

Mobile Systems International Holdings Limited

Accounts for the year ended 31 December 1998
together with directors' and auditors' reports

Registered number: 3179118



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COMPANIES HOUSE 19/05/00

Directors' report

For the year ended 31 December 1998

The directors present their annual report on the affairs of the Group, together with the financial statements and auditors' report, for the year ended 31 December 1998.

Principal activities and business review

The principal activity of the Group remains that of providing telecommunications consultancy, software and planning tools. The Group has continued to expand significantly during the year and is expected to continue to do so.

Results and dividends

The directors are satisfied with the Group's results for the year which are shown on page 7.

A dividend in specie of \$62,000 (1997 - nil) was declared and paid during the year.

Merger

On 4 December 1998, the Company ("MSIH") announced a merger by way of a scheme of arrangement with the Metapath group, comprising Metapath Software International, (Bellevue) Inc. ("Metapath") and its wholly-owned subsidiary. The merger agreed to combine their businesses under a new holding company, Metapath Software International, Inc ("MSII"). Metapath manages mission-critical information for large telecommunications companies worldwide by providing integrated, real-time network and user information products. The merger was completed on 4 December 1998. Under the terms of the merger, the shareholders of the Company exchanged all of their shares for common stock in MSII on the basis of an exchange ratio. Pursuant to the merger, ex-Company shareholders and option-holders hold approximately 65% of the issued common stock of MSII and former Metapath stockholders hold approximately 35% of the issued common stock of MSII.

Disposal of subsidiary

On 31 October 1999 Metapath Software international (Dallas) Inc. ("MSI Dallas"), a subsidiary of the Group, merged with Metapath Software International (Bellevue) Inc. ("MSI Bellevue"), a fellow subsidiary undertaking of the Metapath Software International, Inc.. The Group received one ordinary share in MSI Bellevue in exchange for its investment in MSI Dallas. The Group then sold its share in MSI Bellevue to its ultimate parent company, Metapath Software International, Inc.

Acquisition of parent company

On 20 April 2000, it was announced that the entire issued share capital of Metapath Software International, Inc. is to be acquired by Marconi plc.

Directors' report (continued)

Directors

The directors who served during the year were as follows:

M Andreen	(appointed 1 February 1999, resigned 25 February 2000)
J Britton	(resigned 9 January 1998)
T Butler	(appointed 4 February 1998, resigned 1 February 1999)
J C Carrington	(resigned 1 February 1999)
J M Cline	(resigned 1 February 1999)
M R R Daya	(resigned 1 February 1999)
S A Denning	(resigned 1 February 1999)
Dr G F Hardyman	(resigned 1 February 1999)
P Harris	(appointed 28 January 2000)
Dr M F A Ibrahim	(resigned 1 February 1999)
S T Julin	(resigned 15 July 1998)
I A W MacGowan	(appointed 25 February 2000)
D Meades	(appointed 1 February 1999)
A W Rudge	(resigned 1 February 1999)
J Schickling	(appointed 10 January 1998, resigned 1 February 1999)
J Smith	(appointed 1 February 1999, resigned 30 July 1999)
L T van den Boog	(resigned 15 September 1999)
H von Bell	(appointed 30 July 1999, resigned 29 February 2000)
Sir G Whent	(resigned 1 February 1999)

Directors' report (continued).

Directors' interests

The directors who held office at 31 December 1998 had the following interests in the ordinary shares of Mobile Systems International Holdings Limited ("MSIH") at 1 January 1998 and in the ordinary shares of Metapath Software International, Inc. ("MSII") at 31 December 1998:

Name of director	MSII 31 December 1998	MSIH 1 January 1998 or subsequent date of appointment
T Butler	95,158	-
J C Carrington	222,035	323,700
J M Cline ⁽¹⁾	3,346,265	2,393,120
M R R Daya	1,127,291	697,200
S A Denning ⁽¹⁾	3,328,919	2,393,120
Dr G F Hardyman	-	-
Dr M F A Ibrahim	8,313,975	5,136,890
A W Rudge	-	-
J Schickling	-	-
L T van den Boog	118,947	75,000
Sir G Whent	-	-

⁽¹⁾ The number of shares indicated as owned by Messrs Cline and Denning are owned directly by General Atlantic, except for 17,346 shares which are owned by Mr Cline in his own right. Messrs Cline and Denning are partners in General Atlantic.

Charitable contributions

During the year the Group made various charitable contributions totalling \$6,200 (1997 - \$6,000).

Year 2000

The Company has established a Year 2000 compliance plan and committee sponsored by the Chief Financial Officer and comprised of technical personnel from product, customer support, legal, sales and commercial departments. The Company has completed (i) a product review, (ii) a systems and equipment review and (iii) a plan for business continuity. All of the Company's products are Year 2000 compliant except for an early version of Planet. A Year 2000 compliant version has subsequently been released. 80% of customers have the Year 2000 compliant version, the remaining 20% are able to upgrade at the appropriate cost.

The costs associated with achieving Year 2000 compliance are written off to the profit and loss account as incurred and are not considered to be material to the Group's results or financial position.

Directors' report (continued)

Year 2000 (continued)

The Company has successfully completed its plans to review and update systems so that they are Year 2000 compliant. There have been no problems since the balance sheet date. However, the risks and uncertainties associated with the Year 2000 problem do not necessarily cease on 1 January 2000. We believe that our actions taken to date are sufficient to address any remaining risks.

Employee share ownership

MSIH had established stock option plans under which options were granted during (and prior to) 1998. Following the merger, holders of such options were given the opportunity to roll over their options over shares into new options over shares in MSII with effect from 4 December 1998. The rolled over options remain on the same terms as those originally issued, but the numbers and exercise prices are adjusted to reflect the terms on which MSIH shares were exchanged into shares in MSII.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employees

The Group is firmly committed to the involvement of employees in the business through a policy of communication and consultation. Arrangements have been established for the regular provision of information to all employees through briefings, staff conferences and well established formal consultation procedures.

The Group's policy is to promote training and career development for all employees to give full and fair consideration to any suitable person, including disabled persons, for all vacancies and opportunities. The Group operates an equal opportunities policy.

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 group and of the profit or loss of the company and 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, subject to any material departures disclosed and explained in the financial statements; and

Directors' report (continued)

Directors' responsibilities (continued)

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company or group will continue in business.

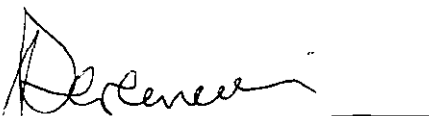
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and group, and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding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

Auditors

The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

2nd Floor
Strand Bridge House
138-142 Strand
WC2R 1HH

By order of the Board,



D. Meades
Secretary

15 May 2000

To the Shareholder of Mobile Systems International Holdings Limited:

We have audited the financial statements on pages 7 to 29 which have been prepared under the historical cost convention and the accounting policies set out on pages 11 to 13.

Respective responsibilities of directors and auditors

As described on pages 4 and 5 the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 of 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 accounts give a true and fair view of the state of affairs of the Company and of the Group at 31 December 1998 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen
Chartered Accountants and Registered Auditors

1 Surrey Street
London
WC2R 2PS

15 May 2000

Consolidated profit and loss account

For the year ended 31 December 1998

	Notes	1998 \$'000	1997 \$'000
Turnover			
Continuing operations		90,411	72,615
Discontinued operations	2	1,392	-
	2	<u>91,803</u>	<u>72,615</u>
Cost of sales	3	(38,162)	(33,251)
Gross profit		<u>53,641</u>	<u>39,364</u>
Selling and marketing expenses	3	(16,760)	(9,277)
General and administrative expenses	3	(15,745)	(16,531)
Research and development costs	3	(16,645)	(15,151)
Exceptional operating costs	3	(2,664)	(4,321)
Operating profit (loss)	5		
Continuing operations		2,734	(5,916)
Discontinued operations		(907)	-
		<u>1,827</u>	<u>(5,916)</u>
Share of associates' operating profit		-	485
Disposal of discontinued operations	12	(83)	(3,463)
Profit (loss) on ordinary activities before finance charges		<u>1,744</u>	<u>(8,894)</u>
Finance charges (net)	4	463	(277)
Profit (loss) on ordinary activities before taxation		<u>2,207</u>	<u>(9,171)</u>
Tax on profit (loss) on ordinary activities	8	(2,102)	(1,413)
Profit (loss) on ordinary activities after taxation		<u>105</u>	<u>(10,584)</u>
Minority interests	23	141	226
Profit (loss) for the financial year	21	<u>246</u>	<u>(10,358)</u>
Dividends paid and proposed	9	(62)	-
Retained profit (loss) for the year		<u>184</u>	<u>(10,358)</u>

The accompanying notes are an integral part of this consolidated profit and loss account.

Consolidated statement of total recognised gains and losses

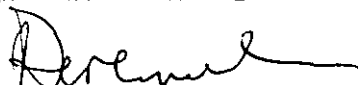
	1998 \$'000	1997 \$'000
Profit (loss) for the financial year	246	(10,358)
Foreign currency translation gain (loss)	435	(220)
Total gains and losses recognised in the year	<u>681</u>	<u>(10,578)</u>

Consolidated balance sheet

31 December 1998

	Notes	1998 \$'000	1997 \$'000
Fixed assets			
Intangible assets	10	-	1,043
Tangible assets	11	8,272	8,826
Associates	12	-	2,158
Other investments and loans	12	7,245	3,717
		<u>15,517</u>	<u>15,744</u>
Current assets			
Stocks	13	183	952
Debtors	14	27,512	24,890
Cash at bank and in hand	15	13,972	12,255
		<u>41,667</u>	<u>38,097</u>
Creditors: Amounts falling due within one year	16	<u>(29,480)</u>	<u>(37,770)</u>
Net current assets		<u>12,187</u>	<u>327</u>
Total assets less current liabilities		<u>27,704</u>	<u>16,071</u>
Creditors: Amounts falling due after more than one year	17	(189)	(1,057)
Provisions for liabilities and charges	18	<u>(93)</u>	<u>(731)</u>
Net assets		<u>27,422</u>	<u>14,283</u>
Capital and reserves			
Called-up equity share capital	19	588	468
Share premium account	20	20,750	7,594
Other reserves	20	875	875
Profit and loss account	20	5,041	4,895
Equity shareholders' funds		<u>27,254</u>	<u>13,832</u>
Minority interests	23	<u>168</u>	<u>451</u>
Total capital employed		<u>27,422</u>	<u>14,283</u>

Signed on behalf of the Board



D Meades

Director

15 May 2000

The accompanying notes are an integral part of this consolidated balance sheet.

Company balance sheet
31 December 1998

	Notes	1998 \$'000	1997 \$'000
Fixed assets			
Investments	12	485	481
		<u>485</u>	<u>481</u>
Current assets			
Debtors	14	21,298	8,526
Cash at bank and in hand	15	14	-
		<u>21,312</u>	<u>8,526</u>
Creditors: Amounts falling due within one year	16	(57)	(63)
Net current assets		<u>21,255</u>	<u>8,463</u>
Total assets less current liabilities		<u>21,740</u>	<u>8,944</u>
Net assets		<u>21,740</u>	<u>8,944</u>
Capital and reserves			
Called-up equity share capital	19	588	468
Share premium account	20	20,750	7,594
Profit and loss account	20	402	882
Equity shareholders' funds		<u>21,740</u>	<u>8,944</u>

Signed on behalf of the Board


D Meades

Director

15 May 2000

The accompanying notes are an integral part of this balance sheet.

Consolidated cash flow statement

For the year ended 31 December 1998

		1998 \$'000	1997 \$'000
Net cash inflow from operating activities	24	9,683	994
Returns on investments and servicing of finance	24	463	(277)
Taxation		(3,100)	(839)
Capital expenditure and financial investment	24	(3,307)	(5,243)
Acquisitions and disposals	24	-	(1,424)
Cash inflow (outflow) before management of liquid resources and financing		3,739	(6,789)
Financing	24	944	9,096
Increase in cash		4,683	2,307

The accompanying notes are an integral part of this consolidated cash flow statement.

Notes to accounts

For the year ended 31 December 1998

1 Accounting policies

A summary of the principal accounting policies, all of which have been consistently applied throughout the year and the preceding year, is set out below.

a) *Basis of accounting*

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

b) *Basis of consolidation*

The group accounts consolidate the accounts of Mobile Systems International Holdings Limited and its subsidiary undertakings drawn up to 31 December each year. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method.

c) *Intangible assets - Goodwill*

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is ten years. Provision is made for any impairment.

d) *Tangible fixed assets*

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected life, as follows:

Leasehold improvements	shorter of the useful life or the terms of the lease
Computer equipment	3-4 years
Furniture and equipment	4 years

e) *Investments*

Fixed asset investments are shown at cost less provision for impairment.

f) *Associates*

In the group accounts investments in associates are accounted for using the equity method. The consolidated profit and loss account includes the group's share of associates' profits less losses while the group's share of the net assets of the associates is shown in the consolidated balance sheet. Goodwill arising on the acquisition of associates is accounted for in accordance with the policy set out above. Any unamortised balance of goodwill is included in the carrying value of the investments in associates.

g) *Stocks*

Stock is comprised of equipment and data held for resale. Stock is stated at the lower of cost (first-in, first-out) or market value (net realisable value). Cost comprises the purchase price of the inventory.

Notes to accounts (continued)

1 Accounting policies (continued)

h) Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred taxation is provided using the liability method on all timing differences only to the extent that they are expected to reverse in the future without being replaced.

i) Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

The Group's principal sources of revenue are software licence agreements, consultancy services and software maintenance. Revenue is recognised when the product is delivered or the services provided. Revenue on software maintenance agreements is recognised rateably over the period of the agreement. Software maintenance fees included within initial licence fees are deferred and recognised rateably over the period during which the services are provided. Revenue of consultancy services is recognised on a time and materials basis, as incurred. Revenue on fixed fee consulting projects is recognised rateably over the period of the work.

j) Research and development

Research and development costs are written off to the profit and loss account as incurred.

k) Pension costs

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

l) Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate.

The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations and on foreign currency borrowings, to the extent that they hedge the group's investment in such operations, are dealt with through reserves. All other exchange differences are included in the profit and loss account.

Notes to accounts (continued)

1 Accounting policies (continued)

m) Leases

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

n) Reclassifications

Certain amounts relating to the prior years have been reclassified to conform to the current year presentation.

2 Segment information

	Group	
	1998	1997
	\$'000	\$'000
(i) <i>By class of business:</i>		
Product	32,521	25,007
Maintenance	9,907	8,369
Services	47,411	37,930
Hardware	1,964	1,309
	<u>91,803</u>	<u>72,615</u>

Included within services revenue is \$1,392,000 relating to discontinued operations.

	Group	
	1998	1997
	\$'000	\$'000
(ii) <i>By geographical market destination:</i>		
Europe	45,840	25,794
North America	20,764	21,392
Asia Pacific	10,624	11,870
Other	14,575	13,559
	<u>91,803</u>	<u>72,615</u>

Included within Europe is \$1,392,000 relating to discontinued operations.

Notes to accounts (continued)

2 Segment information (continued)

The analysis in notes 2(i) and (ii) has not been disclosed on either an operating profit, or net assets basis or by geographical market by source since, in the opinion of the directors, the disclosure of such information would be seriously prejudicial to the interests of the Group.

(iii) Discontinued operations

Discontinued operations include the demerged Cellular Investments ("CI") business unit (see below) and the disposed subsidiary undertaking Information Delivery System AB (see note 12).

During March 1998, the Company demerged its CI business unit from its software and services business. The discontinued business unit was engaged in the ownership and management of investments in telecommunications operation. The net assets of the discontinued operations were transferred to Mobile Systems International Cellular Investments Holdings BV ("MSICIBV"), a separate independent entity, under common shareholder control at the date of the transaction, in exchange for redeemable voting preference shares in MSICIBV.

3 Cost of sales, gross profit and other operating expenses (net)

	1998		1997	
	Continuing operations \$'000	Discontinued operations \$'000	Total \$'000	Total \$'000
Cost of sales	37,456	706	38,162	33,251
Gross profit	52,955	686	53,641	39,364
Selling and marketing expenses	16,493	267	16,760	9,277
General and administrative expenses	15,091	654	15,745	16,531
Research and development costs	15,973	672	16,645	15,151
Exceptional operating costs	2,664	-	2,664	4,321
Other operating expenses (net)	50,221	1,593	51,814	45,280

Notes to accounts (continued)

4 Finance charges (net)

Investment income

Interest receivable reflects income from short term cash deposits.

	1998 \$'000	1997 \$'000
<i>Interest payable and similar charges</i>		
Bank overdraft and loans	179	410
Finance leases	122	172
Loan interest	194	-
Other	93	67
	<u>588</u>	<u>649</u>
 <i>Finance charges (net)</i>	 1998 \$'000	 1997 \$'000
Investment income	1,051	372
Less: interest payable and similar charges	(588)	(649)
	<u>463</u>	<u>(277)</u>

There is no interest receivable or payable from associate companies.

5 Profit (loss) on ordinary activities before taxation

	1998 \$'000	1997 \$'000
Profit (loss) on ordinary activities before taxation is stated after charging:		
Depreciation		
- owned	3,086	2,658
- held under finance leases	824	1,355
Amortisation of goodwill	-	172
Amortisation of software held for resale	-	840
Auditors' remuneration		
- audit services	260	193
- non audit services	280	87
Operating lease rental charges	<u>1,763</u>	<u>1,235</u>

Notes to accounts (continued)

5 Profit (loss) on ordinary activities before taxation (continued)

	1998 \$'000	1997 \$'000
<i>Exceptional operating costs</i>		
Software held for resale write-off	-	982
<i>Acquisition and closure of SSAOT division in Newbury:</i>		
- Purchased software write-off	400	1,036
- Restructuring costs post acquisition of SSAOT division	537	-
Redundancies	1,727	739
Demerger costs	-	1,202
Other	-	362
	<u>2,664</u>	<u>4,321</u>

Operating profit (loss) includes certain exceptional operating items which the directors consider to be non-recurring. During the year the Group purchased the assets and liabilities of a software development division of SSA Inc., known as SSAOT, located in Newbury, United Kingdom, specifically to gain access to certain employees and almost completed software development tool sets. Once these had been acquired the business was rationalised to remove those parts not directly needed. The costs shown above for purchased software write-off relate to software acquired as part of the acquisition of SSAOT.

The redundancies relate to the rationalisation of the business organisation after the merger.

6 Staff costs

The average monthly number of employees (including executive directors) was:

	1998 Number	1997 Number
Product	145	132
Services	216	274
Selling and marketing	82	54
General and administrative	67	75
	<u>510</u>	<u>535</u>

Notes to accounts (continued)

6 Staff costs (continued)

	1998 \$'000	1997 \$'000
Their aggregate remuneration comprised:		
Wages and salaries	39,166	33,654
Social security costs	3,459	3,752
Other employee costs	963	1,085
	<u>43,588</u>	<u>38,491</u>

7 Directors' remuneration

Remuneration

The remuneration of the directors was as follows:

	1998 \$'000	1997 \$'000
Emoluments	1,786	1,062
Company contributions to money purchase pension schemes	100	63
	<u>1,886</u>	<u>1,125</u>

The above amounts do not include any gains made on the exercise of share options or the value of any shares or share options received under long-term incentive schemes. One director exercised share options in the period (1997 - nil).

Pensions

The number of directors who were members of pension schemes was as follows:

	1998 Number	1997 Number
Money purchase scheme	<u>6</u>	<u>10</u>

Notes to accounts (continued)

7 Directors' remuneration (continued)

Highest paid director

The above amounts for remuneration included the following in respect of the highest paid director:

	1998 \$'000	1997 \$'000
Emoluments	362	236
Company contributions to money purchase pension schemes	49	36
	<u>411</u>	<u>272</u>

The highest paid director did not exercise any share options during 1998 (1997 - nil).

8 Tax on profit (loss) on ordinary activities

The tax charge comprises:

	1998 \$'000	1997 \$'000
UK corporation tax	-	1,478
Foreign tax	1,533	(9)
Deferred tax	264	(56)
Irrecoverable withholding tax	305	-
	<u>2,102</u>	<u>1,413</u>

The tax charge relates to tax on profits in jurisdictions that are unable to be set off against tax losses in other jurisdictions and withholding tax suffered that is unable to be set off against UK tax.

9 Dividends paid and proposed

	1998 \$'000	1997 \$'000
Dividends	<u>62</u>	<u>-</u>

On 25 March 1998, the company distributed a dividend to its shareholders equal to the book value of Mobile Systems International Cellular Investments Holdings BV (MSICIBV) satisfied in specie by the distribution of its shareholding in MSICIBV. This arose out of the demerger described in note 12. No dividend was declared in 1997.

Notes to accounts (continued)

10 Intangible assets

Group	Goodwill \$'000
Cost	
At 1 January 1998	4,077
Transfer to other investments and loans	(4,077)
At 31 December 1998	-
Amortisation	
At 1 January 1998	3,034
Transfer to other investments and loans	(3,034)
At 31 December 1998	-
Net book value	
At 1 January 1998	1,043
At 31 December 1998	-

Goodwill with a net book value of \$1,043,000 as at 31 December 1997 was in relation to CelTel Limited (part of Cellular Investments ("CI")).

The Company had no intangible assets during 1998 or 1997.

Notes to accounts (continued)

11 Tangible assets

	Group			Total \$'000
	Leasehold properties \$'000	Computer equipment \$'000	Other equipment \$'000	
Cost				
At 1 January 1998	872	15,083	2,539	18,494
Foreign exchange adjustment	79	(45)	(175)	(141)
Additions	326	2,899	351	3,576
Disposals	(72)	(58)	(32)	(162)
At 31 December 1998	1,205	17,879	2,683	21,767
Depreciation				
At 1 January 1998	480	7,823	1,365	9,668
Foreign exchange adjustment	3	13	(51)	(35)
Charge for year	224	3,233	453	3,910
Disposals	(11)	(20)	(17)	(48)
At 31 December 1998	696	11,049	1,750	13,495
Net book value				
At 1 January 1998	392	7,260	1,174	8,826
At 31 December 1998	509	6,830	933	8,272

The exchange adjustment arises as a result of revaluing cost and depreciation brought forward at the closing rate as at 31 December 1998.

Included in the above are assets held under finance leases with a net book value of \$1,128,000 (1997 – \$1,947,000).

The Company had no tangible fixed assets during either 1998 or 1997.

12 Fixed asset investments

	Group		Company	
	1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000
Subsidiary undertakings	-	-	485	481
Associates	-	2,158	-	-
Other investments and loans	7,245	3,717	-	-
	7,245	5,875	485	481

Notes to accounts (continued)

12 Investments (continued)

Subsidiary undertakings

The parent company and the group have investments in the following subsidiary undertakings. To avoid a statement of excessive length, details of investments which are not significant have been omitted

	Country of incorporation or principal business address	Holding type	%
Metapath Software International Limited *	England	Ordinary	100.0%
Metapath Software International (Dallas), Inc.	U.S.A.	Ordinary	99.8%
Mobile Systems (UK) Limited	England	Ordinary	100.0%
Metapath Software International AB	Sweden	Ordinary	100.0%
Metapath Software International (Singapore) Pte Limited	Singapore	Ordinary	100.0%
Metapath Software International Brasil Ltda	Brazil	Ordinary	100.0%
Metapath Software International (Hong Kong) Limited	Hong Kong	Ordinary	56.7%
Metapath Software International (India) Private Limited	India	Ordinary	80.0%
Metapath Software International (France) SA	France	Ordinary	100.0%
Metapath Software International (Australia) Pty Limited	Australia	Ordinary	100.0%

* held directly by the company

	Company \$'000
Cost	
At 1 January 1998	481
Exchange movement	4
At 31 December 1998	<u>485</u>
Amounts written off	
At 1 January 1998 and 31 December 1998	<u>-</u>
Net book value	<u>485</u>

During 1998, the Group disposed of its investment of 60% of the capital stock of IDS to its minority shareholders.

In conjunction with this sale of shares, the Company acquired the intellectual property rights that related to the business. The loss on the disposal of the investment was \$3,546,000. A provision of \$3,463,000 was made in the 1997 accounts and included as a non-recurring item. The difference of \$83,000 has been included in the consolidated profit and loss account as the loss on disposal of discontinued operations.

Notes to accounts (continued)

12 Investments (continued)

<i>Associates</i>	Group \$'000
Cost	
At 1 January 1998	2,158
Transfer to other investments and loans	(2,158)
At 31 December 1998	<u>-</u>
Amounts written off	
At 1 January 1998 and 31 December 1998	<u>-</u>
Net book value	<u>-</u>

Since the demerger of CI was completed, the Group now holds an investment in redeemable voting preference stock of CI. Redemption occurs on the earlier of CI's sale of one of its investments, CI being sold, listing on a recognised stock exchange, CI raising in excess of \$50m of debt or equity, or March 2004.

The Company had no associated undertakings in 1998 or 1997.

Other investments

	Group \$'000
Cost	
At 1 January 1998	3,717
Transfer from associates	2,158
Foreign exchange adjustments	327
Portion of CelTel investment previously disclosed as goodwill	1,043
At 31 December 1998	<u>7,245</u>
Amounts written off	
At 1 January 1998 and 31 December 1998	<u>-</u>
Net book value	<u>7,245</u>

The Group also has a 5% interest in the ordinary share capital of Unisite Inc., a company incorporated in the USA. The value of other investments comprises redeemable voting preference stock in CI \$6,563,000, and the investment in Unisite of \$682,000.

Notes to accounts (continued)

13 Stocks

	Group	
	1998	1997
	\$'000	\$'000
Hardware for resale	176	580
Other	7	372
	<u>183</u>	<u>952</u>

The Company had no stock in either 1998 or 1997.

14 Debtors

	Group		Company	
	1998	1997	1998	1997
	\$'000	\$'000	\$'000	\$'000
Trade debtors	18,858	19,902	-	-
Amounts owed by fellow subsidiary undertakings	1,606	-	21,298	8,526
Amounts owed by associated undertakings	800	800	-	-
Accrued income	1,899	1,574	-	-
Notes receivable	1,430	751	-	-
Prepayments and other debtors	2,919	1,863	-	-
	<u>27,512</u>	<u>24,890</u>	<u>21,298</u>	<u>8,526</u>

15 Cash at bank and in hand

A subsidiary of the Company, Metapath Software International Limited holds cash amounting to \$3.6 million on behalf of CI. This is treated as cash held in trust for CI.

16 Creditors: Amounts falling due within one year

	Group		Company	
	1998	1997	1998	1997
	\$'000	\$'000	\$'000	\$'000
Bank loans and overdrafts	-	2,966	-	-
Loans payable	-	10,000	-	-
Trade creditors	15,249	7,599	-	-
Deferred consideration payable	-	1,917	-	-
Corporation tax	1,161	2,728	-	25
Other taxes and social security costs	1,297	1,135	-	-
Other creditors	289	1,530	44	-
Finance lease obligations	858	1,052	-	-
Accruals and deferred income	10,626	8,843	13	38
	<u>29,480</u>	<u>37,770</u>	<u>57</u>	<u>63</u>

Notes to accounts (continued)

16 Creditors: Amounts falling due within one year (continued)

A subsidiary of the Company, Metapath Software International Limited, has a composite overdraft and terminable indemnity facility with National Westminster Bank. Under the terms of the facility, Metapath Software International Limited has a £1.0 million (\$1.6 million) line of credit which bears interest at the bank's base rate plus 2% and is secured by all of the assets of the subsidiary. While the subsidiary may repay all or a portion of the borrowings at any time, any outstanding principal must be repaid in full on demand by the bank. Interest is payable quarterly.

17 Creditors: Amounts falling due after more than one year

	Group	
	1998	1997
	\$'000	\$'000
Finance lease obligations	189	1,057

The Company had no creditors due after more than one year in either 1998 or 1997,

18 Provisions for liabilities and charges

	Group		
	Deferred taxes \$'000	Other \$'000	Total \$'000
At 1 January 1998	-	731	731
Charged (credited) to profit and loss account	93	(731)	(638)
At 31 December 1998	93	-	93

Deferred taxation relates primarily to a timing difference on accelerated capital allowances. The change in Other relates to a provision for permanent diminution relating to the sale of an investment (IDS) at a loss (see note 12).

The Company had no provisions for liabilities and charges in either 1998 or 1997.

19 Called-up equity share capital

	1998	1997
	\$'000	\$'000
<i>Authorised</i>		
17,000,000 (1997: 15,000,000) ordinary shares of £0.025 each	705	595
<i>Allotted, called-up and fully paid</i>		
14,180,394 (1997: 12,040,000) ordinary shares of £0.025 each	588	468

On 26 March 1998 the Company issued 2,000,000 ordinary shares for cash consideration of \$12,000,000 in order to provide further working capital. During the year the Company issued 140,394 ordinary shares as a result of the exercise of share options. The remaining movement related to foreign exchange.

Notes to accounts (continued)

20 Reserves

	Share premium account \$'000	Other reserves \$'000	Profit & loss account \$'000	Total \$'000
Group				
At 1 January 1998	7,594	875	4,895	13,364
Shares issued	11,922	-	-	11,922
Retained profit for the year	-	-	184	184
Foreign exchange adjustments	788	-	435	1,223
Foreign exchange reserve transfers	446	-	(473)	(27)
At 31 December 1998	<u>20,750</u>	<u>875</u>	<u>5,041</u>	<u>26,666</u>
Company				
At 1 January 1998	7,594	-	882	8,476
New shares issued	11,922	-	-	11,922
Retained loss for the year	-	-	(10)	(10)
Foreign exchange adjustments	788	-	3	791
Foreign exchange reserve transfers	446	-	(473)	(27)
At 31 December 1998	<u>20,750</u>	<u>-</u>	<u>402</u>	<u>21,152</u>

The Company has not presented its own profit and loss account as permitted by Section 230 of the Companies Act 1985. The amount of the retained loss for the financial year reflected in the accounts is \$10,000 (1997 – \$71,000 loss).

21 Reconciliation of movements in group shareholders' funds

	1998 \$'000	1997 \$'000
Profit (loss) for the financial year	246	(10,358)
Other recognised gains and losses relating to the year (net)	435	(220)
	<u>681</u>	<u>(10,578)</u>
Dividends paid and proposed	(62)	-
New shares issued	12,006	-
Foreign exchange adjustments on share capital and share premium account	797	-
Cancellation of shares at merger	(557)	-
Re-issue of shares to Metapath Software International, Inc.	557	-
Net addition (reduction) to shareholders' funds	<u>13,422</u>	<u>(10,578)</u>
Opening shareholders' funds	13,832	24,410
Closing shareholders' funds	<u>27,254</u>	<u>13,832</u>

Notes to accounts (continued)

22 Related party transactions

During 1998 the Group traded, in the normal course of business, with its demerged business unit CI, subsequently known as MSICIBV. The Group made sales of \$620,000 to MSICIBV between April and December 1998. At the year end the amount due from MSICIBV in respect of trading balances totalled \$267,000.

The Group also administered the payroll and expense claims of CI employees. All such costs are recharged to MSICIBV. The amount outstanding in this respect at the year end totalled \$245,000.

23 Minority interests

	\$'000
At 1 January 1998	451
Profit on ordinary activities after taxation	141
Acquisition of minority interest	(86)
Disposal of subsidiary undertakings	(338)
At 31 December 1998	<u>168</u>

24 Analysis of cash flows

	1998 \$'000	1997 \$'000
<i>Reconciliation of operating profit (loss) to operating cashflows</i>		
Operating profit (loss)	1,827	(5,916)
Depreciation and amortisation	3,910	5,025
Loss on disposal of fixed assets	-	233
Change in stock	769	473
Change in debtors	(2,622)	(5,448)
Change in creditors	6,437	5,952
Change in provisions	(638)	675
	<u>9,683</u>	<u>994</u>
<i>Returns on investments and servicing of finance</i>		
Interest paid	(466)	(477)
Interest received	1,051	372
Finance lease interest paid	(122)	(172)
	<u>463</u>	<u>(277)</u>
<i>Capital expenditure and financial investment</i>		
Purchase of tangible fixed assets	(3,307)	(4,971)
Purchase of other investments	-	(272)
	<u>(3,307)</u>	<u>(5,243)</u>

Notes to accounts (continued)

24 Analysis of cash flows

	1998 \$'000	1997 \$'000
<i>Acquisitions and disposals</i>		
Purchase of subsidiary	-	(1,424)
	<u>-</u>	<u>(1,424)</u>
<i>Financing</i>		
Issue of share capital	12,006	-
Repayment of capital element of finance leases	(1,062)	(608)
Note payable repayments	-	(296)
Loan (repayments) proceeds	(10,000)	10,000
	<u>944</u>	<u>9,096</u>

25 Reconciliation of net cash flow to movement in net debt

	1998 \$'000	1997 \$'000
Increase in cash	4,683	2,307
Repayment of capital element of finance leases	1,062	608
New finance leases	-	(1,276)
Loans payable	10,000	(10,000)
	<u>15,745</u>	<u>(8,361)</u>
Movement in net debt in period		
Net (debt) funds at 1 January 1998	(2,820)	5,541
Net funds (debt) at 31 December 1998	<u>12,925</u>	<u>(2,820)</u>

Analysis of changes in net debt

	At 1 January 1998 \$000	Cash flow \$000	At 31 December 1998 \$000
Cash at bank and in hand	12,255	1,717	13,972
Bank overdrafts	(2,966)	2,966	-
	<u>9,289</u>	<u>4,683</u>	<u>13,972</u>
Loans	(10,000)	10,000	-
Finance leases	(2,109)	1,062	(1,047)
	<u>(2,820)</u>	<u>15,745</u>	<u>12,925</u>

Notes to accounts (continued)

26 Financial commitments

i) Operating leases

Annual commitments under non-cancellable operating are as follows.

Group	1998 \$'000	1997 \$'000
Land and buildings:		
Leases expiring within one year	396	497
Leases which expire within two to five years	687	648
Leases which expire after five years	826	614
	<u>1,909</u>	<u>1,759</u>

The Company held no operating leases during either 1998 or 1997

ii) Finance leases

Group	1998 \$'000	1997 \$'000
Amounts payable		
- within one year	961	1,196
- within two to five years	275	1,106
	<u>1,236</u>	<u>2,302</u>
Finance charges allocated to future periods	(189)	(193)
	<u>1,047</u>	<u>2,109</u>

The Company held no finance leases during either 1998 or 1997.

27 Capital commitments

The Group and Company had no capital commitments at 31 December 1998 (1997 - nil) contracted for but not provided in the financial statements.

28 Pension costs

These costs include a defined contribution pension plan held by a subsidiary of the Company based in the UK. The assets of the plan are held separately from those of the Group in an independently administered fund. Contributions made by the subsidiary and included in the statement of operations amounted to \$398,000 during 1998 (1997 - \$359,000).

A further subsidiary of the Company based in the US has a contributory savings plan which qualifies as a deferred salary arrangement under Section 401(k) of the US Internal Revenue Code. This savings plan allows eligible employees to contribute up to 15% of their salary to the plan. The plan requires the subsidiary to make contributions equal to 100% of employee contributions, up to 5% of employee compensation. The charge to operations for the subsidiary's matching contribution amounted to \$320,000 during 1998 (1997 - \$402,000).

Notes to accounts (continued)

29 Contingent liabilities and commitments

The Company has indemnified the partners of General Atlantic for any tax liability incurred by them (subject to a limit of \$4.7 million) arising from the disposal by the Cellular Investments business of the Company of any of its telecommunications investments. No amounts relating to this contingent liability have been provided as at 31 December 1998.

A group company, Metapath Software International Limited, has been assessed to Indian tax and interest on income arising in India for the periods up to 31 March 1998. The maximum liability that could arise is established to be \$584,000. The group believe that they will not be liable for the amount on the basis that the company did not have a taxable presence in India at that time. Accordingly, no amounts relating to this contingent liability have been provided as at 31 December 1998.

30 Subsequent events

On 20 April 2000, it was announced that the entire issued share capital of the company's parent, Metapath Software International, Inc. is to be acquired by Marconi plc.

31 Ultimate controlling party

The directors regard Metapath Software International, Inc., a company incorporated in the United States of America, as the ultimate parent company and the ultimate controlling party.

Metapath Software International, Inc., is the parent company of the smallest and largest group of which the company is a member and for which group accounts are drawn up. Copies of the accounts are available from 2nd Floor, Strand Bridge House, 138 – 142 Strand, London WC2R 1HH.

As a subsidiary undertaking of Metapath Software International, Inc, the company has taken advantage of the exemption in FRS 8 from disclosing transactions with other members of the group headed by Metapath Software International, Inc..