**

NOTES TO THE ACCOUNTS
Year ended 31 December 1998

1. ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on acquisitions is written off over a period of 15 years.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities are translated at the rates of exchange ruling at the balance sheet date. Exchange gains and losses are recorded in the profit and loss account.

Investments denominated in foreign currencies are recorded at historic cost. Exchange gains and losses on translation are recorded in the statement of total recognised gains and losses.

Government grants

Government grants are released to the profit and loss account when received, net of any amounts which may be repayable in the future.

Pension costs

The group operates a defined contribution pension scheme. The charge against profit is the amount of employer contributions payable to the pension scheme in respect of the accounting period.

Cash flow statement

At 31 December 1998, the group was a wholly owned subsidiary of RELTEC Corporation, a company incorporated in the United States. It has therefore taken advantage of the exemption conferred by Financial Reporting Standard 1 (Revised) in not preparing a cash flow statement. Changes in ownership of the group since 1 January 1999 are as set out in note 22 of the financial statements.

Going concern

The Board of directors are currently in negotiations with a potential purchaser of the entire share capital of the company, which may or may not result in a change in ownership and management.

Whilst the current management are satisfied that their existing financial resources are sufficient to meet their current plans, a change in ownership or management may have an effect upon the plans or financial resources available to the company. Management are therefore unable to determine the future cash requirements and available financial resources in all circumstances.

If the financial resources available to the company become insufficient to meet the future plans of the company, the going concern basis may become inappropriate. In these circumstances, adjustments might be required to write down assets, take account of additional liabilities and to reclassify long-term assets and liabilities as current.

On the basis that the current resources are sufficient to meet the current plans of the company the directors consider it appropriate to prepare the financial statements on a going concern basis.

2. TURNOVER

Turnover represents the amount derived from the provision of goods and services which fall within the groups ordinary activities after deduction of trade discounts and value added tax. All sales are to third parties.

**MARCONI COMMUNICATIONS NETWORK COMPONENTS AND
SERVICES - UK LIMITED (formerly RELTEC (UK) Limited)**

NOTES TO THE ACCOUNTS
Year ended 31 December 1998

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	1998 £'000	1997 £'000
Directors' emoluments		
Fees	-	150
Other emoluments	11	29
	<u>11</u>	<u>179</u>
	<u>11</u>	<u>179</u>
	No	No
Number of directors who were members of the group money purchase pension scheme	<u>1</u>	<u>1</u>
The company contributed £Nil (1997 - £20,000) to the money purchase scheme during the year.		
Average number of persons employed		
Production	750	830
Sales and distribution	29	32
Administration	47	45
	<u>826</u>	<u>907</u>
	<u>826</u>	<u>907</u>
	£'000	£'000
Staff costs during the year (including directors)		
Wages and salaries	14,373	14,362
Social security costs	1,254	1,267
Pension costs	155	189
	<u>15,782</u>	<u>15,818</u>
	<u>15,782</u>	<u>15,818</u>

**MARCONI COMMUNICATIONS NETWORK COMPONENTS AND
SERVICES - UK LIMITED (formerly RELTEC (UK) Limited)**

NOTES TO THE ACCOUNTS
Year ended 31 December 1998

4. OPERATING (LOSS)/PROFIT

	1998 £'000	1997 £'000
Operating (loss)/profit is after charging:		
Depreciation and amortisation		
Owned assets	1,203	1,317
Leased assets	301	601
Goodwill	33	17
Rentals under operating leases		
Other operating leases	527	529
Grant release	(310)	(191)
(Loss)/profit on sale of fixed assets	(35)	24
Auditors' remuneration - audit	60	60
- non audit	99	15
	<u> </u>	<u> </u>

5. NET INTEREST PAYABLE

	1998 £'000	1997 £'000
Bank interest received	78	-
Bank loans, overdrafts and other loans:		
Repayable within 5 years, by instalments	(427)	(15)
Interest paid - external	-	(143)
Interest paid - group companies	(28)	-
Finance leases and hire purchase contracts	(46)	(43)
Interest received - group companies	7	79
	<u> </u>	<u> </u>
	(416)	(122)
	<u> </u>	<u> </u>

6. TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

	1998 £'000	1997 £'000
United Kingdom corporation tax charge at 31% (1997 - 31.5%) based on the (loss)/profit for the year	-	(1,872)
	<u> </u>	<u> </u>
	-	(1,872)
Adjustments to prior years' tax provisions		
Corporation tax	1,918	-
Overseas tax	-	(56)
	<u> </u>	<u> </u>
	1,918	(1,928)
Share of associates tax		
United Kingdom tax	(25)	-
Overseas tax	(224)	(84)
Deferred tax	-	(20)
	<u> </u>	<u> </u>
	1,669	(2,032)
	<u> </u>	<u> </u>

**MARCONI COMMUNICATIONS NETWORK COMPONENTS AND
SERVICES - UK LIMITED (formerly RELTEC (UK) Limited)**

NOTES TO THE ACCOUNTS
Year ended 31 December 1998

The tax credit is disproportionate to the tax loss due to the effect of unprovided deferred tax assets.

7. INTANGIBLE FIXED ASSETS

The Group and the Company

**Goodwill
£'000**

Cost	
At 1 January 1998	500
Additions	-
At 31 December 1998	500
Cost	
At 1 January 1998	17
Charge for the year	33
At 31 December 1998	50
Net book value	
At 31 December 1998	450
At 31 December 1997	483

8. TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000	Fixtures and fittings £'000	Plant and machinery £'000	Motor vehicles £'000	Leasehold alterations £'000	Total £'000
The Group and the Company						
Cost						
At 1 January 1998	1,128	3,229	8,279	979	774	14,389
Additions	-	357	1,523	215	183	2,278
Disposals	(1,128)	(1,532)	(2,652)	(177)	-	(5,489)
At 31 December 1998	-	2,054	7,150	1,017	957	11,178
Depreciation						
At 1 January 1998	93	1,690	3,820	498	322	6,423
Charge	23	442	665	255	119	1,504
Disposals	(116)	(1,090)	(2,162)	(97)	-	(3,465)
At 31 December 1998	-	1,042	2,323	656	441	4,462
Net book value						
At 31 December 1998	-	1,012	4,827	361	516	6,716
At 31 December 1997	1,035	1,539	4,459	481	452	7,966

The net book value of fixed assets in both the group and the company includes £1,685,000 in respect of assets held under finance leases and hire purchase contracts (1997 - £2,850,000).

**MARCONI COMMUNICATIONS NETWORK COMPONENTS AND
SERVICES - UK LIMITED (formerly RELTEC (UK) Limited)**

NOTES TO THE ACCOUNTS
Year ended 31 December 1998

9. INVESTMENTS HELD AS FIXED ASSETS

	Associated undertaking £'000			
The Group				
At 1 January 1998	1,234			
Investment in share capital during the year	3,706			
Dividend received	(196)			
Share of profit before tax	720			
Share of associate tax	(249)			
Foreign exchange retranslation	9			
	<hr/>			
At 31 December 1998	5,224			
	Shares in associated undertaking £'000	Shares in subsidiary undertaking £'000	Total £'000	
The Company				
At 1 January 1998	974	103	1,077	
Investment in share capital	3,706	-	3,706	
Disposal in the year	-	(82)	(82)	
	<hr/>	<hr/>	<hr/>	
At 31 December 1998	4,680	21	4,701	

At 31 December 1998, the principal subsidiaries were:

<u>Subsidiary undertaking</u>	<u>Country of Incorporation</u>	<u>Class of share capital held</u>	<u>Percentage share holding</u>	<u>Nature of business</u>
RELTEC (Coventry) Limited	England & Wales	Ordinary	100	See Group principal activities
Rainford Group Trustees Limited	England & Wales	Ordinary	100	Operates employee benefit trust
Significant associated undertakings were:				
Raintherm Limited	England & Wales	Ordinary	50	See Group principal activities

**MARCONI COMMUNICATIONS NETWORK COMPONENTS AND
SERVICES - UK LIMITED (formerly RELTEC (UK) Limited)**

NOTES TO THE ACCOUNTS
Year ended 31 December 1998

10. STOCKS

The Group and the Company	1998 £'000	1997 £'000
Raw materials and consumables	1,918	1,893
Work in progress	2,272	2,911
Finished goods and goods for resale	1,151	1,202
	<u>5,341</u>	<u>6,006</u>

11. DEBTORS

	1998 £'000	1997 £'000
The Group		
Trade debtors	10,274	17,957
Amounts owed by group undertakings		
Associated undertaking	26	-
Prepayments and accrued income	277	254
Corporation tax	1,831	-
Amounts recoverable on contracts	164	364
Other debtors	681	170
	<u>13,253</u>	<u>18,745</u>
The Company		
Trade debtors	10,274	17,957
Amounts owed by group undertakings:		
Associated undertaking	26	-
Subsidiary undertakings	61	-
Corporation tax	1,831	-
Prepayments and accrued income	277	254
Amounts recoverable on contracts	164	364
Other debtors	681	170
	<u>13,314</u>	<u>18,745</u>

**MARCONI COMMUNICATIONS NETWORK COMPONENTS AND
SERVICES - UK LIMITED (formerly RELTEC (UK) Limited)**

NOTES TO THE ACCOUNTS
Year ended 31 December 1998

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1998 £'000	1997 £'000
The Group and the Company		
Instalments due on secured term loans	-	35
Trade creditors	7,515	15,038
Amounts owed to group undertakings		
Parent undertaking	19,669	8,530
Associated undertaking	28	-
Accruals and deferred income	2,403	2,647
Corporation tax	-	690
Hire purchase creditors	153	582
Other creditors	366	211
Taxation and social security	981	546
	<u>31,115</u>	<u>28,279</u>

13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1998 £'000	1997 £'000
The Group and the Company		
Secured term loans		
repayable between 1 and 2 years	-	35
repayable between 2 and 5 years	-	40
repayable after 5 years	-	-
	<u>-</u>	<u>75</u>
Hire purchase creditors		
repayable between 1 and 2 years	-	177
repayable between 2 and 5 years	-	-
repayable after 5 years	-	-
	<u>-</u>	<u>177</u>
Deferred government grants		
At 1 January 1997	-	-
Received during the year	-	200
Released to profit and loss account	-	-
	<u>-</u>	<u>200</u>
At 31 December 1998	<u>-</u>	<u>452</u>

The secured term loans of £110,000 at 31 December 1997 including £35,000 due within one year, were secured by fixed charges on the company's freehold land and buildings and by a floating charge on all other assets of the company. These were all repaid during the year.

**MARCONI COMMUNICATIONS NETWORK COMPONENTS AND
SERVICES - UK LIMITED (formerly RELTEC (UK) Limited)**

NOTES TO THE ACCOUNTS
Year ended 31 December 1998

14. PROVISIONS FOR LIABILITIES AND CHARGES

	Provided		Unprovided	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Capital allowances in excess of depreciation	78	-	-	290
General provisions	(78)	-	703	(541)
Trade losses	-	-	1,892	(228)
	<u>-</u>	<u>-</u>	<u>2,595</u>	<u>(479)</u>

15. CALLED UP SHARE CAPITAL

	1998	1997
	£'000	£'000
Authorised		
36,000,000 ordinary shares of 5p each	<u>1,800</u>	<u>1,800</u>
Called up, allotted and fully paid		
23,843,704 ordinary shares of 5p each	<u>1,192</u>	<u>1,192</u>

16. PROFIT OF PARENT COMPANY

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these financial statements. The consolidated profit and loss account includes £6,279,000 of loss dealt with in the accounts of that company.

17. RESERVES

	Total	Share	Share	Capital	Profit
	£'000	capital	premium	redemption	and loss
	£'000	£'000	£'000	reserve	account
				£'000	£'000
The Group					
At 1 January 1998	8,017	1,192	8,875	583	(2,633)
Retained loss for the year	(6,060)	-	-	-	(6,060)
Foreign exchange translation	9	-	-	-	9
	<u>1,966</u>	<u>1,192</u>	<u>8,875</u>	<u>583</u>	<u>(8,684)</u>
At 31 December 1998					
	<u>1,966</u>	<u>1,192</u>	<u>8,875</u>	<u>583</u>	<u>(8,684)</u>
The Company					
At 1 January 1998	7,757	1,192	8,875	583	(2,893)
Retained loss for the year	(6,279)	-	-	-	(6,279)
	<u>1,478</u>	<u>1,192</u>	<u>8,875</u>	<u>583</u>	<u>(9,172)</u>
At 31 December 1998					
	<u>1,478</u>	<u>1,192</u>	<u>8,875</u>	<u>583</u>	<u>(9,172)</u>

**MARCONI COMMUNICATIONS NETWORK COMPONENTS AND
SERVICES - UK LIMITED (formerly RELTEC (UK) Limited)**

NOTES TO THE ACCOUNTS
Year ended 31 December 1998

18. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	£'000
Retained loss for the year	(6,060)
Foreign exchange gains	9
	<hr/>
Net decrease in shareholders' funds	(6,051)
Opening shareholders' funds	8,017
	<hr/>
Closing shareholders' funds	1,966
	<hr/>

19. FINANCIAL COMMITMENTS

	1998 £'000	1997 £'000
Capital expenditure contracted for at year/period end	127	214
	<hr/>	<hr/>

20. OPERATING LEASE COMMITMENTS

Lease contracts committed at 31 December 1998 and chargeable in the year ended 31 December 1999:

	Land and buildings £'000	Other £'000
Leases which expire:		
within one year	-	-
within 2-5 years	500	-
after 5 years	-	100
	<hr/>	<hr/>
	500	100
	<hr/>	<hr/>

21. PENSIONS

The total pension cost for the group amounted to £155,000 (1997 - £189,000) and there were no outstanding contributions at 31 December 1998.

22. ULTIMATE PARENT COMPANY

The ultimate parent undertaking and controlling party of this company is Marconi plc. Until 1 March 1999 the ultimate parent undertaking and controlling party of the company was RELTEC Holdings Inc, which is based in the United States.

The immediate UK parent of this company is RELTEC (Europe) Limited. Group accounts are available from the registered office of this company, New Century Park, Coventry, CV3 1RR.

23. RELATED PARTY DISCLOSURE

The company is a wholly owned subsidiary of RELTEC (Europe) Limited. The company has therefore taken advantage of the exemption conferred by Financial Reporting Standard 8 in not disclosing any transactions with other group companies.

During the year the company sold goods with a value of £148,700 and purchased goods with a value of £1,696,900 from its associated undertaking, Raintherm Limited, in which it holds a 50% interest.