GEC Annual Report and Accounts 1999

Lord Simpson *Chief Executive*

Our future…

…will be digital. We will lead the race to capture, manage and communicate information. We will ride the rising tide of demand for data transmission. We will be a leading global player in communications and IT. And, we will do all this because:

June 1998

Alstom is successfully floated on the stock exchanges of Paris (its primary listing), London and New York. The shares issued as part of the global offering are valued at FF22.4 billion and Alstom's market capitalisation is more than FF43 billion.

we act

April 1998

GEC announces it has entered into a definitive agreement to acquire Tracor for US$1.4 billion. The transaction is completed in June and Tracor along with Marconi Electronic Systems' other North American businesses are brought together to form the Marconi North America Group, a leading international defence electronics business.

August 1998

GEC completes the acquisition of Siemens' minority stake in GPT for a net cost of £610 million. GPT, a world leader in Synchronous Digital Hierarchy (SDH) technology, is combined with Marconi SpA of Italy to create a major new force in the fast growing global telecommunications industry – Marconi Communications.

January 1999

GEC and British Aerospace announce they have reached agreement which will create a major focused communications and technology company and a merged global aerospace and defence company.

April 1999

GEC announces it has entered into an agreement to acquire FORE Systems for US$4.5 billion. The acquisition boosts Marconi Communications' considerable technology base extending its portfolio into Asynchronous Transfer Mode, Gigabit Ethernet and Internet Protocol switching and enabling it to provide a comprehensive range of integrated solutions to accommodate the rapid growth of high speed data, voice and video services.

fast

March 1999

GEC enters into a definitive agreement for the acquisition of RELTEC for US$2.1 billion. The transaction is completed in April and RELTEC, a leader in telecommunication network and access products, becomes part of Marconi Communications augmenting its product offering and enhancing its North American market base.

United Kingdom

GEC's businesses in the UK produce some £3,680 million in sales and generate profits of nearly £530 million. The Group has some £580 million in net assets located in the UK. The UK is the destination of some £2,550 million of GEC's total sales.

we are

The Americas

An increasingly important region for GEC going forward. GEC's companies operating in the Americas are already the source of over £2,360 million in sales and recent major acquisitions in the US now make North America a key focus for our telecommunications growth strategy.

Rest of Europe

Outside of the UK, GEC has an important operating base in Europe – particularly in Italy. Group companies in the Rest of Europe have net assets of around £290 million and produce more than £90 million in profits from sales of nearly £1,220 million. More than £1,775 million of GEC's total sales go into the Rest of Europe.

global

Africa, Asia and Australasia

With a turnover of nearly £370 million, GEC operations based in Africa, Asia and Australasia are responsible for generating approximately £40 million in profits for the Group. £900 million of GEC's total sales are into Africa, Asia and Australasia.

Number 1 in SDH

Marconi Communications is the world leader in Synchronous Digital Hierarchy (SDH) transmission networks and has one third of the globe's SDH installed base. With a significant installed base and access to FORE's leading ATM and IP technology the company can provide its customers with multi-service solutions and high value-added support.

we are

World leading medical imaging systems

Picker International leads the world in the design and manufacture of ultra-fast multislice computed tomography (CT) scanners – the company's MX 8000 is 8 times quicker than any other product on the market. The company is a proven innovator in medical diagnostic imaging, has the world's largest radiological support businesses and is at the forefront of the rapidly evolving healthcare information systems market.

Market leader in coding systems

Videojet is the world's largest manufacturer of ink-jet coding systems for industrial components and mass-produced consumer goods. With long-standing expertise in the management of relational databases, the provision of code application and supplying reading and data tracking systems, the company provides over 1 trillion data codes annually.

leaders

Foremost provider of petroleum retail equipment and systems

Gilbarco is the world's leading forecourt petroleum retail equipment provider. The company is also the world's number one supplier of car-mounted and hand held transponders which utilise data encryption to replace credit cards. A leading supplier of software solutions for forecourt retail equipment, Gilbarco is a proven innovator with a significant patent portfolio. The company processes more than 300 million credit transactions annually for Visa alone.

To exploit the opportunities we see ahead we have re-organised into three key divisions:

Communications

The focus for the Group's activities in the provision of telecommunications and intelligent networking equipment and solutions. The division has a major presence in the UK, Italy and the US. Marconi Communications is a significant force in the provision of broadband capacity access to the 'Information Superhighway' to both business and home users.

Optical Networks » Access Products » Support Services » Secure Communications » Fibre Optic Cables

Systems

Three profitable and growing companies which have strong market positions, leading technology and established installed bases with global customers. Based in and managed from the US, the businesses are linked by a common technological capability in the collection, management and communication of digital information.

Medical Systems (Picker International) » Commerce Systems (Gilbarco) » Data Systems (Videojet)

Capital

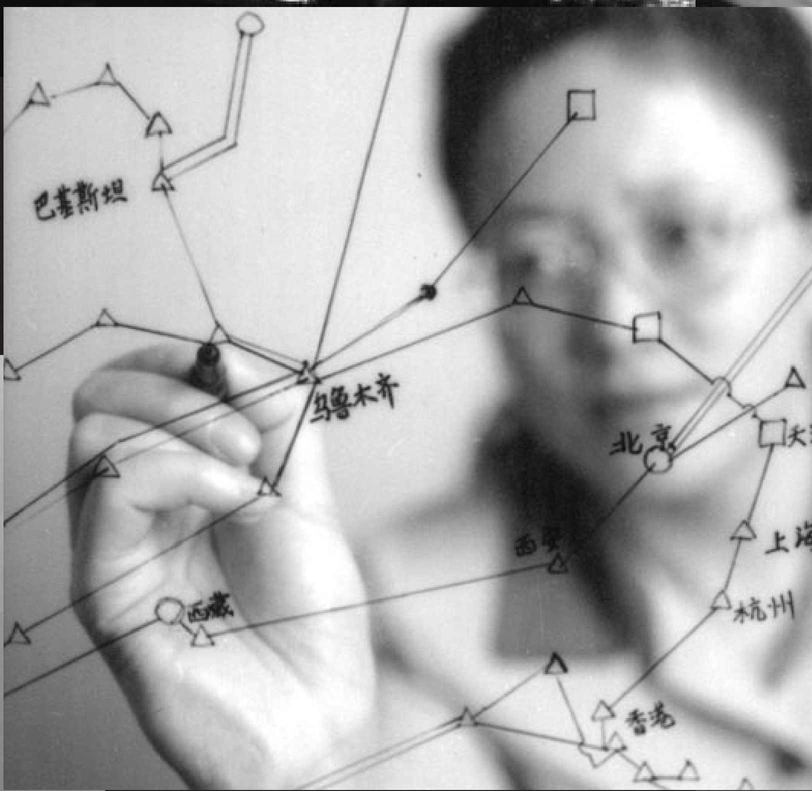
Brings together a number of existing mature companies – involved in markets as diverse as domestic white goods, weighing technology, software systems and air movement systems – and provides a 'seed bed' enabling the Group to develop high technology start-up businesses with the potential to drive longer term growth. GEC Capital also holds the Group's financial investments in other ventures including Alstom and Comstar.

GDA » Avery Berkel » Woods » EEV » EASAMS » Fibreway » Comstar » Payphones » Property

Positioned for growth in the fastest growing sections of the telecoms market

Communications

Mike Parton Divisional Chief Executive



One organisation – one culture

Marconi Communications

A global manufacturer of intelligent communications systems, Marconi Communications brings together the previously separate organisations of GPT, Marconi SpA, RELTEC Corporation and other selected GEC businesses to create a company with manufacturing and research facilities in the UK, Italy and the US and ventures in many other countries including China, South Africa and Malaysia.

Marconi Communications' SDH technology has captured one-third of the total market, including the two largest networks in the world – in Australia and the People's Republic of China. Other countries upgrading their networks with Marconi equipment include France, Holland, Belgium and more than 80 per cent of UK operators.

In North America, as well as elsewhere, Marconi Communications has a strong position in the high growth access market with significant deployment of innovative fibre in loop solutions. Marconi Communications is also a leader in the supply and servicing of outside plant and power systems used in fixed line and wireless base stations by telecommunication companies.

As a leading systems integrator, Marconi Communications handles turnkey projects through which it designs, installs, commissions and supports networks which include not only its own equipment, but that of other manufacturers.

Total turnover exceeds £1.8 billion

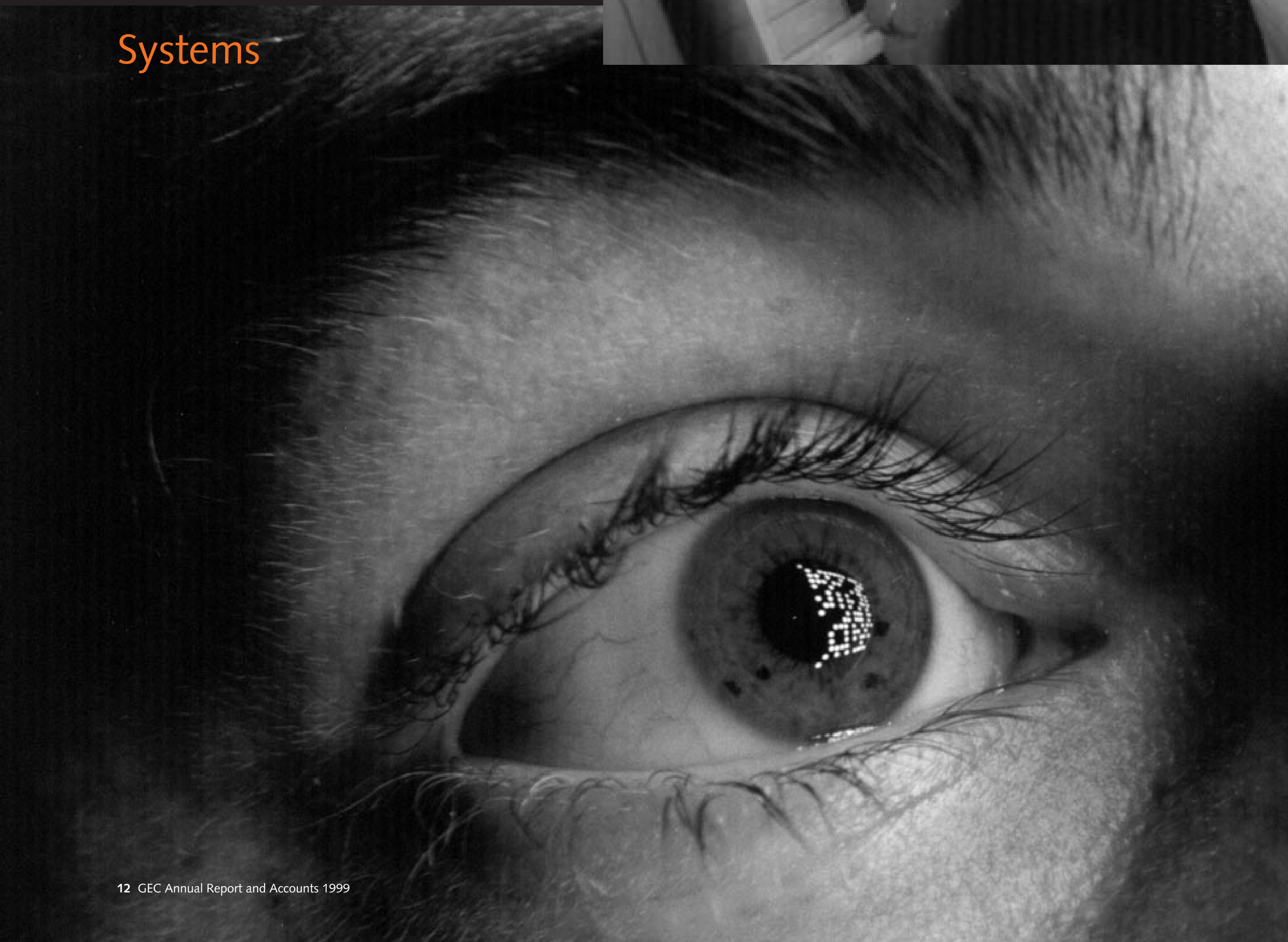
Successfully moved its switching business from narrowband to broadband

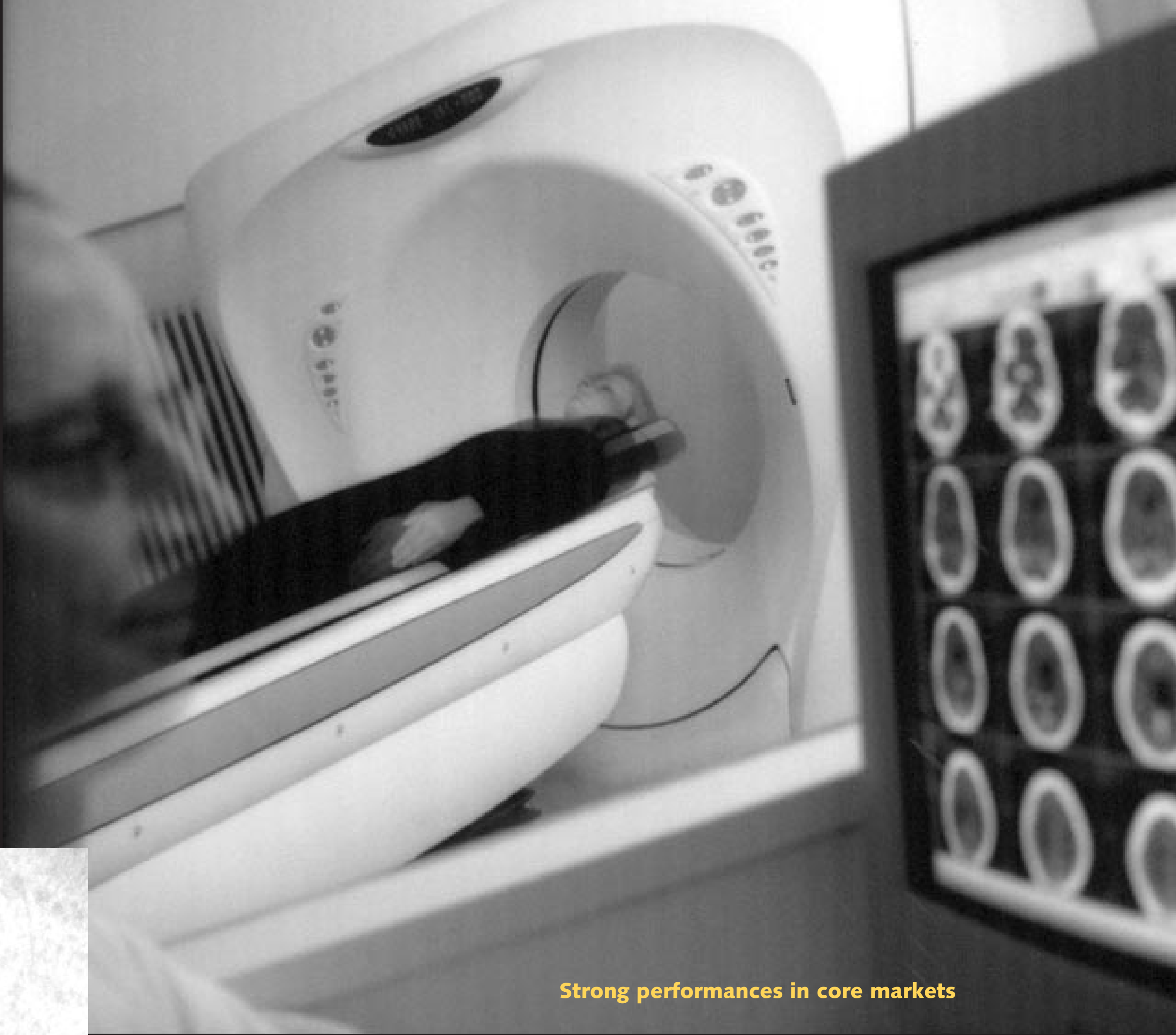
Mike Donovan *Divisional Chief Executive*

A solid platform for growth

Total turnover of more than £1.5 billion

Systems





Strong performances in core markets

Moving towards a software, systems and service-oriented future

Picker

A world leader in medical imaging, specialising in magnetic resonance, nuclear medicine and computed tomography technologies with a significant international installed base. The company is focusing on developing opportunities it sees in the provision of radiology support and in meeting the growing demand for healthcare information systems which capture, store and manage patient information.

Gilbarco

The world's leading supplier of petroleum retailing equipment and systems. The company is leveraging its expertise in complex retail systems and investing strongly in both hardware and software development to expand its product and service offering to its existing customer base to new customers outside the US and to customers active in adjacent retail markets.

Videojet

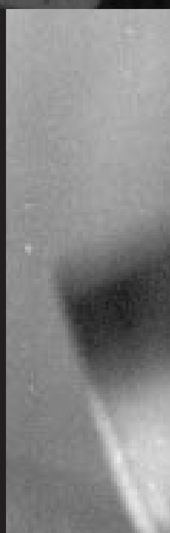
Customers include the automotive, aviation, tobacco, beverage, pharmaceutical and electronics industries. The company is exploiting its leading technologies in primary (product) and secondary (packaging) coding to develop new business opportunities in markets which are being driven by the increasing need for tracking, process monitoring and control. The company is particularly active in developing applications enabled by its new fluid technology.

Total sales in excess of £770 million

Capital

GEC's 'seed bed' for the development of future high technology businesses

Eamon Bradley *Divisional Managing Director*



New management team in place

GDA

Designs, manufactures and services a wide range of general domestic appliances including: gas and electric cookers; washing machines; spin and tumble dryers; water heaters; electric showers; refrigerators and gas fires under such leading brand names as Hotpoint, Creda, Cannon, Redring and Xpelair.

Avery Berkel

Manufactures and supplies weighing equipment for every sector of industry and commerce. The company is focusing on the provision of weighing systems as a central data resource for business by the provision of integrated products offering advanced data capture and analysis to aid management of product information, customer orders, special offers and queue management.

Woods Air Movement

A world leader in the design, development and manufacture of fans and air moving equipment. Based in the US and the UK, it has expertise in CAD, computational dynamics, solid modelling and finite element analysis.

EEV

Supplies advanced, high value adding RF/Microwave and specialist imaging components to world leading original equipment manufacturers. By addressing the needs of a broad range of market applications, the company has achieved top 3 position in its key sectors.

EASAMS

A leading UK software systems business with proven expertise in the provision of real-time development, electronic data interchange, database development, commercial off-the-shelf applications and networking solutions.

Fibreway

Building a 1,300 kilometre optical fibre-based network alongside Britain's canals to meet the growing demand from network operators. The network, when completed, will link major centres in England and Scotland.

Comstar

A joint venture with the Moscow Telephone Authority.

Payphones

A major supplier of managed payphone networks into over 85 countries.

Property

Marconi Property, a new company formed to manage GEC's property portfolio.

Maximising shareholder value in businesses that compete in mature markets

Marconi Electronic Systems

Marconi Electronic Systems (MES), is currently the subject of an agreement in which it is proposed that it be separated from GEC and merged with British Aerospace. The arrangement requires regulatory and shareholder approval.

A leading international avionics and defence electronics group, MES has a turnover in excess of £3,530 million and generates operating profits of more than £430 million. The group's main business activities are:

Avionics

Contractor for advanced airborne radar systems and mission avionics on military projects including Eurofighter and civil customers including Boeing and American Airlines.

North America

The sixth largest defence electronics contractor in the USA – providing electronic and aerospace systems for defence and civil applications on a wide range of air, land and sea platforms.

Naval Systems

One of the world's leading naval and commercial shipbuilding businesses. Current major contracts include orders from British Royal Navy and Royal Malaysian Navy.

Alenia Marconi Systems

A leading supplier of land-based and naval radar systems, command and control systems, simulation and training systems, missile systems and air traffic control.

Matra Marconi Space

Europe's leading space technology company designs, develops and manufactures commercial and military communication satellites, space infrastructure and launch systems.

Thomson Marconi Sonar

A world leading specialist for submarine and surface ship sonars and mine warfare systems.

Our record…

Chairman's Statement

I am delighted to have been appointed Chairman of this great Company at a defining moment in its history. We are shifting the strategic direction of the Company into new markets, new technologies and new ways of working. We are introducing new people. We are buying new businesses and disposing of others which fit less well with our future plans.

Sir Roger Hurn

My predecessor, Lord Prior, retired from the Board in September and it is my privilege to pay tribute to his role in laying the foundations for the new GEC. Throughout his fourteen years as Chairman, he was a tireless ambassador on behalf of the Company and won many friends in markets at home and abroad. On behalf of all my Board colleagues, I would like to thank him for his hard work and dedication to the GEC cause.

Strong financial performance

For me, it is a personal challenge to oversee the transformation of the Company, but a challenge that holds out the prospect of great rewards for our shareholders. My senior colleagues and I are determined never to lose sight of the key targets of delivering growth and increasing shareholder value.

In looking back over the financial year, I am pleased to report that the far-reaching changes we have put in place have been carried out without interrupting the Company's continued financial and operational success.

Turnover excluding associates was £7,625 million, an increase of 6 per cent over last year. Group and joint venture operating profit before exceptional items and goodwill amortisation also grew by 20 per cent and a final dividend for the year of 8.8 pence per share has been recommended by the Directors. Together with the interim dividend of 4.2 pence per share, this gives a total dividend for 1998/99 of 13.0 pence per share, an increase of 13.7 per cent, year on year.

GEC's people

When I arrived at GEC, I found a strong management team in place, led by George Simpson as Chief Executive. They have proved their worth to the Company in the bold moves they have initiated over the past few months and I am confident they will continue this purposeful performance in the year ahead.

I am committed to enhancing GEC's communications with its employees and to ensuring that they participate in the success of the Company. The changes which are underway in GEC can only be successfully completed with the full support of all its people. I have been impressed by the energy and enthusiasm of staff at all levels and I would like to thank them all for the determination to succeed that they have shown.

Changes to the Board

In October, Rob Meakin, GEC's Personnel Director, joined the Board and in December, Sir Charles Masefield joined as Vice-Chairman and Director of Marketing.

I would like to offer my thanks to Jim Cronin who stepped down from the Board in July following the flotation of Alstom.

Ron Artus, who joined the Board in 1990 as a non-executive Director, will retire at this year's AGM. On behalf of the Board I would like to thank him sincerely for his contribution to our deliberations and particularly for his diligent Chairmanship of the Audit Committee.

It is intended that, following the planned separation of Marconi Electronic Systems and subsequent merger of that company with BAe, Peter Gershon, Michael Lester and Sir Charles Masefield will resign from the Board of GEC and join the board of BAe.

GEC's future

The restructuring of GEC is now well advanced and we have moved decisively into new and exciting markets. Further details of these changes can be found in the Chief Executive's Review on page 18.

The management of this Company is committed to capitalising on the new structures we have put in place and to delivering value from the acquisitions we have made. The exponential growth in data transmission requirements across the world is an outstanding business opportunity with great potential for delivering shareholder value. I firmly believe that we will make the most of this opportunity in the years ahead.

Sir Roger Hurn *Chairman*

Chief Executive's Review

1998/99 was a significant year for GEC. I believe future historians will see it as the turning point in the modern development of our Company. It was a year of intense activity, during which the substantial joint venture bias in the Company was eliminated, our role in the global defence industry was clarified and our future as a high technology, high growth player in the communications and information technology market was reinforced by major acquisitions in the United States. All of this far-reaching transformation was achieved without any major dislocation and on the back of sharply improving financial and operational performance.

Lord Simpson

Strategic developments

The successful flotation of Alstom in June and the purchase of Siemens' 40 per cent stake in GPT in August not only dramatically reduced GEC's dependence on joint ventures, but also played a major part in our strategy to refocus the Group's activities. The Siemens transaction was vitally important in one other respect – it provided the opportunity to integrate the telecommunications activities of GPT and Marconi SpA which had hitherto been separately managed and had competed with each other. This has enabled us to generate significant integration-based cost savings, to reallocate previously duplicated product development resources and to access markets previously unavailable under the old joint venture arrangements. Although some of these benefits are reflected in Marconi Communications' 1998/99 performance, the major benefits will come in later years as new products reach the marketplace.

In the defence sector, 1998/99 saw the acquisition of Tracor, the US defence electronics manufacturer, and we completed our European strategic alliance with the Italian defence company, Alenia Difesa. Both these transactions provided Marconi Electronic Systems with important extensions to their technological and market reach.

Although these moves built on Marconi Electronic Systems' world-class position in many of its products and technologies and on its improving financial performance, it became clear at the beginning of the year that further consolidation in the global defence industry was inevitable and that MES had to become part of a larger entity to ensure its long-term competitiveness and success. Following discussion with almost all of the world's major defence companies, we acted decisively to gain 'first mover' advantage and ensure control of the transaction process.

This approach generated a number of possible alternatives. Your Board decided that a separation of our defence interests followed by their merger with BAe was the best way forward for GEC's shareholders and the business in question. This transaction, when completed, will create a strong British defence company capable of competing on the global stage and in a strong strategic position to lead the next, inevitable stage in global consolidation. At the same time, the transaction takes GEC nearer to its strategic objective of becoming a high technology company focused on the long-term growth sectors of communications and information technology. This transaction still requires regulatory and shareholder approval.

Having potentially resolved our defence 'dichotomy', the senior management team concentrated in the latter half of the year on building on the successful creation of Marconi Communications. It was clear that if we were to compete at the highest level there was a strategic imperative for us to exploit the opportunities presented by the 'data wave' on one hand and the fast growing US telecoms market on the other. This led to us making, firstly, the RELTEC acquisition, which was completed in April, 1999 and, secondly, the acquisition of FORE Systems in June, 1999.

RELTEC, a leading US provider of access technology was acquired at a cost of US$2.1 billion. As well as greatly strengthening our product portfolio it gave us an entry to the US market with a number 3 position in the fast growing access segment. RELTEC's highly respected management team has settled well into the enlarged Marconi Communications business.

	1999 £ million	1998 £ million
Turnover	7,625	7,165
Group and joint venture operating profit before exceptional items and goodwill amortisation	940	783
Return on sales (per cent)	12.3	10.9
Earnings per share before exceptional items and goodwill amortisation	27.1p	23.8p
Dividends per share	13.0p	11.43p

The US$4.5 billion acquisition of FORE Systems adds the vital broadband switching element to our technology portfolio and allows us to participate fully in the fast growing data networking market. FORE bring both ATM switching and IP capability to GEC as well as further strengthening our US market position and providing access to the large enterprise market. FORE will work closely with Marconi Communications to enhance the positions of both businesses in the carrier market, through technology exchange and cross selling. RELTEC and FORE bring direct access to many of the major telecoms operators in the US.

GEC now has the technological toolkit and the geographical presence to take advantage of the explosive growth expected in data communications as the use of the Internet becomes a way of life for an increasing number of people.

The rest of GEC has been re-organised into two new divisions: Marconi Systems and GEC Capital, under a new Divisional Chief Executive, Mike Donovan, recruited in October 1998. Marconi Systems comprises three increasingly information-technology based businesses – Picker, Videojet and Gilbarco.

The Marconi Systems companies continue to be successful in their traditional domains of medical imaging equipment, ink-jet marking technology and fuel dispensing systems, but a whole new vista of opportunity is opening up for them as they move into the large adjacent data management markets where growth is expected to be fastest. For Picker, these opportunities lie in the field of health care information systems. For Videojet, the opportunities lie in the field of automatic data capture and for Gilbarco they lie in the deployment of their expertise in complex retail systems to fast developing commercial opportunities. All of these companies are seeing an increasing part of their turnover arising from their software, systems and service activities. All of the Marconi Systems companies completed important acquisitions last year as they continued to grow their businesses.

GEC Capital houses a blend of mature and profitable businesses, which do not operate in our core high growth telecommunications and IT markets, as well as exciting new start-up opportunities which may have the potential to drive longer term growth and may develop into strong businesses in their own right.

Group performance

The clear message from this set of accounts is that the underlying operational performance continues to improve and that our strategy to transform and reposition the Group is working.

The Group finished the year with an outstanding order book ahead of last year's record level, a 6 per cent increase in turnover to £7.6 billion, a 20 per cent increase in Group and joint venture operating profit before exceptional items and goodwill amortisation to £940 million and a 14 per cent rise in earnings per share to 27.1 pence. Perhaps the most telling aspect of 1998/99's performance was the increase in operating margins from 10.9 per cent last year to 12.3 per cent this year despite an increase in R&D expenditure of 11 per cent. These results have enabled the Company to raise its dividend in line with its stated policy of tracking earnings development.

The year's reduction in cash of £700 million was very much a function of our corporate activity with our share repurchase (£310 million) and the net outflows on acquisitions and disposals (£808 million) more than accounting for this amount.

Communications – Turnover £ million

Communications – Operating profit (before exceptional items and goodwill amortisation) £ million

Although post balance sheet acquisition activity will see GEC move into a net debt position, we will maintain financial flexibility to continue to invest in the profitable growth of our business.

Group headcount changed dramatically during the year from an average of 126,000 in 1997/98 to an average this year of 84,000 – a reduction of almost exactly one third. This large movement is mainly accounted for by the loss of some 45,000 employees as a result of the Alstom flotation, partially offset by around 5,000 additional employees arising from our acquisition activity. The completion of our proposed transaction with BAe will herald another major downward shift in the number of people employed in the Group.

Divisional performance

Communications

This new division was formed during the year, following the purchase of the 40 per cent share of GPT owned by Siemens. It initially combined GPT in the UK, Marconi SpA in Italy, ATC in South Africa and GEC Hong Kong to form a single communications company focused specifically on the carrier market. The exercise to integrate these businesses is now largely complete, not only providing significant financial benefits but also creating a stronger product portfolio, improved routes to market and an enhanced research and development capability.

On 9th April, 1999, this new division's technological and geographical footprint was extended when GEC completed the acquisition of RELTEC. RELTEC improves Marconi Communications' technical and product capabilities in the access area – the 'last mile' that connects the consumer to the communications network. It also, importantly, enabled our entry to the large US telecoms market through its established blue chip customer base and extensive national sales and service network. The US market is the largest in the world, accounting for more than half of the world's telecom equipment sales and hitherto had not been addressed by Marconi Communications.

The optical network business within Marconi Communications had another exceptional year, consolidating its position as the world number one in Synchronous Digital Hierarchy (SDH) by outperforming the market and increasing market share. Sales of optical transmission equipment increased by 20 per cent over last year, reaching almost £700 million. During the year major contract wins were achieved in the UK, Italy, France, Spain, Australia, China and South America. During the year the company started shipping optical line systems and optical multiplexers to customers.

The access business within Marconi Communications had a flat year in terms of orders and sales as our narrowband switching products were wound down, reflecting the decline in the market for this kind of technology. This decline was, however, offset by new products coming on stream and the business is now expected to grow strongly. 1998/99 saw Marconi Communications complete the transition from its legacy position as a narrowband switching company to one capable of providing the technology needed to build the networks of the future. Sales of this type of equipment increased to almost £400 million during the year. This growth will, of course, be substantially enhanced in 1999/00 by the impact of the RELTEC acquisition.

The UK support services business within Marconi

Broadband infrastructure

Data transmission is now the lifeblood of modern business and the demand for 'bandwidth' in networks is insatiable. Marconi Communications meets that need by designing and supplying the new, managed public networks of the future. These are based on the 'smart' application of broadband technologies such as SDH – where Marconi Communications is already the world leader – and the all-optical WDM (Wavelength Division Multiplexing) systems in the company's SmartPhotonix range.
(see page 10)

Network integration

As voice, data, mobile and broadcast networks converge into the new public and enterprise networks, just having the latest equipment is not enough. For the maximum revenue-generating capability and operating efficiencies, these networks must be designed to operate as an integrated whole and often involves making full use of existing legacy network equipment. Working closely with operators to plan, build and run their networks, Marconi's highly qualified professionals help create world-class networks optimised to meet the needs of their customers.
(see page 10)

Access networks

The promise of the global communications and information infrastructure is only a reality if you can connect to it. Marconi Communications bridges the 'last mile' between customers and the core of the network with an array of flexible access systems – including copper, fibre and wireless access technologies – to deliver local networks that are efficient and resilient. The company's leading management control systems ensure that operators can be confident that their customers have complete access to services, wherever and whenever they want them.
(see page 11)

Communications grew strongly during the year increasing sales by 13 per cent to almost £109 million. An emerging industry trend towards the outsourcing of network operations is set to provide growth impetus for this business. We are already seeing the opportunity to exploit Marconi's large installed base by responding to our customers' increasing requirements for support deeper into their networks.

The secure communications division achieved considerable success in its chosen markets winning key contracts in Bulgaria, Romania, Italy and Brazil. The defence business completed the prototyping of its tactical ATM product and the mobile business moved towards the market introduction of its secure private radio TETRA product in the second quarter of 1999/00.

Our cables businesses had a tough time in 1998/99 as overcapacity and price pressures affected all suppliers. We have decided to close the cable manufacturing business in the UK to concentrate on higher value and international opportunities in the future.

1998/99 was an important year for GEC in the context of its refocusing strategy on telecommunications and information technology. The new management team took the formation of Marconi Communications, the subsequent integration process and the acquisition of RELTEC in their stride. Despite this dislocation, they delivered an 8 per cent increase in sales – compared with GPT's 2 per cent the previous year – and an improvement in margins to almost 16 per cent.

These achievements, the continuing growth prospects for the telecom sector and our proposed acquisition of FORE Systems provide an excellent platform for our vision of GEC as a globally competitive telecommunications player.

Systems

1998/99 saw GEC's Industrial Electronics businesses split into two new organisations – Marconi Systems and GEC Capital. Marconi Systems, based in the US and comprising Picker International, Videojet Systems International and Gilbarco, forms the foundation of our plans to develop an information technology division in GEC as part of our strategic shift to high technology, high growth sectors. These businesses are linked by a common technological capability in the collection, analysis, communication and management of large amounts of digital data and all share a common strategic objective to make the transition from their hardware-based history towards a much more software, systems and service-oriented future. This will mainly be achieved by moving into the large adjacent data management markets surrounding their current, mainly hardware domains of diagnostic medical imaging equipment, industrial and commercial coding and electronic fuel dispensing systems. This journey has already started, with each of these businesses showing an increasing percentage of their turnover from information technology based products and services.

This new grouping starts life with a very strong platform and in 1998/99 delivered strong sales growth of 18 per cent, taking turnover above the £1.5 billion mark and delivered profits some 16 per cent up at £151 million.

Picker International, a world leader in medical imaging systems, enjoyed another good year buoyed by strong demand for CT (Computed Tomography) and MRI (Magnetic Resonance Imaging) systems and imaging supplies, increasing sales by 19 per cent to nearly £900 million and achieving record profits. Acceptance of new Picker products like the

Systems – Turnover £ million

Systems – Operating profit (before exceptional items and goodwill amortisation) £ million

MX 8000, (the world's fastest CT multi slice scanner), PET imaging on variable-angle gamma cameras and a host of new MRI clinical applications delivered new value to customers worldwide.

The completion of the Elscint CT acquisition added significant field strength in sales and service around the world, expanded the Picker CT product portfolio to include the most advanced multi slice product offerings, and doubled the Picker installed base of CT customers globally. Picker continues to make excellent progress, and we believe that there is still considerable scope for improved returns on investment.

Videojet Systems International achieved another year of record sales and profits. This was spurred by a combination of new products, market development, stronger distribution and the integration of Marsh Company, which was acquired towards the end of last year.

The new PrintPro ES advanced technology, high speed array ink-jet imager set new performance standards for addressing and personalising by commercial printers and high volume mailers.

The successful introduction of the LaserPro DM and Triumph coding systems reinforced Videojet's market leadership in marking and coding of products, parts and primary packaging.

The acquisition of Electronic Automation of the UK strengthens Videojet's position as a provider of automated identification solutions.

Gilbarco, the world's largest forecourt petroleum retail equipment and systems provider, celebrated its fifth consecutive year of record results with turnover up 15 per cent to £385 million. With the acquisitions of Tankanlagen Salzkotten, which was acquired towards the end of last year, and Logitron, leading forecourt equipment providers in Germany and Italy respectively, Gilbarco further strengthened its position as the global leader in petroleum equipment and systems technology. Gilbarco, with its partner Comota, entered the Japanese petroleum equipment market – the world's second largest – for the first time this fiscal year. Gilbarco increased investment in new hardware and software development, with R&D spending up 33 per cent from the prior year. Gilbarco's revenue from licensing its own technology to others in the marketplace increased by more than 80 per cent.

Capital

This new division was set up in late 1998/99 and comprises our 50 per cent interest in GDA, our domestic appliance joint venture with GE; Avery Berkel, our weighing technology company; Woods, our air movement systems company; EEV, our microwave and sensing technology company; EASAMS, our software systems company; Fibreway, our optical cable network company; Payphones, a major supplier of managed payphone networks into over 85 countries and Marconi Property, which manages GEC's property assets. These companies generated around £770 million of turnover in 1998/99 – much lower than the previous year, mainly owing to disposals – and generated profits of £78 million. New management has been appointed to manage this group for value. They will also manage GEC's 'seed-corn' technology investments that have the potential to grow and achieve a place in the core of the Group and will manage our investments in other companies like Alstom.

GDA, consistent with industry trends, saw sales fall by 9 per cent

CT multi slice technology

The Picker acquisition of the CT (Computed Tomography) business of Elscint immediately propelled the Company to the forefront of experience with CT multi slice technology which provides scan speeds up to 8 times faster than other products, dramatically increasing patient throughput for hospitals.
(see page 13)

Gilbarco product launch

Gilbarco has introduced TRIND a new fuel payment and authorisation system that enables customers to obtain payment authorisation using a small preprogrammed transponder that can be carried on a key chain in their car.
(see page 12)

Unique Snowflake code

Videojet's Snowflake Code is a unique machine-readable image which condenses large amounts of data onto a small space. Applied directly onto the product on the processing line the code can provide exact traceability – down to individual containers in pharmaceutical applications.
(see page 12)

in 1998/99 as prices fell sharply in the UK market and the strong pound reduced competitiveness. Despite this fiercely competitive environment, GDA's brands (Hotpoint, Creda and Cannon) maintained their leading positions in the UK at around 29 per cent market share, nearly twice the size of the nearest competitor. Management responded to these external changes by embarking on a wide scale restructuring of the businesses including the closure of two of its six factories. As part of this restructuring Redring and Xpelair were combined into a new group called GDA Applied Energy.

Avery Berkel increased operating profit despite additional investment in new products and difficult trading conditions in some key overseas territories. The forecourt service business was transferred to Gilbarco on 1st April, 1999, allowing Avery Berkel to concentrate on its core weighing and food processing activities, where it is a world leader. The new MP series of PC based retail-weighing scales is due to be launched in autumn 1999 and will be Avery Berkel's flagship product. Avery Berkel received the Investors in People accreditation in recognition of its continued commitment to the training and development of its people.

Woods saw revenues decline by 16 per cent to £61 million during the year despite increasing its share of the market. The major area of weakness was in export markets. The Far East and South East Asia were particularly disappointing as major infrastructure projects were slowed or stopped. Despite this background, the company won a number of flagship infrastructure contracts during the year. The company also won the Queen's Award for Export Achievement.

EEV delivered improved profits from a flat sales performance of £84 million in 1998/99. A notable feature of this performance was record sales in North America of US$42 million. EEV's products cover a wide range including amplifiers for satellite news gathering, microwave devices, CCD imaging sensors and the ARGUS infrared fire fighting cameras. Its strength derives from its continuing investment in technology and people.

EASAMS is one of the UK's longest established software systems integrators and achieved sales of nearly £100 million in 1998/99. This business will be known as Marconi Software Systems in the future and will concentrate on real time development, data base development, COTS (commercial off the shelf) application and networking.

Fibreway is a telecommunications company with a 13,000-kilometre network of fibre optic cable linking the major population and commercial centres of England and Scotland. The completion of the construction of the national network is expected late Summer 1999.

Comstar, the joint venture with the Moscow Telephone Authority, had a difficult year because of the Russian market situation and *Payphones,* suffered similarly because of difficult conditions in the Far East.

Marconi Property is a new company formed to manage and maximise value from GEC's substantial property portfolio.

Electronic Systems

Marconi Electronic Systems enjoyed another successful year and continues to play a leading role in the consolidation of the aerospace and defence industry worldwide.

In financial terms, the order book has increased year on year by £1.0 billion to £9.7 billion and the nine month contribution of

GEC Capital – Turnover £ million

GEC Capital – Operating profit (before exceptional items and goodwill amortisation) £ million

Tracor helped to boost sales by 18 per cent. Profits were up by 29 per cent. The single most valuable order was for 147 Eurofighter/Typhoon ECR90 radars at £290 million. Investment in future technology increased by 13 per cent to £749 million of company and customer funded R&D. In North America, the acquisition of Tracor, which has contributed and performed very well, and the addition of several key contracts, has maintained the commitment to high technology growth. Alenia Marconi Systems was formed in December 1998 as a 50/50 joint venture between Marconi Electronic Systems and Finmeccanica of Italy, creating an international company which is strong in several important markets including Air Traffic Control, Missile Systems and Naval Systems.

Prime contractorship has continued to play an increasing role in MES's business portfolio. The Phoenix Unmanned Aerial Vehicle was accepted by the UK Ministry of Defence (MOD) and put into service. We continue to make progress towards completion of the Malaysian frigate project – with acceptance due later in 1999. Similarly sound progress is maintained on the Royal Navy contract to design, build and support three Astute Class attack submarines. We are working closely with the UK MOD to minimise delays on the two Landing Platform Dock vessels (LPDs) and two Auxiliary Oilers (AOs). Work is continuing on the contract for three offshore patrol vessels for Brunei.

A first for MES in the US was achieved when we took over the prime contractorship of the US Marine Corps Lightweight towed howitzer programme. The group has been awarded a £91 million prime contract for the Project Definition/Advanced Technology Demonstration phase of the joint UK/US programme for the next generation of armoured reconnaissance vehicles.

In the Civil Avionics sector, the group has delivered its one-hundredth Head Up Display product for the Gulfstream business aircraft. Additionally, Boeing has placed further orders for production of the Boeing 777 primary flight control system hardware and software.

Transatlantic links were enhanced by the group's teaming with Raytheon to provide the world's most capable next generation targeting and navigation system which will be fitted into the US Navy's F/A-18 aircraft. MES is developing the next generation avionics mission systems for the US Joint Strike Fighter under contracts from Boeing and Lockheed Martin. Good progress has been made during the year on the development contracts for the Eurofighter/Typhoon programme. Substantial production orders for a range of key systems are now expected to be awarded during the next two years. The group won further orders for offshore product support of airborne targeting equipment for the Royal Air Force as well as new support orders for the USAF C130 all light level TV imaging system. Matra Marconi Space continued to establish itself as a world leader in the space market. The UK MOD awarded the company a study contract for the next generation military communications satellite system, Skynet 5. Thomson Marconi Sonar delivered the first 15 sets of the very successful FLASH helicopter sonar in 1998 for the EH101 Merlin helicopter for the UK Royal Navy.

Our people

None of our success and progress during the year would have been possible without the continuing commitment and contribution of our people. As our Company rapidly shifts to

World's first crenellated fan

The new Compac Climafan developed by Woods to meet the increasingly demanding requirements of the heat transfer market (chillers, air conditioning and refrigeration), incorporates a unique crenellated polymer impellor to increase operational efficiency and reduce noise.
(see page 15)

New series of PC based scales

The Avery Berkel MP series scale is the first to employ a windows-based operating system and open (PC) based systems architecture. With touch screen technology and ethernet communication facilities the scale is self checking, continually updated, and can run self diagnostics remotely.
(see page 14)

Systems integration at Manchester Airport

EASAMS employed its systems integration capabilities to design and develop a point-of-sale duty free retail monitoring system for Manchester Airport.
(see page 14)

become a high technology business and our operations become increasingly international, the profile and geographic spread of our employees is going to change dramatically. Already, more than a third of the new GEC workforce are scientists, engineers or technologists and this proportion will continue to rise.

GEC is determined to be the employer of choice in our highly competitive international marketplace. To this end we have put in place world-class resourcing, development, learning, performance improvement and reward programmes. From our work with schools, helping to shape the engineers and technologists of tomorrow, through our own ground-breaking MSc in International Technology Management and via the newly-established Dunchurch Virtual Learning Centre, we are demonstrating our commitment to being a learning organisation in everything we do.

The extension of our use of the European Quality Foundation Business Excellence – and, in the US, the Baldridge – models and the increasing deployment of Six Sigma programmes, are further evidence of GEC's determination to be a 'world-class company built upon world-class people'.

Alignment of our compensation programmes with shareholder interest remains the foundation of our policies on employee remuneration. After a year of parallel running during 1998/99 we have gone 'live' on 1st April, 1999 with our incentive schemes directly linked to our value based management targets designed to grow our Company and provide our shareholders with continually improving returns on their investment.

Outlook

This year has seen your Company change dramatically as the Board has sought to reposition GEC out of yesterday's industries and into tomorrow's. This has necessarily been achieved through a very intense programme of corporate activity and I believe we have now created the springboard to support our ambitions to be a truly global player in telecommunications and information technology.

As we enter the 'drive for growth' phase of our development it is inevitable that this will involve some further corporate activity. However, the focus for the coming year will now change to making the businesses we have, work closely together and deliver growth from within.

I am confident that with our first-class management team, our strong market and technology positions in long-term growth sectors and our strong financial position we can deliver on our promise to grow the top line and continue to generate shareholder value.

Lord Simpson *Chief Executive*

Finance Director's Review

The Group has continued to report strong financial performance with growth in sales, profits and earnings per share, during a period of major restructuring.

John Mayo

Group turnover £ million

New Accounting Standards

A number of new accounting standards that impact on the reporting of results were announced during the year and have been adopted by the Group.

In compliance with FRS 10, historical goodwill that had been written off directly to reserves under the previous accounting standard has been reinstated. Together with goodwill from acquisitions in 1998/99, goodwill for subsidiaries and joint ventures results in an amortisation charge for the reporting period of £197 million. This treatment is more comparable with US GAAP.

As we recorded in the Interim Report, to comply with the new accounting standard for provisions (FRS 12), which applies retrospectively, £27 million of exceptional items previously charged against profit in 1996/97 has been restated and is now charged in the first half of 1997/98.

From 1st October, 1998, the Group's interest in Alstom has been treated as a fixed asset investment and is stated at market value in the 31st March, 1999 balance sheet. The Board has concluded that the Group's involvement in Alstom does not represent significant influence. Therefore, it is no longer appropriate to treat the investment as an associate. As a result, there is no equity accounted profit contribution to GEC from Alstom in the six months to 31st March, 1999.

Group Financial Performance

Sales

The Group's turnover, excluding associates, increased by 6 per cent to £7,625 million. Sales to customers outside the United Kingdom increased 7 per cent, from £4,756 million to £5,076 million.

Profits

Group and joint venture operating profit before exceptional items and goodwill amortisation increased by 20 per cent to £940 million.

Return on sales before exceptional items and goodwill amortisation rose from 10.9 per cent to 12.3 per cent. The improvement in return on sales reflects higher quality earnings achieved by a continuing focus on operational efficiency, cost control and the disposal of underperforming businesses.

The goodwill amortisation charge for subsidiaries and joint ventures rose by £60 million to £197 million. This increase resulted from the annual goodwill amortisation charged on the acquisitions of Tracor (£34 million), the 40 per cent minority interest in GPT (£20 million), and other smaller business (£6 million). In addition, there was an amortisation charge of £16 million from Alstom.

Exceptional items of £96 million included restructuring costs after the acquisitions of Tracor and the minority interest in GPT (£40 million); reorganisation costs within continuing businesses (£14 million); and Year 2000 costs (£42 million).

Growth in Group and joint venture operating profit (before exceptional items and goodwill amortisation) per cent

Group return on sales (before exceptional items and goodwill amortisation) per cent

Interest income decreased by £27 million. This reflects the effects of acquisitions and share repurchases and the change in treatment of Alstom, which was accounted for as a joint venture for the whole of the prior year.

The Group's rate of taxation on profits before exceptional items and goodwill amortisation was 31 per cent, approximately the same rate as last year.

Earnings per share before exceptional items and goodwill amortisation rose from 23.8 pence per share to 27.1 pence per share, an increase of 14 per cent. This increase would have been approximately 20 per cent if Alstom had continued to be treated as an associate during the second half of the financial year.

Distribution policy

The Directors have recommended a final dividend of 8.8 pence per share. With the interim dividend of 4.2 pence per share paid on 6th April, 1999, this gives a total dividend for 1998/99 of 13.0 pence per share. This continues the distribution policy announced last year, which began to move the payment of the dividend towards a ratio of one-third interim, two-thirds final. The total dividend for the year shows a 14 per cent increase over last year, in line with earnings growth.

Subject to the completion of the separation of Marconi Electronic Systems, the Group will move to a dividend cover ratio of 3.25 times from its current level of 2.1 times. This will allow the Group to retain a greater proportion of annual earnings for reinvestment in the profitable growth of its high return businesses, and is more in line with its peer group of high technology companies.

Capital expenditure

Capital expenditure for the year was £307 million, an increase of 6 per cent over last year. This figure represents 148 per cent of depreciation charged against profit. Disposals of fixed assets during the year equalled £78 million, including £57 million in businesses transferred to joint ventures or sold to third parties.

Year 2000

Considerable progress has been made on the Group's preparations for the potential impacts of the Year 2000 date change on software and computing systems. Audits have continued to be conducted across the Group throughout the year to provide assurance.

Year 2000 is an integral part of the due diligence performed during merger and acquisition activity and acquired businesses have been successfully integrated into GEC's programme.

£42 million of costs associated with Year 2000 have been charged as an exceptional item in the Accounts. This includes the cost of replacing or modifying equipment and systems that are directly affected, but excludes the costs associated with functional upgrades – which have been borne as ordinary expenses. Costs in the year exceeded the original estimate because of acquisitions and some increases in scope. The total Year 2000 cost to 31st March, 2000, is expected to be approximately £25 million.

Research & Development

The Group's R&D spending during 1998/99 was £1,036 million – an increase of 11 per cent. This represents 13.6 per cent of the Group's total turnover.

R&D spend

R&D excludes spend by Alstom, associates and companies sold

Cash flow summary

	1998/99 £ million	1997/98 £ million
Operating cash flow	**775**	853
Interest less dividends to minorities	**25**	32
Taxation	**(358)**	(269)
Net capital expenditure	**(286)**	(242)
Dividends	**(218)**	(339)
Acquisitions/disposals	**(808)**	234
Share repurchase	**(310)**	(301)
Dividends and management fees from joint ventures and associates	**438**	125
Other	**27**	27
	(715)	120
Currency changes	**15**	(22)
Opening net cash	**1,184**	1,086
Closing net cash	**484**	1,184

Cash flow

Cash flow from the Group's operations decreased by 9 per cent to £775 million due to the impact of organic growth, the cash costs of Year 2000 and other exceptional items. The movements in the Group's cash position, including over £1.1 billion net spent on acquisitions and share repurchases, resulted in a net cash outflow (including currency changes) of £700 million, compared with a net cash inflow of £98 million last financial year. The table above shows the major movements in the Group's cash position.

GEC had net cash funds of £484 million at 31st March, 1999.

Group Financial Management

Capital structure

In line with the Group's stated strategy, the Board reviews annually the balance sheet and considers the appropriate capital structure.

In October, the Group purchased approximately 54 million ordinary shares at a total cost of approximately £310 million, at a price of 567 pence per share. These share repurchases reduced the Group's issued share capital by around 2 per cent.

Treasury policy

The Group's Treasury activities are co-ordinated by GEC Group Treasury which operates in accordance with policies approved by the Board. It does not operate as a profit centre. Treasury advises operational management on Treasury matters and undertakes all derivative transactions except certain forward exchange contracts relating to the hedging of foreign currency transaction exposures arising in the operating businesses.

Financial instruments

The Group uses financial instruments, including derivatives (principally interest rate swaps and forward foreign currency contracts), to manage interest rate and currency risk exposures.

It is the Group's policy that there is no trading in financial instruments.

The main risks faced by the Group in the financial markets are interest rate risk, liquidity risk, foreign currency risk and counterparty risk. The Board reviews and agrees policies for managing each of these, which are summarised below.

Interest rate risk

Interest rate swaps in a principal amount of US$1,000 million have been used to manage the Group's exposure to fluctuations in interest rates on US dollar borrowings. Interest rates on US$500 million were fixed for 10 years, and US$500 million of 10 year cancellable swaps were entered into, giving the banks the right, but not the obligation, to cancel and terminate all payments under the swaps after 5 years.

The Group's policy is to maintain at least 50 per cent of debt at fixed rates of interest. As shown in Note 32 to the Accounts, at the year end, 78 per cent of the Group's interest-bearing borrowings were at fixed rates, after taking account of interest rate swaps.

Liquidity risk

At 31st March, 1999, the Group's cash and investments were £1,359 million. These cash deposits and investments principally comprise sterling and US dollar amounts, which at the financial year end were £761 million and £247 million, respectively.

Exchange rate sensitivity

10 per cent reduction in value of:	Percentage reduction in Group reported sterling operating profit before exceptional items and goodwill
US$	(3)
Euro-traded currencies	(1)
Other	–
10 per cent sterling appreciation	(4)

Deposits are made with creditworthy and authorised counterparties to control credit risk, and investments are in short-term instruments where price risk is minimal.

The Group finances its operations though retained profits and, where appropriate, by bank borrowings in relevant currencies at both fixed and floating rates of interest. In future, the Group is also likely to access the international bond markets to further diversify its sources of funding. Where subsidiaries require finance for working capital, local overdraft or short-term facilities are used.

The Group drew US$1,000 million (equivalent to £619 million at year end rates), under its Euro 6 billion syndicated loan facility in June, 1998 as part finance for the acquisition of Tracor, Inc. This formed the major part of the total gross interest-bearing borrowings at 31st March, 1999 of £875 million.

At 31st March, 1999 the Group had undrawn committed facilities of £3,416 million. Of this total, £3,399 million was under the Euro 6 billion facility that had a weighted average maturity of 3.1 years at the end of the financial year.

Foreign currency risk

The Group's foreign currency exposure management policy requires subsidiaries to hedge transaction exposures against their local currency at the time the exposures are identified. Spot and forward exchange contracts are entered into, and for certain longer term commercial contracts, insurance based arrangements are used to protect the period from tender to contract effectiveness. All hedging is undertaken to eliminate or ameliorate risks that arise as a consequence of commercial transactions.

The Group has overseas subsidiaries that earn profits in foreign currencies (i.e. their local currencies). It is not the Group's policy to hedge exposures arising from the translation of these overseas profits into sterling. A 10 per cent appreciation in the value of sterling reduces reported profit before interest, tax, exceptional items and goodwill amortisation by around 4 per cent.

Interest-bearing foreign currency borrowings at the year end were £869 million. The majority of these borrowings were denominated in US dollars, amounting to £676 million and form a hedge for the Group's investments in the US.

About 28 per cent of Group sales are to export markets. 39 per cent are denominated in sterling, 29 per cent in US dollars, 24 per cent in currencies of the Euro bloc and the balance of 8 per cent is in other currencies.

A Euro Programme Management office comprising a Programme Director, a Technical Director and representatives drawn from the businesses has co-ordinated the Group's preparations for the European Economic and Monetary Union. It oversees the implementation of the necessary changes to financial and business systems so that the Group has the capability to conduct commercial and financial transactions, account and report in Euros, as and when required.

Counterparty risk

As referred to above, all deposits are made with creditworthy and authorised counterparties. All forward contracts, swaps and options as described above are similarly managed to ensure that the benefits of such financial hedging are subject to controlled counterparty risk.

The Group manages political and credit risk by means of credit insurance, guarantees, letters of credit and the use of export credit agencies.

Internal controls

Internal controls are maintained in order to give the Board reasonable assurance as to the Group's control over its assets, liabilities, contractual commitments and business conduct. The outsourced internal audit function reports to management and the Audit Committee on these internal controls. The key financial controls are outlined in detail in the Directors' Statement on page 44.

Post Balance Sheet events

On 9th April, the Group completed the acquisition of RELTEC Corporation for US$2.1 billion (£1.3 billion).

On 26th April, the Group announced agreement to acquire FORE Systems Inc. for a total consideration of US$4.5 billion (£2.8 billion). Net of cash held by FORE Systems, the consideration was US$4.2 billion (£2.6 billion).

On 4th June, the Group completed a further committed credit facility of Euro 2.5 billion with a syndicate of relationship bankers.

Had these post balance sheet events been effected at 31st March, 1999, the Group's net borrowing would have been £3.4 billion, leaving a further £1.8 billion of committed credit facility available to the Group.

John Mayo *Finance Director*

People

GEC's future success depends on the continued involvement and commitment of its people. Recognising this, the Group is fostering the creation of a world-class learning environment which – through openness and sharing information – encourages innovation and creativity and empowers people at all levels to take a greater part in business decision making.

Rob Meakin

Notable among the approaches and processes introduced across the Group over the last year are Six Sigma, Lifecycle Management and Value Based Management. All GEC's businesses now use the Business Excellence Model or in the US, Baldridge Models, to assess their performance and the Group has established a Business Excellence Centre to promote the sharing of best practice. More than 2,000 GEC people in the UK and the US have now graduated from the 'Managing for Success' programme run by GEC's Management College, Dunchurch. The programme is currently being expanded to Italy and Australia. Last year Marconi Electronic Systems embarked on its 'People Achieving Together' initiative to establish world-class people policies and practices.

To further ensure that all its managers and business leaders are equipped to manage a high technology, high growth company, GEC is forming partnerships with the University of Warwick in the UK and Carnegie Mellon University in the US, to develop a GEC MSc in International Technology. The international programme – incorporating both distance learning and residential courses – is being delivered through a consortium of centres of education excellence from across the world. The first GEC candidates will embark on the MSc programme in the fourth quarter of 1999. The Virtual University scheme was welcomed by British Prime Minister, Tony Blair.

In October last year, Dunchurch launched a Virtual Learning Centre which provides all GEC businesses with an internet-based learning forum including a network of all GEC Open Learning Centres and an interactive area enabling people to exchange information on-line. Gilbarco has established two open learning centres at its Greensboro site with its main centre used by over 20 per cent of production associates.

Young people are the lifeblood and future leaders of the Company and GEC is keen to ensure that it offers them careers that are stretching and satisfying. To this end, the Group held its first Graduate Induction Day in October last year. More than 750 young GEC graduates from all over the world gathered in Birmingham to hear presentations and to take part in special team building and communication exercises. The event was a great success and the Group is holding another in November.

GEC recognises the importance of encouraging more women to pursue a career in engineering. The policy continues to bear fruit as is shown by the naming of Kim Dennis, an IT Infrastructure Support Manager at Marconi Communications, as the Young Woman Engineer of The Year in January. Kim succeeds Claire Drew – also a GEC employee – and is the sixth GEC person to hold the title.

Another GEC achiever is Sameer Kothari, Group Organisation Development Manager at Marconi Communications in Genoa, who has been given leave to use a Winston Churchill Memorial Trust Travelling Fellowship to visit America's top companies to study their communications and leadership practices and processes.

GEC is committed to enhancing communications to its employees through team briefings; its in-house journal, *Interface*; and the use of a global intranet. It encourages employee participation in the success of the Company through sharesave schemes. It will continue to take advantage of every opportunity to ensure that GEC is the employer of choice in our industry.

Rob Meakin *Personnel Director*

Social Responsibility

GEC places enormous importance on its social responsibilities and encourages its managers and staff to participate in and support the interests of the communities in which they operate.

Community

Around the world, companies and employees have raised funds and committed their time and energy to support local, national and international causes. Staff at Marconi Electronic Systems near Portsmouth, in the UK, raised over £4,700 for a local school for the physically disabled. Employees at Marconi North America in Lansdale, Pennsylvania, worked with Montgomery Township to build a walking trail for local children and their parents. A group of 6 friends at Marconi Communications in Genoa, Italy have sacrificed many hours of leisure time over the last four years to raise money for local and national charities.

GEC's policies for sponsorship and charitable donations:

- support the advancement of science, engineering, technology and business education
- encourage young people to take up science and engineering careers
- support community activities that involve GEC personnel

The Group has continued to be a major supporter of Women into Engineering and Science (WISE) managed by the Engineering Council and the Equal Opportunities Commission as well as supporting events held by a number of Science and Technology Regional Organisations which work in partnership with industry and schools to stimulate children's interest in science, engineering and technology.

The Group was the major sponsor of the International Festival of the Sea which was held at Portsmouth in August. More than 200,000 people attended the festival and displays at the Company pavilion gave GEC an excellent platform to attract young people to technology.

GEC is an official partner in the Millennium Dome and is a joint sponsor, with British Aerospace, of the Mind zone. This zone will encourage visitors to understand how the mind works – how it acquires information, processes it and achieves tasks. The zone will employ technologies from Picker, EEV, Marconi Communications and input from GEC research facilities to explain the mind's functions through interactive displays.

This major sponsorship will enable the Company to raise its profile amongst many groups that it wishes to influence including customers, government and future employees. Applying the same philosophy on a smaller scale Marconi Electronic Systems is sponsoring 'Marconi Days'. Managed by the Institute of Electrical Engineers, 'Marconi Days' aim to raise the profile and knowledge of electronics among teachers in schools throughout the UK and, as a result, to improve the quantity and quality of electronic engineers entering industry. A trial is currently underway among a group of 16 schools in Staffordshire.

Early this year, GEC announced it would be establishing a charitable trust to take responsibility for the Marconi Collection – a unique collection of documents and artefacts reflecting the life and work of Guglielmo Marconi. Under the arrangements, archive documents will be displayed in the new Essex Record

Office in Chelmsford and the artefacts will be housed elsewhere in the town.The founding of the trust will recognise Chelmsford's long association with both Marconi and his company.

Health and Safety

GEC accepts that concern for health and safety should be an integral part of its organisation at all levels – and be pursued with the same vigour as other managerial concerns. The Group Occupational Health and Safety Advisor carries out regular company audits to ensure that high Health and Safety standards are maintained. The BSI guide BS8800 is used as the basis for the audits. Company standards are set out in best practice documents created by the GEC Health and Safety Working Party.

Energy and the Environment

The GEC Energy & Environmental Advisory Unit continues to provide comprehensive monitoring, advice and support to all GEC businesses in order to ensure that GEC:

- is compliant with its legal obligations
- makes efficient use of energy
- minimises, wherever possible, its impact on the environment

Energy

Under the GEC Procurement Council initiative, the Energy & Environment Advisory Unit is actively investigating how the benefits of Group purchasing can be extended to the US and Europe. Deregulation of energy markets in the US has opened up major opportunities for utilities purchasing. GEC's Group gas supplier has already begun a dialogue with its businesses in the US with the objective of meeting GEC's energy requirements at the most competitive market prices.

The Environment

1998 saw many changes in GEC with marked growth of the Group's 'footprint' in the US. Here, of course, the legal framework of environmental protection and its enforcement differ markedly from the regimes operating in the UK and Europe. The Energy & Environment Advisory Unit is working to ensure that the policy and practice for environmental protection developed over the years within GEC is both recognised and implemented within the new businesses, wherever they may be.

Environmental Management Standard

An increasing number of GEC companies have successfully introduced and been accredited to the internationally recognised Environmental Management Standard, ISO14001. This provides for the systematic control of all activities affecting the environment and assists in the ongoing improvement of environmental protection and the management of precious and scarce resources.

Directors

Sir Roger Hurn Chairman

Aged 61. Appointed to the Board in December 1998, Sir Roger was formerly Chairman of Smiths Industries PLC. He is a non-executive director of Imperial Chemical Industries PLC, Deputy Chairman of Glaxo Wellcome PLC and Chairman of the Court of Governors at the Henley Management College.

Lord Simpson Chief Executive

Aged 56. Appointed to the Board in 1996, Lord Simpson is a non-executive director of Imperial Chemical Industries PLC and Nestlé S.A. He was Chairman and Chief Executive of Rover Group and subsequently Deputy Chief Executive of British Aerospace plc and Chief Executive of Lucas Industries Plc.

R E Artus CBE Non-Executive Director

Aged 67. Appointed to the Board in 1990, having been Group Chief Investment Manager of Prudential Corporation plc. Mr Artus is a non-executive director of Electrocomponents plc, CLM Insurance p.l.c. and the Solicitors Indemnity Fund Limited. He is Deputy Chairman of The Securities & Futures Authority Limited.

W M Castell Non-Executive Director

Aged 52. Appointed to the Board in 1997, Mr Castell has been Chief Executive of Nycomed Amersham plc (formerly Amersham International plc) since 1990, having previously been Commercial Director on the board of Wellcome plc.

The Rt Hon The Baroness Dunn DBE Non-Executive Director

Aged 59. Appointed to the Board in 1997, Baroness Dunn is an Executive Director of John Swire & Sons Limited, a non-executive Deputy Chairman of HSBC Holdings plc and a non-executive director of Christie's Fine Art Limited; she was formerly Senior Member of the Hong Kong Executive Council and Legislative Council.

P O Gershon

Aged 52. Mr Gershon, Managing Director of Marconi Electronic Systems Limited having held a similar position at GPT, was appointed to the Board in 1994. He was previously Director of Network Systems in ICL plc and subsequently Managing Director of STC Telecommunications. He is a director of Defence Evaluation & Research Agency and has recently completed for the UK Government a Review of Civil Procurement in Central Government.

Sir Christopher Harding Non-Executive Director

Aged 59. Appointed to the Board in 1992, he is Chairman of Legal & General Group Plc, United Utilities PLC and Newarthill p.l.c.

M Lester Vice-Chairman

Aged 59. Mr Lester, a solicitor, joined the Company's central management from legal practice in 1980 as Director of Legal Affairs; he was appointed to the Board in 1983 and Vice-Chairman in 1994. He is a non-executive director of Premier Farnell plc.

Sir Charles Masefield Vice-Chairman

Aged 59. Appointed to the Board in December 1998, Sir Charles has responsibility for the Group's marketing activities.

J C Mayo

Aged 43. Appointed to the Board in 1997, Mr Mayo was formerly Finance Director of Zeneca Group PLC and is a non-executive director of Pentland Group PLC.

R I Meakin

Aged 49. Appointed to the Board in October 1998, Mr Meakin has responsibility for the Group's personnel activities. He is on the board of Young Enterprise, is a member of the Steering Board at the Radiocommunications Agency and is Chairman of the DTI and DFEE's Education and Training Export Group.

Dr A W Rudge CBE Non-Executive Director

Aged 61. Appointed to the Board in 1997, Dr Rudge was formerly Deputy Chief Executive of British Telecommunications plc. He is Chairman of WS Atkins plc, ERA Technology Limited and Metapath Software International Inc., a Fellow of the Royal Academy of Engineering and the Royal Society and a Past President of the Institution of Electrical Engineers. Dr Rudge is also a non-executive director of Great Universal Stores Plc and MSI Cellular Investment Holdings BV.

Hon Raymond G H Seitz Non-Executive Director

Aged 58. Mr Seitz, who was Ambassador of the United States to the Court of St James's from 1991 to 1994 and is Vice Chairman of Lehman Brothers International (Europe), was appointed to the Board in 1994. He is also a non-executive director of British Airways plc, Cable and Wireless plc, Rio Tinto plc, Telegraph Group plc and a Trustee of the National Gallery and the Royal Academy.

N J Stapleton Non-Executive Director

Aged 52. Appointed to the Board in 1997, Mr Stapleton is Co-Chief Executive of Reed Elsevier plc and Chairman of Reed Elsevier (UK) Limited, having previously held a number of finance and general management positions with Unilever PLC; he is a member of the Financial Reporting Review Panel.

Secretary

N C Porter

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Corporate Governance

The Directors have considered the Committee on Corporate Governance's Combined Code issued by the London Stock Exchange in June, 1998. The Combined Code consolidates the principles of good governance and code provisions of the earlier Cadbury, Greenbury and Hampel Committees. A summary of the Company's system of applying the principles and the extent to which the provisions in Section 1 of the Combined Code have been complied with appears below. Section 1 of the Combined Code establishes 14 Principles of Good Governance, which are split into four areas:

The Board

The Company is controlled through the Board of Directors which comprises six executive Directors and eight independent non-executive Directors who, with their different backgrounds, bring with them a wide range of expertise and experience to the Company's affairs. There is a clear division of responsibility between the Chairman and Chief Executive with no single individual having unfettered powers of decision. The Chairman is responsible for running the Board and ensures that all Directors receive sufficient relevant information on financial, business and corporate matters to enable them to participate effectively in Board decisions. The Chief Executive's primary role is the co-ordination of the Company's businesses and the development and implementation of strategy. In view of the major corporate changes that the Company is presently undergoing, the Board has decided to defer consideration of the appointment of a senior independent non-executive Director as recommended by the Combined Code. In accordance with the provisions of the Company's present Articles of Association, at every Annual General Meeting one-third of the Directors (or the nearest to one-third if not a multiple of three) are required to retire from office or seek re-election. At the forthcoming Annual General Meeting, the Board is proposing amendments to the Company's Articles of Association which include a change to the re-election of Directors to bring the Company's Articles of Association within the recommendation of the Combined Code.

The Board ordinarily meets 6 times a year but holds additional meetings when circumstances require. In the year to 31st March, 1999, the Board met on 12 occasions and there is frequent contact between meetings to progress the affairs of the Company. Broadly, attendance at Board and Committee meetings was in excess of 90 per cent. The non-executive Directors meet with the Chairman and Chief Executive at least once a year to discuss a wide range of matters affecting the Company.

Directors receive appropriate training on appointment and then as necessary. They attend an induction programme which aims to provide an understanding of the Company, its strategy, structure, geographical spread of operations, financial position, the industries in which it operates, its products and technologies, its people and, where appropriate, legal responsibilities as a director. The Directors have access to the advice and services of the Secretary and there is an approved procedure by which all Directors can obtain independent professional advice in furtherance of their duties, if required; this procedure is reviewed periodically.

The Board, which has reserved certain specific matters to itself, is responsible for overall Group strategy, acquisition and divestment policy, approval of major capital expenditure projects, consideration of significant financial matters and it reviews the financial performance and strategic direction of the operating businesses.

The Board has established a number of committees with defined terms of reference, which are reviewed periodically and receives reports of their proceedings. The principal committees, their membership and a brief description of their terms of reference, as of 9th June, 1999, are as follows:

General Purposes Committee

Sir Roger Hurn *Chairman*
Lord Simpson
R E Artus
W M Castell
P O Gershon
M Lester
J C Mayo

The primary purpose of the Committee, whose quorum requires the presence of a non-executive Director, is the approval of the acquisition and disposal of businesses and assets within certain specified limits; the Committee meets as and when required.

Audit Committee

R E Artus *Chairman*
W M Castell
Sir Christopher Harding
Hon Raymond G H Seitz
N J Stapleton

The Committee reviews the Company's financial statements and reports, its financial and corporate controls and accounting policies. The Company's internal and external auditors attend meetings and have the opportunity to raise matters or concerns in the absence of executive Directors.

Nomination Committee

Sir Roger Hurn *Chairman*
Lord Simpson
R E Artus
W M Castell
The Rt Hon The Baroness Dunn
Sir Christopher Harding
Dr A W Rudge
Hon Raymond G H Seitz
N J Stapleton

The Committee makes recommendations to the Board on all proposed new appointments of Directors.

Remuneration Committee

Sir Christopher Harding *Chairman*
R E Artus
W M Castell
The Rt Hon The Baroness Dunn
Dr A W Rudge
Hon Raymond G H Seitz
N J Stapleton

The Remuneration Committee determines, on behalf of the Board, the broad policy for executive remuneration including the remuneration of executive Directors. All members of the Committee are non-executive Directors.

Finance and Sealing Committee

Lord Simpson
P O Gershon
M Lester
J C Mayo
R I Meakin

This Committee deals with day-to-day matters of a routine nature.

The Secretary of the Company acts as Secretary to all Board Committees.

Directors' Remuneration

In accordance with the requirements of the Combined Code, the Board has approved the terms of reference of the Remuneration Committee, as with all Board committees. The Report to Shareholders by the Board on Directors' Remuneration, which can be found on pages 39 to 43, sets out the Company's remuneration policy, procedures and the remuneration of individual Directors.

Relations with Shareholders

The Company gives communication with shareholders a high priority. The announcement of interim and final results provides opportunities for the Company to answer questions from institutional investors covering a broad range of issues and, in addition, there is regular dialogue with institutional shareholders to ensure a mutual understanding of objectives.

The Company deals expeditiously with all enquiries on a wide range of matters. Individual shareholders also have the opportunity of attending the Annual General Meeting to put questions to the Chairman and the chairmen of Board committees; Directors also meet informally with shareholders before and after the meeting. The Company keeps under review ways in which it can communicate more effectively with its shareholders throughout the year as well as at the Annual General Meeting. The mounting of an exhibition at the Annual General Meeting covering a wide range of the Company's products and technology is a recent innovation. It has been the Company's practice to send the Notice of the Annual General Meeting and related papers to shareholders at least 20 working days before the meeting and to propose separate resolutions on each substantially separate issue. It is the Company's intention to indicate the level of proxy votes lodged on each resolution proposed at the forthcoming Annual General Meeting following each vote on a show of hands, except in the event of a poll being called and, accordingly, since such indication was not given at the 1998 Annual General Meeting, the Company will not have complied with the Combined Code for the period under review.

Accountability and Audit

Financial Reporting

The Chief Executive's Review on page 18 includes a detailed review of the performance and financial position of each division. Reading these alongside the Chairman's Statement on page 17, the Finance Director's Review on page 26 and the Directors' Report on page 37, the Board seeks to present a balanced and understandable assessment of the Company's position and progress.

Internal Control

The Directors' Statement of Internal Financial Control can be found on page 44.

Audit Committee and Auditors

The Audit Committee meets at least three times a year with Mr J C Mayo, Finance Director and other executive Directors, attending by invitation. The Committee overviews the monitoring of the adequacy of the Company's internal controls, accounting policies and financial reporting and provides a forum through which the Company's external audit and finance function report to the non-executive Directors. The duties of the Audit Committee also include keeping under review the scope and results of the audit and its cost effectiveness. The Committee also receives reports from the external and internal auditors on a regular basis.

Compliance Statement

The Listing Rules of the London Stock Exchange require the Board to report on compliance with the provisions contained in Section 1 of the Combined Code throughout the accounting period. As permitted by the London Stock Exchange, the Company has complied with Combined Code provision D.2.1. on internal control by reporting on internal financial control in accordance with the guidance for directors on internal control and financial reporting that was issued in December 1994. Save for the exceptions outlined above, the Directors consider that the Company has complied throughout the financial year with the provisions of Section 1 of the Combined Code.

Profits and Dividends

1 The profit for the year on ordinary activities after taxation and minority interests amounted to £1,054 million.

The Directors recommend a final dividend of 8.8 pence per ordinary share which, together with the interim dividend of 4.2 pence already paid, makes a total of 13.0 pence per ordinary share (1998 11.43 pence) for the year, at a cost of £348 million. Subject to the approval of the Annual General Meeting, the final dividend will be paid on 20th August, 1999 to the shareholders registered at the close of business on 16th July, 1999.

Review of the Group

2 An analysis of turnover and profit for the Company, its subsidiaries and its share of joint ventures and associates is shown on pages 52 and 53. A commentary on the activities of the Group including research and development activities is contained in the Chief Executive's Review on pages 18 to 25.

The Company, its subsidiaries and associated companies are principally engaged in the provision and support of intelligent electronic systems.

Share Capital

3 In October, 1998, the Company purchased for cancellation upon the exercise of Put Warrants, 54,328,160 ordinary shares of 5 pence each with a total nominal value of £2,716,408 at a price of 567 pence per share for an aggregate consideration of £308,040,667 plus expenses, representing 1.99 per cent of the then issued share capital of the Company. The purchase of shares was part of the Company's strategy of maximising shareholder value and was a further step towards achieving a more efficient capital structure and the enhancement of the Group's cash flow per share and earnings per share.

Share Purchase Scheme

4 The Board considered it inappropriate for the Company to continue with the scrip dividend alternative scheme at the same time as it was purchasing shares in the market and accordingly, the scheme has been discontinued. The Company operates a share purchase scheme to provide individual shareholders with the opportunity to acquire GEC shares through a low cost facility (see page 80 for details).

Substantial Holders of Share Capital

5 The Prudential Corporation plc has notified the Company that the Prudential Corporation Group are holders of 99,305,317 ordinary shares of 5 pence each in the Company, being approximately 3.70 per cent of the issued share capital as at 9th June, 1999. So far as the Directors are aware, no other person holds a substantial part of the issued share capital of the Company.

Payment of Creditors

6 It is the policy of the Company to agree with suppliers the best available terms taking account of quality, delivery, price and period of settlement and to abide by those terms.

The total amount of trade creditors falling due within one year at 31st March, 1999 was equivalent to 27 days' purchases.

Structure of the Group

7 Changes in the structure of the Group during the year ended 31st March, 1999, other than those of a minor nature, were as follows:

a in June, 1998, GEC Incorporated acquired Tracor, Inc.;

b in June, 1998, the Company disposed of a 26 per cent interest in Alstom upon the flotation of that company;

c in August, 1998, the Company acquired Siemens' 40 per cent interest in GPT Holdings Limited and disposed of its 49.9 per cent interest in Siemens GEC Communication Systems Limited to Siemens;

d in August, 1998, Marconi Electronic Systems Limited sold its one third interest in UKAMS Limited to Matra BAe Dynamics (UK) Limited;

e in August, 1998, GEC Avery International Limited increased its shareholding in Avery India Limited from 39.9 per cent to 51 per cent;

f in November, 1998, Picker International, Inc. acquired the computed tomography business of Elscint Limited;

g in December, 1998, Videojet Limited acquired Electronic Automation Limited;

h in February, 1999, Gilbarco Limited acquired Logitron S.r.l. from Holinko Establishment;

i in February, 1999, Marconi Communications Limited acquired Tetrel Limited; and

j in March, 1999, Telephone Manufacturers of South Africa (Pty) Limited became a wholly owned subsidiary.

Since 31st March, 1999, there have been the following changes in the structure of the Group:

k in April, 1999, a subsidiary of the Company acquired RELTEC Corporation;

l in April, 1999, Tracor, Inc., acquired Synectics Corporation; and

m in April, 1999, a subsidiary of the Company made a tender offer to acquire FORE Systems, Inc.

Marconi Electronic Systems

8 On 19th January, 1999, the Company and British Aerospace plc announced that they had reached agreement on the principal terms of a proposed reconstruction which will involve the separation from GEC of Marconi Electronic Systems and its merger with British Aerospace; on 27th April, 1999, the parties announced that they had entered into a definitive agreement which sets out the detailed terms and conditions of the proposed separation and merger.

Directors

9 The present members of the Board are shown on page 34, together with their biographical details.

Mr J B Cronin resigned from the Board on 1st July, 1998, following the flotation of Alstom.

The Rt Hon Lord Prior retired from the Board on 4th September, 1998.

Mr R I Meakin was appointed to the Board on 1st October, 1998, Sir Roger Hurn was appointed to the Board and as Chairman on 1st December, 1998 and Sir Charles Masefield was appointed to the Board on 14th December, 1998 and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

Mr R E Artus, Sir Christopher Harding, Hon Raymond G H Seitz and Mr N J Stapleton retire by rotation and, other than Mr Artus, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

The Directors' interests in the shares of the Company are shown in the Report to Shareholders by the Board on Directors' Remuneration on page 39.

Employees

10 A report on people in the GEC Group can be found on page 31.

Full and fair consideration is given to applications for employment from people with disabilities having regard to their aptitudes and abilities; special arrangements are made to support the continued employment of those who become disabled. Wherever practical, access, facilities and training programmes are made available allowing people with disabilities to participate at work to the best of their ability.

Individual employees and their representatives are kept well informed of current business issues through briefing groups, newspapers, training seminars and professional networks as well as through more formal consultative procedures.

At the beginning of July, 1998, options were granted under the GEC 1997 Executive Share Option Scheme (the Scheme) to 125 employees in respect of 1,561,589 ordinary shares of 5 pence each at a subscription price of 553.5 pence per share. At the end of July 1998, options were granted under the Scheme to 1,669 employees in respect of 10,666,492 ordinary shares of 5 pence each at a subscription price of 475 pence per share.

Details of the options outstanding at 31st March, 1999 and details of shares allotted pursuant to the exercise of options during the year ended 31st March, 1999, are given in Note 19 to the Accounts.

Charitable Donations

11 Charitable donations in the United Kingdom amounted to £896,000 excluding operating units' support for charitable purposes and for educational establishments.

Year 2000

12 GEC operates a number of Company-wide programmes to mitigate the risks associated with the Year 2000 date computation. These programmes address the Company's internal systems and operations, its products and the Year 2000 readiness of key customers and suppliers to ensure that business continuity is maintained.

All programmes are co-ordinated by a central team under senior management supervision. The central team commission independent audits of progress and provide regular reports to the executives and Board.

Special Business at the Annual General Meeting

Authority for the Company to purchase its own shares (Resolution Number 10)

13 At the last Annual General Meeting, shareholders renewed and extended the Company's previous authority until 3rd March, 2000 to enable it to make market purchases on the London Stock Exchange of up to an aggregate of 400 million ordinary shares of 5 pence each less such number of ordinary shares as may have been purchased by the Company pursuant to the exercise of the Put Warrants approved at the last Annual General Meeting, at not more than an amount equal to 5 per cent above the average of the middle market quotations taken from the London Stock Exchange Daily Official List for the five business days before the purchase is made and not less than 5 pence per share, being the par value of an ordinary share.

The Directors consider that further purchases by the Company of its ordinary shares for cancellation may in certain circumstances be advantageous to shareholders through resultant enhanced earnings per share and cash flow per share. They believe that the existing authority should be renewed and extended for a period of 18 months from the date of the forthcoming Annual General Meeting. This would be on the basis that, in accordance with the London Stock Exchange requirements, the maximum price for shares purchased in the market shall not exceed an amount equal to 5 per cent above the average of the middle market quotations taken from the London Stock Exchange Daily Official List for the five business days before the purchase is made. The minimum price per ordinary share shall be not less than 5 pence, being the par value of an ordinary share. The number of ordinary shares that may be acquired pursuant to the authority is up to an aggregate of 400 million ordinary shares including all such ordinary shares acquired by market purchase after 4th September, 1998 and before the date of the Resolution.

Articles of Association (Resolution 11)

14 Subject to shareholder approval at the forthcoming Annual General Meeting, the Directors are proposing to substitute the Company's present Articles of Association for new Articles, which take account of current law and practice and accord with current Stock Exchange practice, details of which are set out in the letter from the Chairman to shareholders.

By Order of the Board
The General Electric Company, p.l.c.

N C Porter *Secretary*
One Bruton Street, London W1X 8AQ
9th June, 1999

Report to Shareholders by the Board on Directors' Remuneration

In preparing this report, the Remuneration Committee has given full consideration to the provisions set out in Schedule B to the Combined Code.

Membership and Terms of Reference

The Committee is responsible for determining, on behalf of the Board, the broad policy for executive remuneration, including the remuneration of executive Directors. It determines the entire individual remuneration package, including levels of remuneration and incentives for individual executive Directors and certain other senior executives, and the terms of individual Directors' service contracts or contracts of employment. In carrying out this responsibility, the Committee consults the Chairman and Chief Executive, and receives professional advice from inside and outside the Company.

During the year, the members of the Committee were: Sir Christopher Harding, Mr R E Artus, The Rt Hon The Baroness Dunn, Dr A W Rudge and Hon Raymond G H Seitz. On 20th January, 1999, Mr W M Castell and Mr N J Stapleton were appointed to the Committee. All members of the Committee are independent non-executive Directors and have no personal financial interest in the matters to be decided by the Committee, no potential conflicts of interests arising from cross-directorships and no day-to-day involvement in the running of the business.

Remuneration Policy

The key objectives of the Company's executive remuneration policy are to provide competitive packages to attract, motivate, reward and retain senior executives of a high quality and to align executives' interests with those of shareholders through the establishment of incentive schemes based upon the Company's performance.

In determining executive remuneration, the Committee pays due regard to the levels of remuneration in other companies of a similar size listed in the FTSE 100 Index, the requirements and responsibility of the job, the level of achievement and remuneration and employment conditions within the Group.

Elements of remuneration

Remuneration comprises the following elements: basic salary, short-term (annual) incentive bonus, longer term incentives and pension benefits.

Basic salary

Basic salaries for executive Directors and certain senior executives are reviewed by the Remuneration Committee normally annually and take into account market competitiveness, special skills and individual performance. Subject to these factors, the Company aims to offer at least median level basic salaries with more for exceptional individual performance. Internal and external advisers provide appropriate data, in particular, that relating to other FTSE 100 companies.

Short-term incentive bonus

All key executives, including executive Directors, are eligible to participate in a short-term incentive bonus scheme under which payments are subject to performance conditions and can provide rewards of up to 25 per cent of basic salary for target performance and a maximum reward of up to 40 per cent of basic salary (50 per cent for executive Directors) for the achievement of stretching performance targets; such bonus payments for executive Directors are generally non-pensionable.

Longer term incentives

Through the Company's 1997 Executive Share Option Scheme, managers and key executives are able to participate in the improvement in the Company's performance over a sustained period. Details of the grant of options are set out in the Directors' Report on page 37.

The Company operates a personal shareholding policy in order to assist further in aligning the interests of executives and shareholders. The policy requires those executives (including executive Directors) who are granted options under the unapproved sections of the 1997 Executive Share Option Scheme to build up, over a period of time, a target shareholding of GEC shares with a market value equal to annual salary or, in the case of executive Directors who receive Section C Options (as defined in the rules of the 1997 Executive Share Option Scheme), twice salary. Personal beneficial shareholdings and shares comprised in awards under the bonus matching scheme count towards target shareholdings.

Pension benefits

All executive Directors are members of the Company's pension scheme, the G.E.C. 1972 Plan (the "scheme"), on the same basis as other employees, with the exception of Sir Charles Masefield who is a member of the British Aerospace Main and Executive Pension Schemes. The scheme is contributory at the rate of 3 per cent of salary and Company contributions made during the year ended 31st March, 1999 amounted to 6.6 per cent of salary (1998 6 per cent).

The scheme also provides a 'death in service' benefit of twice pensionable earnings plus return of total scheme contributions and credited interest and certain benefits for a surviving spouse and children under the age of 18 years. In the event of the death of a scheme member after the commencement of a pension, an amount equal to one half of the pension will be payable to the surviving spouse.

In accordance with the requirements of the Listing Rules, the disclosures required for the year ended 31st March, 1999 are set out below. The figures for pensions shown on page 41 are the contributions paid by the Company in respect of each Director.

The pension benefits earned by the Directors who are members of the G.E.C. 1972 Plan are as follows:

Name of Director	Length of pensionable service (years)	Increase in accrued pension during the year £000	Cost of pension benefits accrued during the year net of member's contributions £000	Accumulated total accrued pension at 31st March, 1999 £000
J B Cronin	45	2	7	118
P O Gershon	1	13	129	13
M Lester	19	24	265	226
J C Mayo	1	1	1	2
R I Meakin	2	2	11	2
Lord Simpson	2	2	15	4

Notes

1 The pension entitlement shown is that which would be paid annually at normal retirement age based on service to 31st March, 1999.

2 The increase in accrued pension during the year excludes any increase for inflation.

3 The cost of pension benefits accrued during the year net of member's contributions has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. The cost of pension benefits accrued during the year net of member's contributions is a measure of the capital cost of providing future pension payments and accordingly is a liability of the Group's pension arrangements and not a sum paid or due to the Directors of the Company.

4 Members of the scheme have the option to make contributions to the Selected Benefit Scheme (an AVC scheme); neither the contributions nor the resulting benefits are included in the above table.

5 The figures shown in respect of Mr J B Cronin relate to the period to 1st July, 1998.

6 At 31st March, 1999, Mr M Lester was entitled, at normal retirement age (65 years), to a pension under the G.E.C. 1972 Plan of two-thirds of pensionable earnings after 20 years service. As with all members of the Company's pension scheme, in the event of early retirement before normal or contractual retirement age, the pension will be reduced.

7 The Company operates funded unapproved retirement benefit schemes ('FURBS') for four executive Directors under which the Company makes annual payments to the FURBS to meet its obligation to accumulate capital, equivalent in value to a two-thirds pension at retirement age 62 in respect of Mr J C Mayo, Mr R I Meakin and Mr P O Gershon. In respect of Lord Simpson, the Company makes annual payments to the FURBS to meet its obligation to accumulate a capital sum of not less than 1.24 times Lord Simpson's pensionable salary for each complete year of pensionable service up to a maximum of five years taking into account the then capital value of any relevant benefits in payment or otherwise arising from previous employments together with the capital value of benefits from the G.E.C. 1972 Plan that are payable. Lord Simpson's pensionable salary is restricted to £500,000 but subject to increase at the same percentage amount (if any) as the annual rate of increase in basic salary – with a maximum increase of 4 per cent per annum.

8 During the year, the Company made the following payments to the Trustee of the FURBS in respect of individual Directors: Mr P O Gershon £83,850 (1998 £82,657), Mr J C Mayo £183,000 (1998 £171,000), Mr R I Meakin £150,578 (1998 nil) and Lord Simpson £152,825 (1998 £158,550).

9 In the event of death in service, a sum of four times pensionable salary, plus additional benefits for a surviving spouse or child, will be held on trust for the benefit of dependants of each of Mr P O Gershon, Mr M Lester, Mr J C Mayo, Mr R I Meakin and Lord Simpson.

10 Sir Charles Masefield is a member of the British Aerospace Main and Executive Pension Schemes and contributes 5 per cent of his basic salary to the Main Pension Scheme; British Aerospace makes employers' contributions at the rate of 11.3 per cent of basic salary to the Main Scheme and 14 per cent of basic salary to the Executive Scheme. Normal retirement age is 62 and there is a death in service benefit of 4 times basic salary and a spouse's pension benefit on death in service of two-thirds of the members' prospective pension. Sir Charles has accrued 29 years pensionable service and the increase in accrued pension during the year was £46,532. The transfer value of the increase in the accrued pension as at 31st March, 1999 would be £753,400.

11 Lord Weinstock received a Company pension during the year of £318,295.

12 During the year, the Company made a pension contribution to the Selected Benefit Scheme of £35,000 in respect of Lord Prior.

SAYE Share Option Scheme

The Company operates an Inland Revenue approved SAYE share option scheme which is open to all United Kingdom employees, including executive Directors.

Directors' emoluments

The emoluments paid or payable by Group companies to the Directors of the Company were:

	Salary and fees £000	Other benefits £000	Bonus £000	Excluding pension contributions **1999 Total £000**	Excluding pension contributions 1998 Total £000	Pension contributions **1999 Total £000**	Pension contributions 1998 Total £000	Gains made on the exercise of share options **1999 Total £000**	Gains made on the exercise of share options 1998 Total £000
Sir Roger Hurn	83	6	–	**89**	–	**–**	–	**–**	–
Lord Simpson	637	123	325	**1,085**	904	**182**	183	**–**	–
J B Cronin	75	11	25	**111**	470	**–**	–	**–**	–
P O Gershon	422	65	215	**702**	573	**110**	82	**121**	–
M Lester	446	16	226	**688**	569	**29**	26	**–**	22
J C Mayo	487	140	250	**877**	501	**212**	184	**–**	–
Sir Charles Masefield	122	4	59	**185**	–	**–**	–	**–**	–
R I Meakin	246	106	137	**489**	–	**167**	–	**–**	–
The Rt Hon Lord Prior	120	40	–	**160**	341	**35**	35	**–**	104
R E Artus	30	–	–	**30**	25	**–**	–	**–**	–
W M Castell	25	–	–	**25**	12	**–**	–	**–**	–
The Rt Hon The Baroness Dunn	25	–	–	**25**	15	**–**	–	**–**	–
Sir Christopher Harding	30	–	–	**30**	22	**–**	–	**–**	–
Dr A W Rudge	25	–	–	**25**	10	**–**	–	**–**	–
Hon Raymond G H Seitz	25	–	–	**25**	20	**–**	–	**–**	–
N J Stapleton	25	–	–	**25**	15	**–**	–	**–**	–
Former Directors	–	–	–	**–**	970	**–**	–	**–**	11
	2,823	511	1,237	**4,571**	4,447	**735**	510	**121**	137

1 Lord Simpson received a performance-related bonus of £325,000 and, in accordance with the terms of his service contract and after the deduction of income tax, 50 per cent will be paid to the Trustee of the GEC Employee Share Plan and used for the purchase in the market of the Company's ordinary shares for award to Lord Simpson. Subject to the satisfaction of certain conditions under the terms of that Plan, the shares will ordinarily be transferred to Lord Simpson after three years.

2 The information given above in respect of Mr J B Cronin, covers the period 1st April, 1998 to 1st July, 1998, the date on which Mr Cronin left the Board of GEC following the flotation of Alstom.

3 Executive Directors receive certain taxable benefits, including the provision of a company owned motor car.

4 The fees of non-executive Directors are determined by the Board; the basic fee is £25,000 per annum with a further £5,000 per annum payable to the Chairmen of the Audit Committee and the Remuneration Committee. Non-executive Directors do not have service contracts and do not participate in any of the incentive arrangements open to executive Directors or the Company's pension scheme.

5 All Directors are reimbursed all necessary and reasonable expenses incurred in the performance of their duties.

Directors' interests

The Directors' interests as defined by the Companies Act 1985 (which include trustee holdings and family interests incorporating holdings of infant children) in shares of the Company and its subsidiaries are as follows:

a Ordinary shares

	As at 31st March, 1999			As at 1st April, 1998 (or subsequently on appointment)		
	Beneficial	**Non-Beneficial**	**GEC Employee Share Plan**	Beneficial	Non-Beneficial	GEC Employee Share Plan
R E Artus	**12,642**	**–**	**–**	12,642	–	–
W M Castell	**10,000**	**–**	**–**	10,000	–	–
The Rt Hon The Baroness Dunn	**10,000**	**–**	**–**	10,000	–	–
P O Gershon	**197,453**	**–**	**14,843**	140,096	–	25,053
Sir Christopher Harding	**11,050**	**–**	**–**	11,050	–	–
Sir Roger Hurn	**11,450**	**–**	**–**	11,450	–	–
M Lester	**310,949**	**–**	**20,037**	300,213	4,588,168	30,093
Sir Charles Masefield	**10,000**	**–**	**–**	–	–	–
J C Mayo	**164,340**	**–**	**–**	12,465	–	–
R I Meakin	**10,025**	**–**	**–**	3,525	–	–
Dr A W Rudge	**10,000**	**–**	**–**	10,000	–	–
Hon Raymond G H Seitz	**11,006**	**–**	**–**	11,006	–	–
Lord Simpson	**74,493**	**–**	**16,278**	61,493	–	6,122
N J Stapleton	**11,500**	**–**	**–**	11,500	–	–

In addition to their individual interests in shares awarded by the Trustee of the GEC Employee Share Plan shown above, the executive Directors were, for Companies Act purposes, regarded as interested in all the 76,399 shares which the Trustee held at 31st March, 1999. All employees (including executive Directors) are potential beneficiaries under this Plan; it is not expected, however, that any employee or executive Director will be entitled to receive from the Plan a greater number of shares than that to which he or she is conditionally entitled under the Plan award.

Since 31st March, 1999, Mr R I Meakin acquired a beneficial interest in 775 ordinary shares of 5 pence each on 8th April, 1999.

There have been no other changes in the interests of Directors between 31st March, 1999 and 9th June, 1999.

b Options

Options in respect of ordinary shares of the Company:

	At 1st April, 1998 (or subsequently on appointment)		Granted in year		Exercised in year		At 31st March, 1999		Exercisable	
	No.	Average exercise price pence	No.	Exercise price pence	No.	Average market price pence	No.	Average exercise price pence	From	To
P O Gershon	443,248	394	206,315	475	46,621	539	602,942	431	Apr 2000	Jul 2008
M Lester	570,978	403	213,473	475	–	–	784,451	422	Feb 1997	Jul 2008
J C Mayo	927,960	409.5	240,000	475	–	–	1,167,960	423	Oct 2000	Jul 2008
Sir Charles Masefield	–	–	–	–	–	–	–	–		
R I Meakin	204,150	409.5	54,105	475	–	–	258,255	423	Oct 2000	Jul 2008

The mid-market price of a GEC share as at 31st March, 1999 was 558.5 pence with a range during the year of 392.0 pence to 599.0 pence.

The options set out above relate to those granted under the GEC Managers' 1984 Share Option Scheme, the GEC 1997 Executive Share Option Scheme and the GEC Employee 1992 Savings-Related Share Option Scheme.

The information provided above is a summary and full details of Directors' shareholdings and options are contained in the Company's Register of Directors' Interests.

The terms of Lord Simpson's service contract provides for awards of shares ('the share award') to be made to him under the rules of the GEC Employee Share Plan so as to put Lord Simpson in a financial position not substantially different from that in which he would have been had the Company granted to him on 9th September, 1996 an option to subscribe for shares at the market price in an amount equal to four times his basic salary. For this purpose, Lord Simpson is deemed to have an option to subscribe for 625,000 shares at £3.84 per share. Performance conditions for the share award require that the Company's total shareholder return over any consecutive period of three years commencing on 9th September, 1996 should be in the top quartile of constituent companies of the FTSE 100 Index as at the said date of exercise and that, in the opinion of the Remuneration Committee, there has been a sustained and significant improvement in the underlying financial performance of the Company over the three year period, determined by reference to the increase in earnings per share of the Company as shown in the published, audited accounts.

In addition to the share award, Lord Simpson was granted a notional option over a further 625,000 shares at an exercise price of £3.84 per share; 50 per cent of the notional option is exercisable after the fourth anniversary and 50 per cent after the fifth anniversary of the date of grant. On exercise, the difference between the option price and the market price on the date of exercise will be paid to Lord Simpson as a cash sum (less income tax and any other relevant deductions) subject to an aggregate cumulative maximum of £1 million before tax. The exercise of the notional option is subject to the performance condition that over any consecutive period of three years prior to the date of exercise the percentage increase in the price of a share adjusted to take account of scrip or rights issues between the date of grant and the date of exercise of the option is at least 10 per cent greater than the percentage increase in the FTSE 100 Index over the same period.

Lord Simpson does not participate in the GEC 1997 Executive Share Option Scheme.

c The GEC Employee Share Plan

No discretionary awards in the form of shares were made by the Trustee of the GEC Employee Share Plan during the year, other than to Lord Simpson. The terms of Lord Simpson's service contract provide for the payment of a performance related bonus of up to 50 per cent of basic salary, the payment of which depends on the Company achieving target levels of profit before interest and tax and exceptional items; one half of the bonus is to take the form of an award under the rules of the GEC Employee Share Plan.

No further awards will be made under the GEC Employee Share Plan other than to Lord Simpson in accordance with the terms of his service contract.

The Company may also award Lord Simpson an annual discretionary bonus.

The interests of each Director in shares held under the Plan as at 1st April, 1998 and 31st March, 1999 are listed in the relevant column of the first table on page 42.

Service contracts

Mr P O Gershon, Mr M Lester and Mr J C Mayo have service contracts with the Company subject to termination by either party giving not less than one year's notice or, if not already terminated, on reaching the age of 62 (65 in the case of Mr Lester). Lord Simpson has a service contract with the Company subject to termination by either party giving not less than one year's notice or, if not already terminated, on Lord Simpson reaching the age of 60 years. The remaining Directors do not have service contracts and, accordingly, none of the Directors offering themselves for re-election at the forthcoming Annual General Meeting has a service contract with the Company or any of its subsidiaries with a notice period of more than one year.

Sir Charles Masefield's services are provided to the Company under the terms of a Secondment Agreement between the Company and British Aerospace plc. The Board considered that in view of the proposed separation of Marconi Electronic Systems and its merger with British Aerospace under which arrangements Sir Charles Masefield would be rejoining British Aerospace, the secondment of Sir Charles' services to the Company was appropriate in the circumstances. The Secondment Agreement will terminate on the earliest of Sir Charles ceasing to be employed by British Aerospace or the completion of the separation of Marconi Electronic Systems and its merger with British Aerospace or any other date agreed by the Company and British Aerospace.

When considering compensation payable in respect of termination of service contracts of executive Directors, the Committee pays due regard to the need for mitigation.

Non-executive Directors appointed since 1992 serve for a period of three years, subject to renewal by agreement with the Board.

External appointments

With the approval of the Chairman of the Company, executive Directors are permitted to hold appointments outside the Company. Any fees payable in connection with such appointments are retained by Directors unless otherwise agreed.

On behalf of the Board of
The General Electric Company, p.l.c.

Sir Christopher Harding
Chairman of the Remuneration Committee
9th June, 1999

Directors' Statement on Internal Financial Control

The Directors have overall responsibility for GEC's system of internal financial control which aims to safeguard the Group's assets and to ensure that proper accounting records have been maintained and that financial information is reliable. Any system of internal control can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The framework of key financial controls is as follows:

A management structure with clearly defined levels of delegated authority gives major decision-making responsibility to the business group managing directors, who are accountable for the conduct and performance of their businesses within agreed business strategy. The sector managing directors are responsible for completing Letters of Assurance which certify that they are not aware of any weaknesses in internal controls which have resulted in the risk of material loss. All controlled business groups have cascaded this risk control reporting system throughout their operations to ensure unit level responsibility and maximum transparency of any issues to the sector management and the GEC Directors.

The Group's overall strategy is reviewed regularly by the Directors. Executive Directors agree a strategic plan, a comprehensive phased budget and a set of objectives with the management of each business group on an annual basis. The Directors approve the agreed Group budget.

Actual results, using the same policies adopted in the annual accounts, are reported monthly and variances against budget and last year are prepared for executive review. Forecasts are updated monthly. Quarterly performance reviews are held with each sector management team. Group results are prepared monthly and reviewed by the Directors at their regular meetings.

Central review and approval procedures operate in major risk areas such as acquisitions and disposals, capital expenditure, contract tenders, litigation, industrial relations, treasury management, taxation and environmental issues.

The external auditors report on any weaknesses in internal financial control identified during their audit. These reports, and the management replies, giving details of remedial actions taken, are reviewed by the Audit Committee.

GEC's out-sourced Internal Audit function reviews and monitors the Group's internal control processes. Internal Audit co-ordinates its work with external audit and reports regularly to the executive Directors and periodically to the Audit Committee.

The Group's investments in joint ventures, associated companies and major investments are safeguarded by regular attendance of GEC representatives at meetings of Directors, regular discussions with management and consultation on material corporate transactions.

The Audit Committee has reviewed the effectiveness of the Group's internal financial control system. This review included consideration of both the reports of the external and internal auditors and the Letters of Assurance provided by the managing directors of each sector and of the budgeting and monthly reporting process.

Directors' Responsibilities for the Financial Statements

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for the financial year.

The Directors consider that the financial statements on pages 46 to 77, have been prepared on a going concern basis, appropriate accounting policies have been used and applied consistently, reasonable and prudent judgements and estimates have been made and applicable accounting standards have been followed.

The Directors are responsible for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Directors have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

After reviewing the Group's budget and projected cash flows and taking into account the Group's net cash balances at 31st March, 1999, the Directors consider that the Company and the Group have adequate resources to continue as a going concern for the foreseeable future and accordingly adopt that basis in preparing the accounts.

Auditors' Report

To the Members of The General Electric Company, p.l.c.

We have audited the financial statements on pages 46 to 77, which have been prepared under the accounting policies set out on pages 46 and 47.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Annual Report, including as described on page 44 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and by our profession's ethical guidance.

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

We review whether the statement on pages 35 and 36 reflects the compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the corporate governance procedures or the Group's internal controls.

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st March, 1999 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors

Hill House
1 Little New Street
London EC4A 3TR

9th June, 1999

Accounting Policies

The financial statements have been prepared in accordance with applicable accounting standards.

The more important GEC Group accounting policies are summarised below to facilitate the interpretation of the financial statements and are in addition to the policies explained in the notes to the accounts.

Comparative figures have been restated to reflect changes in presentation arising from the adoption of FRS 10 Goodwill and Intangible Assets, FRS 12 Provisions, Contingent Liabilities and Contingent Assets and FRS 14 Earnings per share, and the reclassification of Alstom. The effects of these changes are shown in Notes to the Accounts 1, 3, 8 and 9.

Accounting convention

The financial statements are prepared under the historical cost convention, as modified by the valuation of listed fixed asset investments.

Basis of consolidation

The financial statements consolidate the accounts of The General Electric Company, p.l.c. and all of its subsidiary undertakings ('Group companies' or 'subsidiaries').

All accounts are made up to 31st March.

Turnover

Turnover, excluding VAT, comprises sales to outside customers, and the Group's percentage interest in sales of joint ventures. The Group records transactions as sales when the delivery of products or performance of services takes place in accordance with the terms of sale.

Currency translation

Profits and losses of overseas subsidiaries, joint ventures and associates and cash flows of overseas subsidiaries are translated at the average rates of exchange during the year. Non-sterling net assets are translated at year-end rates of exchange. Key rates used are as follows:

	Average rates		Year-end rates	
	1999	1998	**1999**	1998
US Dollar	**1.66**	1.65	**1.61**	1.67
French Franc	**9.71**	9.79	**9.81**	10.38
Italian Lira	**2,861**	2,866	**2,895**	3,053
Euro	**1.47**	1.48	**1.50**	1.56

Reserves are adjusted to include the differences arising from the restatement to year-end rates of exchange of profits and losses and the translation of the net assets of overseas subsidiaries, joint ventures and associates at the beginning of the year. All other exchange gains and losses are included in profit on ordinary activities before taxation.

Financial instruments

The Group uses financial instruments, including interest rate and currency swaps, solely for the purpose of raising finance for its operations and to manage interest and currency risks associated with the Group's underlying business activities. There is no trading activity in financial instruments.

Foreign exchange transaction exposures

The Group hedges actual foreign exchange exposures as soon as there is a firm contractual commitment. Forward contracts are used to hedge the exposure. Amounts are included in the accounts at the forward exchange contract rate. If the contract ceases to be a hedge any subsequent gains or losses are recognised through the profit and loss account.

Balance sheet translation exposures

A large proportion of the Group's net assets are denominated in overseas currencies. Where appropriate, the Group hedges these balance sheet translation exposures by borrowing in relevant currencies and markets, and by the use of currency swaps. Currency swaps are used only as balance sheet hedging instruments, and the Group does not hedge the currency translation of its profit and loss account. Exchange gains or losses arising on the notional principal of these currency swaps during their life and at termination or maturity are dealt with as a movement in reserves.

Interest rate risk exposure

The Group hedges its exposure to movements in interest rates associated with its borrowing primarily by means of interest rate swaps and forward rate agreements.

Tangible fixed assets

Property, plant, machinery, fixtures, fittings, tools and equipment are recorded at cost and depreciated on a straight line basis over their estimated useful lives. Freehold land does not bear depreciation where the original cost of purchase was separately identified.

Leased assets

Assets held under finance leases are included in tangible fixed assets and the present values of lease commitments are included under creditors. Operating lease payments are charged to the profit and loss account as incurred.

Goodwill

Purchased goodwill on acquisitions is capitalised and amortised over its useful economic life, not exceeding 20 years (see Note 9).

Research and development

Expenditure incurred in the year is charged against profit unless specifically chargeable to and recoverable from customers under agreed contract terms.

Stocks and contracts in progress

Stocks and contracts in progress are valued at the lower of cost, inclusive of appropriate overheads, and estimated net realisable value. Provisions are made for any losses incurred or expected to be incurred on uncompleted contracts. Profit on long-term contracts in progress is taken when a sale is recorded on part-delivery of products or part-performance of services, provided that the outcome of the contract can be assessed with reasonable certainty. Advance payments received from customers are shown as creditors until there is a right of set-off against the value of work undertaken. Progress payments received are deducted from the value of work carried out, any excess being included with payments received in advance.

Taxation

Taxation on profit on ordinary activities is that which has been paid or becomes payable in respect of the profits of the year. Deferred taxation is provided on all timing differences which are expected to reverse in the future at the rate of tax anticipated to apply in the year of assessment.

Investments

Joint ventures comprise long-term investments where control is shared under a contractual arrangement. The sector analysis of turnover, profit and net assets includes the Group's share of the results and net assets of joint ventures.

Associates consist of long-term investments in which the Group holds a participating interest of not less than 20 per cent and over which it exercises significant influence. Investments in unlisted joint ventures and associates are stated at the amount of the Group's share of net assets including goodwill at 31st March derived from audited or management accounts made up to that date. Profit before taxation includes the Group's share of joint ventures and associates.

Other unlisted fixed asset investments and the Company's investment in shares in Group companies are stated at cost less provision for permanent diminution in value. Listed fixed asset investments are stated at market value. Current asset investments are stated at the lower of cost and net realisable value except dated listed securities which are stated at market value.

Pensions and other post retirement benefits

The expected cost of providing pensions and other post retirement benefits, as calculated periodically by independent actuaries, is charged to the profit and loss account so as to spread the cost over the expected average remaining service lives of current employees.

Consolidated Profit and Loss Account

For the year ended 31st March, 1999

		Note	1999 £ million	1998 Restated £ million
Turnover				
Group turnover	– retained businesses	2	**6,590**	5,875
	– disposals	2	**–**	394
Share of joint ventures		12	**1,035**	896
		1	**7,625**	7,165
Operating profit				
Group operating profit	– retained businesses after £86 million (1998 £51 million) exceptional charges before goodwill amortisation		**763**	654
	– goodwill amortisation		**(189)**	(130)
		2	**574**	524
Disposals		2	**–**	9
Share of joint ventures after £10 million (1998 nil) exceptional charges		12		
	– before goodwill amortisation		**81**	69
	– goodwill amortisation		**(8)**	(7)
			647	595
Group and joint venture operating profit before exceptional items and goodwill amortisation			**940**	783
Alstom	– before goodwill amortisation		**58**	159
	– goodwill amortisation		**(16)**	(12)
Other associates			**17**	17
			706	759
Separation costs		3	**(50)**	–
Exceptional items, gains less losses on disposals of subsidiaries and other fixed assets		3	**775**	20
Income from loans, deposits and investments, less interest payable				
Group			**54**	64
Share of joint ventures			**13**	10
Alstom			**6**	26
		1 & 4	**73**	100
Profit on ordinary activities before taxation		1	**1,504**	879
Tax on profit on ordinary activities		5	**(433)**	(311)
Profit on ordinary activities after taxation			**1,071**	568
Minority interests		6	**(17)**	(59)
Profit on ordinary activities attributable to the shareholders			**1,054**	509
Dividends		7	**(348)**	(311)
Retained profit for the financial year			**706**	198
Earnings per share		8	**38.9p**	18.2p
Earnings per share before exceptional items and goodwill amortisation		8	**27.1p**	23.8p
Diluted earnings per share		8	**38.5p**	18.1p

Balance Sheets

31st March, 1999

	Note	Group 1999 £ million	Group 1998 Restated £ million	Company 1999 £ million	Company 1998 £ million
Fixed assets					
Goodwill	9	**3,281**	1,781	**–**	–
Tangible assets	10	**982**	871	**24**	23
Investments:					
Shares in Group companies	11			**4,069**	3,445
Joint ventures				**365**	365
Share of gross assets		**1,439**	821		
Share of gross liabilities		**(995)**	(498)		
Share of net assets		**444**	323		
Alstom		**943**	725	**943**	520
Other associates		**32**	98	**1**	58
Other		**52**	20	**49**	17
	12	**1,471**	1,166	**1,358**	960
		5,734	3,818	**5,451**	4,428
Current assets					
Stocks and contracts in progress	13	**1,052**	940	**–**	–
Debtors					
Outside the Group	14	**1,953**	1,726	**27**	79
Group companies				**1,472**	624
Investments	15	**224**	331	**10**	12
Cash at bank and in hand	15	**1,135**	1,097	**482**	308
		4,364	4,094	**1,991**	1,023
Creditors: amounts falling due within one year					
Outside the Group	16	**(3,216)**	(2,131)	**(1,215)**	(341)
Group companies				**(1,506)**	(1,816)
Net current assets/(liabilities)		**1,148**	1,963	**(730)**	(1,134)
Total assets less current liabilities		**6,882**	5,781	**4,721**	3,294
Creditors: amounts falling due after more than one year					
Outside the Group	16	**(266)**	(231)	**–**	–
Provisions for liabilities and charges	17	**(535)**	(635)	**(72)**	(105)
		6,081	4,915	**4,649**	3,189
Capital and reserves					
Called up share capital		**134**	136	**134**	136
Share premium account		**208**	182	**208**	182
Capital redemption reserve		**9**	6	**9**	6
Revaluation reserve		**847**	–	**708**	–
Profit and loss account		**4,791**	4,371	**3,590**	2,865
Equity shareholders' interest	19	**5,989**	4,695	**4,649**	3,189
Minority interests		**92**	220		
		6,081	4,915	**4,649**	3,189

These accounts were approved by the Board of Directors on 9th June, 1999.
Signed on behalf of the Board of Directors.

Sir Roger Hurn } *Directors*
Lord Simpson

Cash Flow Statement

For the year ended 31st March, 1999

	Note	1999 £ million	1998 Restated £ million
Net cash inflow from operating activities	20	**775**	853
Dividends and management fees received from joint ventures and associates		**438**	125
Net cash inflow from returns on investments and servicing of finance	21	**25**	32
Tax paid	21	**(358)**	(269)
Net cash outflow from capital expenditure and financial investment	21	**(286)**	(242)
Net cash inflow/(outflow) from acquisitions and disposals	21	**(636)**	229
Equity dividends paid to shareholders		**(218)**	(339)
Cash inflow/(outflow) before use of liquid resources and financing		**(260)**	389
Net cash inflow/(outflow) from management of liquid resources	21	**138**	(85)
Net cash inflow/(outflow) from financing:			
Purchases of ordinary shares		**(310)**	(301)
Other	21	**516**	(27)
Increase/(decrease) in cash and net bank balances repayable on demand		**84**	(24)

Reconciliation of Net Cash Flow to Movement in Net Monetary Funds (Note 22)

For the year ended 31st March, 1999

	1999 £ million	1998 £ million
Increase/(decrease) in cash	**84**	(24)
Cash inflow/(outflow) from investment in liquid resources	**(138)**	85
Cash inflow/(outflow) from decrease in debt and lease financing	**(489)**	54
Change in net monetary funds resulting from cash flows	**(543)**	115
Net debt acquired with subsidiaries	**(172)**	(5)
Finance leases of subsidiaries sold	**–**	10
Effect of foreign exchange rate changes	**15**	(22)
Movement in net monetary funds in the period	**(700)**	98
Net monetary funds at 1st April	**1,184**	1,086
Net monetary funds at 31st March	**484**	1,184

Net monetary funds comprise cash and liquid resources less bank borrowings, debentures and other loans including obligations under finance leases.

Statement of Total Recognised Gains and Losses

For the year ended 31st March, 1999

	1999 £ million	1998 Restated £ million
Profit on ordinary activities attributable to the shareholders		
Group	**947**	318
Share of joint ventures	**67**	46
Share of associates	**40**	145
	1,054	509
Surplus on valuation of listed fixed asset investments	**847**	–
Exchange differences on translation		
Group	**36**	(75)
Share of joint ventures	**3**	(6)
Share of associates	**(15)**	(50)
	24	(131)
Total recognised gains and losses	**1,925**	378

Prior period adjustments since 1st April, 1998 for the reinstatement of purchased goodwill amount to £2,101 million.

Reconciliation of Movements in Shareholders' Funds

For the year ended 31st March, 1999

	Note	1999 £ million	1998 Restated £ million
Total recognised gains and losses		**1,925**	378
Dividends	7	**(348)**	(311)
Scrip dividend		**–**	29
Issues of ordinary shares for cash		**27**	27
Purchases of ordinary shares for cash		**(310)**	(301)
Total movement in the year		**1,294**	(178)
Shareholders' funds at 1st April (restated)		**4,695**	4,873
Shareholders' funds at 31st March		**5,989**	4,695

Published shareholders' funds at 1st April, 1997 were £2,687 million; these have been restated by £2,167 million for the reinstatement of purchased goodwill (Note 9) and by £19 million for the after-tax effect of the FRS 12 adjustment (Note 1).

Notes to the Accounts

1 Principal activities, profit contributions, markets and net assets employed

Analysis of results and net assets by classes of business

Average number of employees 1999 000s	1998 Restated 000s		Profit 1999 £ million	1998 Restated £ million	Turnover 1999 £ million	1998 Restated £ million	Net assets at 31st March 1999 £ million	1998 Restated £ million
17	17	Communications	**295**	252	**1,858**	1,715	**503**	397
10	10	Systems	**151**	130	**1,501**	1,277	**449**	345
13	12	Capital	**78**	87	**772**	826	**192**	207
1	2	Other (including intra-activity sales)	**(16)**	(30)	**(41)**	(50)	**30**	28
41	41		**508**	439	**4,090**	3,768	**1,174**	977
43	36	Electronic Systems	**432**	335	**3,535**	3,003	**320**	188
–	4	Disposals	**–**	9	**–**	394	**–**	8
		Goodwill	**(197)**	(137)			**3,538**	1,883
84	81		**743**	646	**7,625**	7,165	**5,032**	3,056
		Exceptional items – continuing operations (Note 3)	**(96)**	(51)				
			647	595				
		Alstom – before goodwill amortisation	**58**	159			**943**	725
		– goodwill amortisation	**(16)**	(12)				
		Other associates	**17**	17			**32**	98
		Operating profit	**706**	759				
		Separation costs	**(50)**	–				
		Exceptional items, gains less losses on disposals of subsidiaries and other fixed assets	**775**	20				
		Interest bearing assets and liabilities	**67**	74			**610**	1,381
		Share of Alstom interest	**6**	26				
		Unallocated net liabilities					**(536)**	(345)
			1,504	879			**6,081**	4,915

Comparative figures have been restated to include the results of businesses which were sold in this and the previous financial year under the heading 'Disposals'. All turnover and profit, including businesses sold, represent continuing operations as defined in Financial Reporting Standard 3, Reporting Financial Performance.

Average numbers of employees, profit, turnover and net assets include the GEC share of joint ventures. An analysis of the amounts of profit, turnover and net assets included is given in Note 12.

Sales of Group companies to joint ventures and associates amounted to £102 million (1998 £162 million). Purchases from joint ventures and associates amounted to £54 million (1998 £85 million).

The contribution of subsidiaries acquired in the year ended 31st March, 1999 was £610 million to turnover and £55 million to operating profit before exceptional items and goodwill amortisation.

For the year to 31st March, 1998 and for the period from 1st April, 1998 to its flotation on 25th June, 1998 the results of Alstom reflect the Group's 50 per cent shareholding. From the date of flotation to 30th September, 1998 the Group's shareholding was 24 per cent. For the 6 months to 30th September, 1998 Alstom is included as an associate and comparative figures have been restated accordingly. This necessary reclassification results in a restatement of earnings per share before exceptional items and goodwill amortisation for the year ended 31st March, 1998 from 24.7 pence to 23.8 pence, due to the treatment of exceptional items recorded by Alstom last year.

After careful review of the Company's actual involvement in Alstom since 30th September, 1998, the Company does not now believe that it exercises significant influence and, accordingly, has treated Alstom as a fixed asset investment from that date. The Directors have decided that, in order to reflect the value of this investment to the Company, it is appropriate to state the investment at its market value at the balance sheet date.

The share of Alstom turnover for the six months to 30th September, 1998 was £1,603 million (1998 full year £3,618 million).

The adoption of FRS 12 has resulted in a charge of £27 million in exceptional items – continuing operations in the year ended 31st March, 1998.

1 Principal activities, profit contributions, markets and net assets employed continued

Analysis of turnover by classes of business

	To customers in the United Kingdom 1999 £ million	1998 Restated £ million	To customers overseas 1999 £ million	1998 Restated £ million
Communications	**795**	694	**1,063**	1,021
Systems	**49**	42	**1,452**	1,235
Capital	**495**	516	**277**	310
Electronic Systems	**1,269**	1,196	**2,266**	1,807
Business disposals	**–**	57	**–**	337
Other (including intra-activity sales)	**(59)**	(96)	**18**	46
	2,549	2,409	**5,076**	4,756

Analysis of turnover by territory of destination

	1999 £ million	1998 Restated £ million
United Kingdom	**2,549**	2,409
Rest of Europe	**1,777**	1,656
The Americas	**2,399**	1,733
Africa, Asia and Australasia	**900**	1,367
	7,625	7,165

Analysis of profit before exceptional items, turnover and net assets by territory of origin

	Profit 1999 £ million	1998 Restated £ million	Turnover 1999 £ million	1998 Restated £ million	Net assets at 31st March 1999 £ million	1998 Restated £ million
United Kingdom	**527**	457	**3,678**	3,981	**578**	464
Rest of Europe	**92**	112	**1,219**	1,000	**289**	231
The Americas	**282**	193	**2,362**	1,687	**550**	423
Africa, Asia and Australasia	**39**	21	**366**	497	**77**	55
Goodwill	**(197)**	(137)			**3,538**	1,883
	743	646	**7,625**	7,165	**5,032**	3,056

2 Group operating profit

	1999 £ million	1998 Restated £ million
Sales to customers outside the Group	**6,590**	6,269
Own work capitalised	**9**	9
Other operating income	**57**	90
	6,656	6,368
Increase in stocks of finished goods and work in progress	**(284)**	(5)
Raw materials and consumables	**2,584**	2,420
Staff costs (Note 27)	**2,066**	1,864
Depreciation and amortisation	**396**	355
Cost of hire of plant	**20**	16
Other external and operating charges	**1,298**	1,156
Auditors' remuneration	**2**	3
	6,082	5,809
Operating profit arising in the Group	**574**	559
Less management fees receivable from joint venture	**–**	(26)
	574	533
Retained businesses	**574**	524
Disposals	**–**	9
	574	533

3 (a) Exceptional items – continuing operations

	1999 £ million	1998 Restated £ million
Restructuring and reorganisation costs		
For businesses acquired in the year		
Group	**40**	9
Joint ventures	**–**	–
Other businesses		
Group (restated to comply with FRS 12)	**5**	27
Joint ventures	**9**	–
Year 2000 costs		
Group	**41**	15
Joint ventures	**1**	–
	96	51
Analysed between		
Communications	**28**	1
Systems	**7**	10
Capital	**16**	1
Electronic Systems	**47**	33
Other	**(2)**	6
	96	51
United Kingdom	**62**	46
Rest of Europe	**10**	2
The Americas	**22**	2
Africa, Asia and Australasia	**2**	1
	96	51

(b) Separation costs

The costs of separating Electronic Systems include fees to professional advisors and the consequent cost of the reorganisation of New GEC businesses.

3 Exceptional items – continuing operations continued

(c) Gains less losses on disposals of subsidiaries and other fixed assets

	1999 £ million	1998 £ million
Flotation of Alstom	**944**	–
Goodwill written off on disposal	**(199)**	–
	745	–
Other	**30**	20
	775	20

4 Income from loans, deposits and investments, less interest payable

	1999 £ million	1998 £ million
Income from fixed asset investments		
Listed investments	**1**	1
Unlisted investments	**1**	1
Income receivable from current asset investments and cash		
Loans and deposits	**102**	84
Listed investments	**7**	7
	111	93
Interest payable		
Bank loans and overdrafts	**(42)**	(18)
Loan capital	**(3)**	(3)
Other	**(12)**	(7)
Finance leases	**–**	(1)
	(57)	(29)
	54	64
Share of net interest income receivable of joint ventures and Alstom	**19**	36
	73	100

5 Tax on profit on ordinary activities

	1999 £ million	1998 Restated £ million
United Kingdom taxation		
Corporation tax 31% (1998 31%)	**463**	155
Double taxation relief	**(193)**	(40)
Deferred taxation 30% (1998 31%)	**15**	(17)
Joint ventures and associates	**10**	21
	295	119
Overseas taxation		
Current	**127**	122
Deferred taxation	**–**	(4)
Joint ventures and associates	**35**	78
	162	196
Over provisions of previous years	**(24)**	(4)
	433	311

Tax on profit includes a charge of £135 million for profits on sale of subsidiaries and other fixed asset investments (1998 credit £13 million), and a credit of £39 million for exceptional items – continuing operations and separation costs (1998 credit £11 million).

6 Minority interests

Minority interests represent the share of the profits less losses on ordinary activities after taxation attributable to the interests of equity shareholders in subsidiaries which are not wholly-owned by the Company or its subsidiaries.

7 Dividends

	1999 £ million	1998 £ million
Interim 4.20p per share (1998 3.43p)	**112**	93
Final proposed 8.8p per share (1998 8.00p)	**236**	218
	348	311

8 Earnings per share

Earnings per share are calculated by reference to a weighted average of 2,711.6 million ordinary shares (1998 restated 2,793.4 million ordinary shares) in issue during the year, which have been adjusted following the exercise of the put warrants on 6th October, 1998, as required by FRS 14.

Exceptional costs charged against operating profit, non-operating exceptional gains and losses and goodwill amortisation do not relate to the profitability of the Group on an ongoing basis. Therefore an adjusted earnings per share is presented, as follows:

	1999		1998	
	Earnings £ million	Earnings per share pence	Earnings £ million	Earnings per share pence
Earnings and earnings per share	**1,054**	**38.9**	509	18.2
Exceptional items:				
Continuing operations	**96**	**3.5**	51	1.8
(Gains) less losses on disposals of subsidiaries and other fixed assets	**(775)**	**(28.5)**	(20)	(0.7)
Separation costs	**50**	**1.8**	–	–
Taxation arising on exceptional items (Note 5)	**96**	**3.5**	(24)	(0.9)
Goodwill amortisation	**213**	**7.9**	149	5.4
Earnings, excluding exceptional items and goodwill amortisation, and adjusted earnings per share	**734**	**27.1**	665	23.8

Diluted earnings per share are calculated by reference to a weighted average of 2,738.7 million ordinary shares (1998 2,810.3 million ordinary shares) in issue during the year. This includes the weighted average number of ordinary shares which would be issued on exercise of share options, calculated in accordance with FRS 14.

9 Goodwill

	Cost £ million	Amortisation £ million	Net book value £ million
At 1st April, 1998	2,690	(909)	1,781
Acquisitions	1,689	–	1,689
Charged to profit and loss account	–	(189)	(189)
At 31st March, 1999	**4,379**	**(1,098)**	**3,281**

In accordance with FRS 10, purchased goodwill is now capitalised and amortised over its estimated useful life. Previously all goodwill was written off to reserves on acquisition. This new policy has been applied retrospectively and prior year figures have been restated accordingly. This has given rise to a restatement of the accumulated balance on retained profits of £2,167 million. The restatement represents the identifiable goodwill previously written off including joint ventures and associates net of accumulated amortisation of £800 million and impairment of £55 million as at 1st April, 1997. Previously reported operating profit for the year ended 31st March, 1998 has been reduced by £149 million for the amortisation charge.

10 Tangible fixed assets

Group	Freehold property £ million	Leasehold property Long £ million	Leasehold property Short £ million	Plant and machinery £ million	Fixtures fittings tools and equipment £ million	Payments on account and assets under construction £ million	Total £ million
Cost at 1st April, 1998	438	102	41	993	640	38	2,252
Exchange rate adjustment	5	–	1	6	7	1	20
Additions	30	–	9	118	117	33	307
Businesses acquired	26	–	15	30	9	3	83
Disposals	(30)	–	(1)	(103)	(74)	–	(208)
Businesses sold/transferred to joint ventures	(1)	–	(16)	(120)	(26)	(3)	(166)
Cost at 31st March, 1999	468	102	49	924	673	72	2,288
Depreciation at 1st April, 1998	135	36	20	717	473	–	1,381
Exchange rate adjustment	1	–	1	6	6	–	14
Charged to profit and loss account	17	2	4	109	75	–	207
Disposals	(15)	–	(1)	(103)	(68)	–	(187)
Businesses sold/transferred to joint ventures	–	–	(1)	(89)	(19)	–	(109)
Depreciation at 31st March, 1999	138	38	23	640	467	–	1,306
Net book value at 31st March, 1999	330	64	26	284	206	72	982
Net book value at 31st March, 1998	303	66	21	276	167	38	871

Company	Freehold property £ million	Leasehold property Long £ million	Leasehold property Short £ million	Plant and machinery £ million	Fixtures fittings tools and equipment £ million	Payments on account and assets under construction £ million	Total £ million
Cost at 1st April, 1998	25	–	2	2	5	–	34
Additions	–	–	–	1	2	–	3
Disposals	–	–	–	–	(1)	–	(1)
Cost at 31st March, 1999	25	–	2	3	6	–	36
Depreciation at 1st April, 1998	6	–	–	2	3	–	11
Charged to profit and loss account	1	–	–	–	1	–	2
Disposals	–	–	–	–	(1)	–	(1)
Depreciation at 31st March, 1999	7	–	–	2	3	–	12
Net book value at 31st March, 1999	18	–	2	1	3	–	24
Net book value at 31st March, 1998	19	–	2	–	2	–	23

The net book value of tangible fixed assets of the Group includes an amount of £11 million (1998 £21 million) in respect of assets held under finance leases, on which the depreciation charge for the year was £2 million (1998 £3 million).

Depreciation rates:

Freehold buildings – 2 per cent to 4 per cent per annum
Leasehold property – over period of lease or 50 years for long leases
Plant, machinery, fixtures, fittings, tools and equipment – on average, in excess of 10 per cent per annum.

11 Fixed asset investments – shares in Group companies

	At cost £ million	Provisions £ million	Net book value £ million
At 1st April, 1998	3,456	(11)	3,445
Additions	1,189	–	1,189
Disposals	(565)	–	(565)
At 31st March, 1999	4,080	(11)	4,069

The principal subsidiaries are shown on page 76.

12 Fixed asset investments – joint ventures, associates and other

Group	Joint ventures and associates Shares Cost less amounts written-off £ million	Joint ventures and associates Share of post acquisition reserves £ million	Joint ventures and associates Loans £ million	Other investments Cost or valuation £ million	Other investments Provisions £ million	Total £ million
At 1st April, 1998	865	279	2	59	(39)	1,166
Exchange rate and other adjustments	–	(12)	–	–	–	(12)
Additions	58	–	25	–	–	83
Disposals and repayments	(442)	161	–	(37)	37	(281)
Reclassification	(217)	89	–	128	–	–
Profits less losses retained	–	(332)	–	–	–	(332)
Surplus on valuation of listed investments	–	–	–	847	–	847
At 31st March, 1999	264	185	27	997	(2)	1,471

The investment in joint ventures and associates includes capitalised goodwill of £257 million (1998 £114 million).

Company	Joint ventures and associates Shares Cost £ million	Joint ventures and associates Shares Provisions £ million	Other investments Shares Cost £ million	Other investments Shares Provisions £ million	Total £ million
At 1st April, 1998	944	(1)	55	(38)	960
Disposals and repayments	(310)	–	(37)	37	(310)
Reclassification	(267)	–	267	–	–
Surplus on valuation of listed investments	–	–	708	–	708
At 31st March, 1999	367	(1)	993	(1)	1,358

The principal joint ventures and associates are shown on page 77.

12 Fixed asset investments – joint ventures, associates and other continued

Turnover, profits less losses and goodwill attributable to the Group's interest retained by joint ventures and associates.

	1999 £ million	1998 Alstom £ million	Other £ million	Total £ million
Turnover	**1,293**	3,618	1,214	4,832
Profit on ordinary activities before tax				
Operating profit after exceptional items and goodwill amortisation	**90**	147	79	226
Non-operating exceptional items	**–**	28	–	28
Net interest income receivable	**13**	26	10	36
Management fees payable to shareholders	**–**	(26)	–	(26)
	103	175	89	264
Taxation	**(25)**	(67)	(32)	(99)
Profit on ordinary activities after tax	**78**	108	57	165
Paid in dividends (nil from listed companies (1998 £114,000))				
Joint ventures	**(30)**			(96)
Associates	**(3)**			(3)
	45			66

Market values

Listed fixed asset investments are stated at market value, as follows:

	1999 £ million
Alstom – listed overseas	**943**
Other investments – listed overseas	**49**

No provision has been made for taxation of £95 million which could arise if these investments were realised at the values stated.

Share of summarised balance sheets of joint ventures (1999 and 1998) and Alstom (1998).

	1999 Joint ventures £ million	1998 Joint ventures £ million	Alstom £ million
Goodwill	**257**	103	206
Other fixed assets	**156**	119	767
Current assets			
Stocks and contracts in progress	**362**	166	1,455
Debtors	**482**	246	2,612
Current asset investments and cash	**182**	187	539
Liabilities falling due within one year			
Payments received in advance	**(315)**	(147)	(2,287)
Creditors	**(442)**	(288)	(1,349)
Bank and other loans	**(108)**	(5)	(85)
Liabilities falling due after more than one year			
Accrued contract costs and provisions	**(130)**	(52)	(1,046)
Bank and other loans	**–**	(6)	(58)
Minority interests	**–**	–	(29)
Shareholders' funds	**444**	323	725

12 Fixed asset investments – joint ventures, associates and other continued

Joint ventures comprise Alenia Marconi Systems, Thomson Marconi Sonar, Matra Marconi Space, Comstar, General Domestic Appliances, Fleet Support and Plessey Holdings. Information on the Group interest in joint ventures included in Note 1 is as follows:

	Profit		Turnover		Net assets at 31st March	
	1999 £ million	1998 £ million	**1999 £ million**	1998 £ million	**1999 £ million**	1998 £ million
By classes of business						
Capital	**25**	33	**301**	328	**73**	62
Electronic Systems	**66**	36	**734**	568	**17**	(16)
Goodwill	**(8)**	(7)			**257**	103
	83	62	**1,035**	896	**347**	149
Exceptional items – continuing operations	**(10)**	–				
Interest bearing assets and liabilities	**13**	10			**74**	176
Unallocated net assets/(liabilities)	**–**	–			**23**	(2)
	86	72			**444**	323
By territory of origin						
United Kingdom	**43**	40	**539**	559	**89**	24
Rest of Europe	**47**	28	**470**	319	**–**	21
The Americas	**–**	–	**2**	–	**–**	1
Africa, Asia and Australasia	**1**	1	**24**	18	**1**	–
Goodwill	**(8)**	(7)			**257**	103
	83	62	**1,035**	896	**347**	149

13 Stocks and contracts in progress

	Group		Company	
	1999 £ million	1998 £ million	**1999 £ million**	1998 £ million
Raw materials and bought-out components	**212**	167	**–**	–
Work in progress	**257**	270	**–**	–
Payments on account	**(57)**	(78)	**–**	–
Long-term contract work in progress	**1,496**	1,127	**–**	–
Payments on account	**(1,082)**	(777)	**–**	–
Finished goods	**226**	231	**–**	–
	1,052	940	**–**	–

14 Debtors

	Group 1999 £ million	1998 £ million	Company 1999 £ million	1998 £ million
Amounts falling due within one year				
Trade debtors	**1,434**	1,183	**2**	2
Amounts recoverable on contracts	**111**	95	**–**	–
Corporation tax recoverable	**65**	51	**–**	–
Amounts owed by joint ventures and associates	**52**	68	**1**	1
Other debtors	**92**	68	**4**	5
Prepayments and accrued income	**81**	74	**9**	11
	1,835	1,539	**16**	19
Amounts falling due after more than one year				
Trade debtors	**20**	21	**–**	–
Amounts recoverable on contracts	**1**	19	**–**	–
Advance corporation tax recoverable	**–**	55	**–**	55
Other debtors	**38**	4	**–**	–
Prepayments and accrued income	**5**	2	**–**	–
Deferred taxation (Note 18)	**54**	86	**11**	5
	118	187	**11**	60
	1,953	1,726	**27**	79

15 Current asset investments and cash at bank and in hand

	Group 1999 £ million	1998 £ million	Company 1999 £ million	1998 £ million
Dated securities at market value				
Listed overseas – cost £106 million (1998 £112 million)	**110**	117	**–**	–
Other securities	**104**	202	**–**	–
Other investments at lower of cost and market value				
Listed in the United Kingdom – market value £10 million (1998 £12 million)	**10**	12	**10**	12
Investments	**224**	331	**10**	12
Cash at bank and in hand	**1,135**	1,097	**482**	308
	1,359	1,428	**492**	320
Divided between				
Cash and bank deposits repayable on demand (Note 32)	**265**	218	**37**	4
Liquid resources (Note 32)	**1,094**	1,210	**455**	316
	1,359	1,428	**492**	320

16 Creditors

	Group 1999 £ million	Group 1998 £ million	Company 1999 £ million	Company 1998 £ million
Amounts falling due within one year				
Bank loans and overdrafts				
Repayable on demand	**40**	81	**–**	1
Other	**761**	94	**644**	–
Debenture loans	**15**	10	**4**	4
Obligations under finance leases	**–**	4	**–**	–
	816	189	**648**	5
Payments received in advance	**408**	338	**–**	–
Trade creditors	**728**	698	**3**	2
Owed to joint ventures and associates	**106**	22	**78**	9
Taxation on profit	**33**	34	**24**	27
Advance corporation tax on accrued dividend	**–**	55	**–**	55
Other taxation and social security	**91**	78	**–**	1
Other creditors	**215**	133	**105**	13
Accruals and deferred income	**471**	366	**9**	11
Proposed dividend	**348**	218	**348**	218
	3,216	2,131	**1,215**	341
Amounts falling due after more than one year				
Bank loans	**–**	5	**–**	–
Debenture loans	**56**	50	**–**	–
Obligations under finance leases	**3**	–	**–**	–
	59	55	**–**	–
Payments received in advance	**102**	105	**–**	–
Trade creditors	**2**	2	**–**	–
Other creditors	**103**	69	**–**	–
	266	231	**–**	–

16 Creditors continued

		Group		Company	
		1999 £ million	1998 £ million	**1999 £ million**	1998 £ million
Bank loans and overdrafts					
Unsecured		**801**	180	**644**	1
Debenture loans					
Secured against assets		**38**	32	**–**	–
Unsecured		**33**	28	**4**	4
Obligations under finance leases		**3**	4	**–**	–
	(Note 32)	**875**	244	**648**	5
Less amounts falling due within one year		**(816)**	(189)	**(648)**	(5)
Amounts falling due after more than one year		**59**	55	**–**	–
Analysis of repayments of loans and debentures					
Bank loans					
Between one and two years		**–**	5	**–**	–
Debenture and other loans					
Between one and two years		**8**	5	**–**	–
Between two and five years		**34**	26	**–**	–
In more than five years		**17**	19	**–**	–
		59	55	**–**	–
Debenture loans					
Repayable at par wholly within five years (average rate 4.5 per cent)		**45**	27	**4**	4
Repayable at par partly or wholly after five years mainly by instalments (average rate 3.8 per cent)					
Total amount		**26**	33	**–**	–
Instalments due after five years		**17**	19	**–**	–

Maturity of financial liabilities

The maturity of the Group's financial liabilities at 31st March, 1999, an analysis of which is shown in Note 32, was as follows:

In one year or less, or on demand	**816**
In more than one year but not more than two years	**54**
In more than two years but not more than five years	**81**
In more than five years	**28**
	979

Borrowing facilities

The Group has various undrawn committed borrowing facilities. The undrawn facilities available at 31st March, 1999 were:

Expiring in one year or less	**1,020**
Expiring in more than one year but not more than two years	**–**
Expiring in more than two years but not more than five years	**2,396**
	3,416

17 Provisions for liabilities and charges

	Restructuring £ million	Other £ million	Group total £ million	Company total £ million
At 1st April, 1998	126	509	635	105
Exchange rate adjustment	–	1	1	–
Additions	12	61	73	–
Disposals/transferred to joint ventures	(1)	(29)	(30)	–
Charged	42	178	220	1
Released	(29)	(125)	(154)	–
Spent against existing provisions	(53)	(157)	(210)	(34)
At 31st March, 1999	97	438	535	72

Other provisions of the Group and total provisions of the Company mainly comprise expected cost of maintenance under guarantees, other work in respect of products delivered, losses on contract work in progress, pensions and other post retirement benefits.

18 Deferred taxation assets

	Group £ million	Company £ million
At 1st April, 1998	86	5
Businesses acquired/transferred to joint ventures	(14)	–
Credited/(charged) to profit and loss account	(18)	6
At 31st March, 1999	54	11

Note

a Deferred tax asset balances are included in debtors – Note 14.

b Deferred taxation assets/(liabilities)

	Group		Company	
	1999 £ million	1998 £ million	**1999 £ million**	1998 £ million
Tax effect of timing differences on:				
Provisions and accruals for liabilities and income	**50**	83	**11**	5
Accelerated capital allowances	**4**	3	**–**	–
	54	86	**11**	5

c No provision is made for any taxation which might arise if reserves of overseas subsidiaries were distributed as such distributions are not expected to occur in the foreseeable future.

19 Equity shareholders' interest

Share capital

Share capital	Number of shares	£
Fully paid ordinary shares of 5p each		
Shares allotted at 1st April, 1998	2,721,204,288	136,060,214
Shares allotted under The GEC Employee 1992 Savings-Related Share Option Scheme	5,600,540	280,027
Shares allotted under The GEC Managers' 1984 Share Option Scheme	4,665,250	233,263
Shares allotted under The GEC 1997 Executive Share Option Scheme	163,648	8,182
Less: Shares purchased for cancellation	(54,328,160)	(2,716,408)
Shares allotted at 31st March, 1999	2,677,305,566	133,865,278
Unissued ordinary shares		41,134,722
Authorised		175,000,000

	£ million
Share premium account	
At 1st April, 1998	**182**
Added in the year	**26**
At 31st March, 1999	**208**

	£ million
Capital redemption reserve	
At 1st April, 1998	**6**
Cancellation of shares purchased	**3**
At 31st March, 1999	**9**

Revaluation Reserve

	Group £ million	Company £ million
Added in the year	**847**	**708**
At 31st March, 1999	**847**	**708**

Profit and loss account

	Group		Company	
	1999 £ million	1998 £ million	**1999 £ million**	1998 £ million
At 1st April	**4,371**	4,576	**2,865**	3,168
Added/(deducted) in the year	**420**	(205)	**725**	(303)
At 31st March	**4,791**	4,371	**3,590**	2,865

Note

1 At 31st March, 1999 options had been granted and were still outstanding in respect of the Company's ordinary shares of 5p under the Company's options schemes:

	Number of shares	Amount of shares £ million	Subscription price	Date normally exercisable
The GEC Employee 1992 Savings-Related Share Option Scheme	38,711,006	1.9	222 – 337p	1999-2003
The GEC Managers' 1984 Share Option Scheme	7,332,800	0.4	182 – 328p	1999-2004
The GEC 1997 Executive Share Option Scheme	33,578,692	1.7	404 – 553p	2000-2008

2 £185 million (1998 £279 million) of the Group's balance on profit and loss account is not available for distribution at 31st March, 1999, being the Group's share of reserves held by joint ventures and associates.

3 Pursuant to Section 230 of the Companies Act 1985 the Company is not presenting its own profit and loss account in addition to the consolidated profit and loss account on page 48. The profit of the Company for the financial year amounted to £1,380 million (1998 £281 million).

4 The Directors' interests as defined by the Companies Act 1985 (which includes trustee holdings and family interests incorporating holdings of infant children) in shares of the Company and its subsidiaries are as set out in the Report to the Shareholders by the Board on Directors' Remuneration on pages 42 and 43.

20 Net cash inflow from operating activities

	1999 £ million	1998 Restated £ million
Group operating profit	**574**	533
Depreciation charge	**207**	225
Goodwill amortisation	**189**	130
(Increase)/decrease in stocks	**(111)**	40
(Increase)/decrease in debtors	**(133)**	(61)
Increase in creditors	**133**	146
Increase/(decrease) in payments received in advance	**60**	(80)
(Decrease)/increase in provisions	**(144)**	(80)
	775	853

21 Analysis of cash flows shown net in the cash flow statement

	1999 £ million	1998 £ million
Returns on investments and servicing of finance		
Income received from loans, deposits and investments	**113**	93
Interest paid	**(59)**	(33)
Dividends paid to minority shareholders in subsidiaries	**(29)**	(28)
Net cash inflow from returns on investments and servicing of finance	**25**	32
Tax paid		
UK corporation tax paid	**(264)**	(138)
Overseas tax paid	**(94)**	(131)
Tax paid	**(358)**	(269)
Capital expenditure and financial investment		
Purchases of tangible fixed assets	**(307)**	(290)
Purchases less sales of fixed asset investments	**–**	(1)
Sales of tangible fixed assets	**21**	49
Net cash outflow from capital expenditure and financial investment	**(286)**	(242)
Acquisitions and disposals		
Investments in subsidiary companies (Note 23)	**(1,707)**	(64)
Net cash/(overdrafts) acquired with subsidiaries	**4**	8
Investments in joint ventures and associates (Note 24)	**–**	(1)
Net overdrafts transferred to joint ventures and associates	**17**	–
Sales of interests in subsidiaries and associates (Note 25)	**1,050**	305
Net (cash)/overdrafts disposed of with subsidiaries	**–**	(19)
Net cash inflow/(outflow) from acquisitions and disposals	**(636)**	229
Management of liquid resources – comprising term deposits generally of less than one year and other readily disposable current asset investments		
Deposits made with banks and similar financial institutions	**(5,455)**	(5,451)
Deposits withdrawn from banks and similar financial institutions	**5,547**	5,369
Purchases of Government and similar securities	**(13)**	(16)
Sales of Government and similar securities	**23**	61
Purchases of securities issued by banks and other corporate bodies	**(145)**	(195)
Sales of securities issued by banks and other corporate bodies	**181**	147
Net cash inflow/(outflow) from management of liquid resources	**138**	(85)
Financing – other		
Issues of ordinary shares	**27**	27
Increases/(decreases) in bank loans	**657**	(41)
Increases/(decreases) in debenture loans	**(164)**	(3)
Capital element of finance lease repayments	**(4)**	(10)
Net cash inflow/(outflow) from financing – other	**516**	(27)

22 Analysis of net monetary funds

	At 1st April 1998 £ million	Cash flow £ million	Acquisitions/ disposals (excluding cash and overdrafts) £ million	Exchange rate adjustment £ million	**At 31st March 1999 £ million**
Cash at bank and in hand	218	42		5	**265**
Overdrafts	(81)	42		(1)	**(40)**
		84			
Liquid resources	1,210	(138)	3	19	**1,094**
Amounts falling due within one year					
Bank loans	(94)	(662)	–	(5)	**(761)**
Debenture loans	(10)	3	(8)	–	**(15)**
Finance leases	(4)	3	–	1	**–**
Amounts falling due after more than one year					
Bank loans	(5)	5	–	–	**–**
Debenture loans	(50)	161	(165)	(2)	**(56)**
Finance leases	–	1	(2)	(2)	**(3)**
		(489)			
	1,184	(543)	(172)	15	**484**

23 Investments in subsidiary companies

	1999 £ million	1998 £ million
Net assets acquired		
Tangible fixed assets	**83**	20
Investments	**1**	–
Inventory	**115**	21
Debtors	**202**	25
Cash at bank and in hand	**16**	8
Liquid resources	**3**	–
Bank overdrafts	**(12)**	–
Creditors and provisions	**(307)**	(61)
Taxation	**(9)**	–
Loan capital	**(175)**	(5)
Minority interests	**113**	(7)
	30	1
Goodwill, including minority share	**1,689**	66
Purchase consideration	**1,719**	67
Accounted for by		
Cash subscribed (Note 21)	**1,707**	64
Deferred consideration	**6**	(6)
Investments in joint ventures and associates reclassified	**6**	9
	1,719	67

24 Investments in joint ventures and associates

	1999 £ million	1998 £ million
Net assets contributed		
Tangible fixed assets	**52**	–
Inventory	**128**	–
Debtors	**61**	–
Cash at bank and in hand	**50**	–
Bank overdrafts	**(67)**	–
Creditors and provisions	**(166)**	–
	58	–
Cash subscribed (Note 21)	**–**	1
Share of equity acquired	**58**	–
Accruals at 1st April	**(6)**	(6)
Accruals at 31st March	**6**	6
Purchase consideration	**58**	1

25 Sales of interests in subsidiaries and associates

	1999 £ million	1998 £ million
Net assets disposed of		
Tangible fixed assets	**5**	193
Investments in associates	**69**	8
Other fixed asset investments	**–**	5
Inventory	**2**	86
Debtors	**2**	91
Cash at bank and in hand	**–**	23
Bank overdrafts	**–**	(4)
Creditors and provisions	**(2)**	(104)
Finance leases	**–**	(10)
Goodwill	**199**	17
	275	305
Profit/(loss)	**775**	(8)
Consideration	**1,050**	297
Creditors and provisions at 1st April	**(25)**	(17)
Creditors and provisions at 31st March	**25**	25
	1,050	305

26 Goodwill

Goodwill arising on acquisitions:
During the year, acquisitions were made and accounted for using the acquisition method. Changes in the structure of the Group are shown in the Directors' Report on page 37.

	Subsidiaries £ million	Joint ventures and associates £ million	Total £ million
Purchase consideration	1,719	58	1,777
Fair value of net tangible assets acquired	30	(104)	(74)
Goodwill arising in the Group	1,689	162	1,851

Analysis of tangible assets of subsidiaries acquired

	Acquisition of Tracor			At book and fair value		
	Book value £ million	Fair value adjustments £ million	Fair value £ million	GPT £ million	Other £ million	Total £ million
Tangible fixed assets	74	(6)	68	–	15	83
Investments	7	(6)	1	–	–	1
Inventory	92	(7)	85	–	30	115
Debtors	133	(4)	129	–	73	202
Cash at bank and in hand/(overdrafts)	(3)	–	(3)	–	7	4
Liquid resources	–	–	–	–	3	3
Creditors and provisions	(103)	(151)	(254)	–	(53)	(307)
Loan capital	(166)	–	(166)	–	(9)	(175)
Taxation	15	(19)	(4)	–	(5)	(9)
Minority interests	–	–	–	111	2	113
	49	(193)	(144)	111	63	30

The fair value adjustments on Tracor mainly relate to revenue recognition on long-term contracts, deferred tax debit balances, contract loss provisions and accrued costs.

There were no other material adjustments to book values of subsidiaries acquired. Certain fair value adjustments at 31st March, 1999 were provisional.

The results of Tracor on a US GAAP basis for the three months from 1st January, 1998 to 31st March, 1998 were as follows:

	US$ million
Net sales	290.7
Earnings before interest, income tax and extraordinary items	26.3
Net income	11.7

Net income for the year ended 31st December, 1997 was US$101.9 million.

27 Directors and employees

		1999	1998
a	Average number of employees working in the United Kingdom	**38,872**	44,323
	Gross remuneration	**£938 million**	£976 million
	State social security costs	**£89 million**	£91 million
	Other pension costs	**£41 million**	£42 million
b	Average number of employees working overseas	**35,381**	27,640
	Gross remuneration	**£880 million**	£653 million
	State social security costs	**£99 million**	£86 million
	Other pension costs	**£19 million**	£16 million
c	Average total number of employees	**74,253**	71,963
	Gross remuneration	**£1,818 million**	£1,629 million
	State social security costs	**£188 million**	£177 million
	Other pension costs	**£60 million**	£58 million
		£2,066 million	£1,864 million

d Summary of Directors' remuneration

	1999 £000	1998 £000
Salaries and fees	**2,823**	2,861
Other benefits	**511**	392
Bonuses	**1,237**	804
	4,571	4,057
Gains made on exercise of share options	**121**	137
Pension contributions, of which £642,000 (1998 £330,000) relate to defined contribution schemes	**735**	510
Compensation for loss of office	**–**	390
Total	**5,427**	5,094

Salaries and fees include £193,000 (1998 £133,000) in respect of fees.

During the year, 6 Directors (1998 7 Directors) were accruing benefits under the G.E.C. 1972 Plan and 2 Directors (1998 4 Directors) were members of the Selected Benefit Scheme. Three Directors were members of defined contribution schemes (FURBS) and other benefits include the payment of a non-pensionable earnings supplement in relation to their membership of these FURBS.

The total salaries, other benefits, bonuses and other remuneration payable to Directors include £1,085,000 (1998 £904,000) in respect of the highest paid Director. Pension contributions include £182,000 (1998 £183,000) for the highest paid Director. At 31st March, 1999, the highest paid Director was entitled to an accrued pension of £4,000 per annum (1998 £2,000) and an accrued lump sum of £1,495,000 (1998 £1,185,000) on retirement.

28 Pensions

Pension plan assets are held in trustee-administered funds independent of the Group's finances. The principal pension scheme, the G.E.C. 1972 Plan ('the Plan') covers nearly 86 per cent of employees who are members of pension plans in the UK and 49 per cent of worldwide scheme members. Benefits are primarily of the 'defined benefit' type.

The Plan was last valued by the Scheme Actuary as at 5th April, 1997, using the 'projected unit' method. The main financial assumptions for the future were that the return on investments would be 8.25 per cent per annum, that equity dividends would increase in the long-term by 4.5 per cent per annum, that increases in pensionable earnings due to inflation would average 6.0 per cent per annum, that present and future pensions would increase at the rate of 3.75 per cent per annum and State pensions by 4.0 per cent per annum.

The accumulated assets of the Plan were sufficient to finance 101 per cent of the past service liabilities including provision for future inflation. The market value of the assets was £4,715 million at the valuation date. The actuary advised that, taking account of members' contributions of 3 per cent and the residual surplus, the Company's contribution rate could be reduced from the long-term annual rate of 7.1 per cent to 6.6 per cent of pensionable earnings with effect from 6th April, 1998. The pension cost charge to the profit and loss account for the Plan for the year ended 31st March, 1999 amounted to £41 million (1998 £38 million). The provision in the balance sheet which resulted from the difference between the pension cost charge and contributions amounted to £26 million (1998 £29 million).

Total pension costs for other pension plans, mainly overseas, charged to the profit and loss account amounted to £19 million (1998 £20 million); prepayments, included in debtors, representing surpluses in overseas funds, amounted to £6 million (1998 £8 million) and provisions for unfunded liabilities amounted to £24 million (1998 £19 million).

29 Post retirement benefits other than pensions

At 31st March, 1999, 6,004 employees (1998 5,650 employees) and 4,233 retired employees (1998 3,215 retired employees) of companies in the United States of America and Canada were entitled to health care benefits after retirement. The schemes are unfunded.

The benefit cost charges and provisions for the liability included in the accounts are determined by a qualified independent actuary.

During the year, the benefits cost charge was £2 million (1998 £17 million, including a charge of £23 million in non-operating exceptional items); health care costs after retirement charged to the provision amounted to £5 million (1998 £5 million) and the retranslation for exchange movements increased the provision by £1 million (1998 £2 million decrease). The liability was increased in 1999 by £6 million for a business acquired. As a result, the provision at 31st March, 1999 was £81 million (1998 £77 million).

30 Contingent liabilities

	Group		Company	
	1999 £ million	1998 £ million	**1999 £ million**	1998 £ million
At 31st March	**25**	15	**10**	–

Contingent liabilities relate mainly to the cost of legal proceedings, which in the opinion of the Directors, are not expected to have a materially adverse effect on the Group.

31 Other information

	Group 1999 £ million	Group 1998 £ million	Company 1999 £ million	Company 1998 £ million
Capital expenditure commitments contracted at 31st March	**69**	47	**–**	–
Operating lease charges in the year				
Land and buildings	**34**	22	**2**	1
Other items	**12**	9	**–**	–
	46	31	**2**	1
Amounts payable under operating leases which fall due in the next financial year				
Land and buildings, leases expiring:				
Within one year	**7**	6	**2**	2
Between two and five years	**25**	8	**–**	–
After five years	**20**	9	**–**	–
Other items, leases expiring:				
Within one year	**2**	1	**–**	–
Between two and five years	**13**	7	**–**	–
After five years	**2**	1	**–**	–
	69	32	**2**	2

Non audit fees worldwide to the Group auditors amounted to £7.8 million, (1998 £1.1 million) including £1.6 million for Year 2000 Programme support and £2.8 million for professional advice on acquisitions, disposals and capital restructuring.

32 Financial instruments

Treasury policy and the Group's use of financial instruments are dealt with in the Finance Director's Review on pages 28 to 30. As permitted by FRS 13, comparative figures for the year ended 31st March, 1998 are not disclosed since it is impracticable to do so.

a Currency and interest rate risk profile of financial assets and financial liabilities

Financial assets

After taking into account interest rate swaps and forward currency contracts, the interest rate profile of the Group's financial assets at 31st March, 1999 was:

	Total £ million	Floating rate £ million	Fixed rate £ million	Non-interest bearing £ million	Average interest rate %	Fixed rate Weighted period years	Non-interest bearing weighted average period – years
Sterling	764	78	683	3	5.8	0.3	2.5
US Dollars	261	89	158	14	5.0	0.4	2.4
Euro	227	149	75	3	3.0	1.0	2.5
Other	128	54	73	1	5.1	1.4	2.5
Total	1,380	370	989	21	5.5	0.4	2.4
Liquid resources (Note 15)	1,094	197	897	–			
Cash at bank and in hand (Note 15)	265	173	92	–			
Long-term trade debtors and amounts recoverable on contracts	21	–	–	21			
	1,380	370	989	21			

Financial liabilities

After taking into account interest rate swaps and forward currency contracts, the interest rate profile of the Group's financial liabilities at 31st March, 1999 was:

	Total £ million	Floating rate £ million	Fixed rate £ million	Non-interest bearing £ million	Average interest rate %	Fixed rate Weighted period years	Non-interest bearing weighted average period – years
Sterling	96	6	–	90	–	–	3.2
US Dollars	681	53	623	5	5.8	9.3*	2.7
Euro	153	101	45	7	3.9	1.0	1.5
Other	49	34	13	2	6.7	1.0	2.3
Total	979	194	681	104	5.8	8.9	3.0
Borrowings (Note 16)	875	194	681	–			
Long-term trade creditors	104	–	–	104			
	979	194	681	104			

Floating rate borrowings and assets bear interest based on relevant national LIBOR equivalents.

The maturity profile of the Group's financial liabilities at 31st March, 1999 is shown in Note 16.

*As stated on page 28, interest rate swaps in a principal amount of US$1,000 million have been used to manage the Group's exposure to fluctuations in interest rates on US dollar borrowings.

32 Financial instruments continued

b Currency exposures

At 31st March, 1999, after taking into account the effects of currency swaps and forward foreign exchange contracts, the Group's currency exposures excluding borrowings treated as hedges, were:

	Net foreign currency monetary assets/(liabilities)				
Functional currency of Group operation	Sterling £ million	US Dollars £ million	Euro £ million	Other £ million	Total £ million
Sterling	–	44	50	(23)	71
US Dollars	53	–	–	–	53
Euro	53	(29)	–	(1)	23
Other	180	27	1	–	208
Total	286	42	51	(24)	355

The Group's net monetary funds and net assets by currency at 31st March, 1999 were:

	Net assets before net monetary funds £ million	Net monetary funds £ million	Net assets £ million
Sterling	4,034	(79)	3,955
US Dollars	773	199	972
Euro	599	50	649
Other	191	314	505
	5,597	484	6,081

c Fair values of financial assets and financial liabilities

The book values and fair values of the Group's financial assets and liabilities at 31st March, 1999 were:

	Book value £ million	Fair value £ million
Short-term financial liabilities and current portion of long-term borrowings	(816)	(816)
Long-term borrowings	(163)	(155)
Financial assets	1,380	1,378
Interest rate swaps	(10)	(10)
Forward foreign currency contracts	–	1
Currency swaps	–	–

The fair values of the interest rate swaps and forward foreign currency contracts have been determined by reference to prices available from the markets on which the instruments involved are traded. Other fair values have been calculated by discounting cash flows at prevailing interest rates.

32 Financial instruments continued

d **Gains and losses on hedges**

The Group enters into forward foreign exchange contracts to eliminate the currency exposures arising on sales and purchases denominated in foreign currencies as soon as there is a firm contractual commitment. It also uses interest rate swaps to manage its interest rate profile.

At 31st March, 1999, unrecognised cumulative aggregate gains and losses on financial assets and liabilities for which hedge accounting has been used amounted to £11 million for gains and £10 million for losses. £6 million of the gains and £4 million of the losses are expected to be recognised in the profit and loss account for the year ending 31st March, 2000.

It is impracticable to disclose the amount of the net gains or losses not recognised at 31st March, 1998 which were dealt with in the profit and loss account for the year ended 31st March, 1999.

33 Post Balance Sheet events

In April, 1999 the Group announced the acquisition of RELTEC Corporation for a total consideration, including assumed debt, of US$2.1 billion and agreement for the acquisition of FORE Systems, Inc. for a consideration, net of cash, of US$4.2 billion.

On 4th June, the Group completed a further committed credit facility of Euro 2.5 billion with a syndicate of relationship bankers.

Principal Subsidiaries, Joint Ventures and Associates

Communications

Marconi Communications Ltd	M W J Parton *Chief Executive*
Marconi Communications SpA, Italy	Ing. S Gualano *Managing Director*
Europe, Middle East and Africa	P R Brown
North America	D P Sheffler
Asia Pacific	J Chiu
Strategic Networks	N D Sutcliffe
Optical Networks	D O Lewis
Data, IP and Voice Networks	A Olivari
Defence and Mobile	S Gualano

Systems

	M J Donovan *Chief Executive*
Gilbarco Inc., USA	W B Korb
Picker International, Inc., USA	M J Donovan
Videojet Systems International, Inc., USA	C E Bauer

Capital

	E Bradley *Managing Director*
General Domestic Appliances Ltd (50%)	G E White
Avery Berkel Group	R D Goddard
Woods Air Movement Ltd*	D J Priest
EASAMS Ltd	P K Wharf

Electronic Systems

Marconi Electronic Systems Ltd	P O Gershon† *Managing Director*
Avionics	A E Cook
North America	M H Ronald
Naval Systems	R A Leggetter
Alenia Marconi Systems NV, Holland (50%)	I G King
Matra Marconi Space NV, Holland (49%)	L-A Carlier
Thomson Marconi Sonar NV, Holland (49.9%)	F B Carayol

Other Associated Companies

Plessey Holdings Ltd* (50%)

† Director of The General Electric Company, p.l.c.

1 The General Electric Company, p.l.c. (GEC) (and/or a subsidiary or subsidiaries in aggregate) owns 100 per cent of each class of the issued shares except where a smaller proportion and the class is indicated. Shares in companies marked with an asterisk (*) are owned directly by GEC, and in companies not so marked are owned by a subsidiary or subsidiaries of GEC. Further statutory information on associated companies is set out on page 77.

2 Companies are incorporated and operate in Great Britain and registered in England and Wales, or, in the case of overseas companies, the country indicated.

3 The above list of companies includes those businesses that had a material effect on the consolidated results to 31st March, 1999.

Statutory Information on Associated Companies

	Issued share capital Class of shares	Number	Proportion of shares held %	GEC Group equity interest %
United Kingdom				
General Domestic Appliances Holdings Ltd				50.00
	'A' shares of £1	1,140,000	–	
	'B' shares of £1	1,140,000	100.00	
	'C' shares of £10, non-voting	2,362,000	100.00	
	'D' shares of £1, non-voting	100,000	–	
Plessey Holdings Ltd				50.00
	'G' ordinary shares of £1	300,500,000	100.00	
	'S' ordinary shares of £1	300,500,000	–	
Overseas				
Alenia Marconi Systems NV, Holland				50.00
	'G' shares of DFL 10	3,500,000	100.00	
	'F' shares of DFL 10	3,500,000	–	
Comstar, Russian Federation				50.00
	Authorised fund (RURs)	23,021,000,000	50.00	
Matra Marconi Space NV, Holland				49.00
	'G' shares of DFL 1,000	24,500	100.00	
	'M' shares of DFL 1,000	25,500	–	
Thomson Marconi Sonar NV, Holland				49.90
	'G' shares of DFL 1,000	4,990	100.00	
	'T' shares of DFL 1,000	5,010	–	

Statistical Information 1990/99

	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m	1994 £m	1993 £m	1992 £m	1991 £m	1990 £m
Sales – subsidiaries and share of joint ventures	**7,625**	7,165	7,430	7,040	6,552	6,513	6,284	6,403	6,569	5,807
Profit before taxation										
Excluding exceptional items and goodwill amortisation	**1,088**	1,059	1,010	1,004	907	866	863	829	818	872
Total	**1,504**	879	734	981	891	866	863	863	812	1,036
Earnings per share										
Excluding exceptional items and goodwill amortisation	**27.1p**	23.8p	23.6p	22.9p	20.6p	19.8p	19.7p	18.6p	18.6p	20.2p
Total	**38.9p**	18.2p	15.4p	22.6p	20.6p	19.8p	19.7p	19.9p	18.4p	25.4p
Ordinary dividends	**348**	311	365	345	312	296	281	260	250	249
per share	**13.0p**	11.43p	13.15p	12.51p	11.37p	10.82p	10.30p	9.60p	9.25p	9.25p
Profit retained	**706**	198	62	278	252	244	255	277	247	433
Goodwill	**3,281**	1,781	–	–	–	–	–	–	–	–
Fixed assets	**982**	871	1,049	1,122	913	919	926	953	999	1,080
Investments	**1,471**	1,166	870	988	977	980	970	802	769	718
Inventories	**1,052**	940	1,114	1,197	1,175	1,149	1,195	1,223	1,362	1,504
Debtors	**1,953**	1,726	1,744	1,910	1,752	1,681	1,572	1,507	1,663	1,847
Net cash in the Group*	**484**	1,184	1,086	1,152	1,323	1,352	1,216	801	377	396
	9,223	7,668	5,863	6,369	6,140	6,081	5,879	5,286	5,170	5,545
Liabilities	**(3,142)**	(2,753)	(2,988)	(3,048)	(2,546)	(2,495)	(2,510)	(2,303)	(2,442)	(2,981)
	6,081	4,915	2,875	3,321	3,594	3,586	3,369	2,983	2,728	2,564
Financed by										
Shareholders' interest	**5,989**	4,695	2,687	3,112	3,348	3,328	3,101	2,712	2,484	2,328
Minority interests	**92**	220	188	209	246	258	268	271	244	236
	6,081	4,915	2,875	3,321	3,594	3,586	3,369	2,983	2,728	2,564

*Net cash in the Group consists of cash, bank balances and short-term investments, less bank borrowings, debentures and other loans including obligations under finance leases, described as "net monetary funds" in the accounts.

Note

Earnings per share figures for 1998 have been restated in accordance with FRS 14 for the impact of the free put warrant issue in 1999. Profit before taxation for 1997 and 1998 has been restated in accordance with FRS 12 for provisions originally charged in 1996/97 and restated to 1997/98. Profit before taxation, earnings per share and goodwill for 1998 have been restated in accordance with FRS 10 to reflect historical purchased goodwill on the Balance Sheet and to amortise it through the profit and loss account.

Information for Shareholders

Shareholder Analysis

Classification of shareholders*	Number of holders	Percentage of total holders	Number of shares	Percentage of issued capital
Individuals				
United Kingdom	82,012	70.4	203,650,187	7.6
Foreign	3,529	3.0	8,687,749	0.3
Institutions/Companies				
United Kingdom	30,473	26.2	2,429,034,531	90.7
Foreign	416	0.4	35,933,099	1.4
	116,430	100.0	2,677,305,566	100.0

(Nominee holdings have been included under Institutions/Companies)

Shareholding Range*

1 – 100		4,770	4.1	184,679	–
101 – 1,000		41,386	35.5	25,269,134	0.9
1,001 – 100,000		69,002	59.3	285,314,498	10.7
100,001 – 250,000		475	0.4	76,107,963	2.8
250,001 – 500,000		275	0.2	100,334,204	3.7
500,001 – 1,000,000		187	0.2	132,584,392	5.0
1,000,001 – and over		335	0.3	2,057,510,696	76.9
		116,430	100.0	2,677,305,566	100.0

*at 31st March, 1999

Financial Calendar

10th June, 1999	Preliminary Statement published including proposed final dividend for the year ended 31st March, 1999.
6th July, 1999	Annual Report and Accounts or Summary Financial Statement and letter from the Chairman to shareholders.
12th July, 1999	Ordinary shares first quoted 'ex-dividend'.
16th July, 1999	Record date for the final dividend.
6th August, 1999	Annual General Meeting.
20th August, 1999	Payment of final dividend.

UK Taxation

Income tax on dividends

Dividends are normally paid with a tax credit attaching which, together with the dividend, constitutes an individual shareholder's income for tax return purposes. From 6th April, 1999 with the abolition of advance corporation tax (ACT) the rate of tax credit is reduced to $^{10}/_{90}$ths. However, as a result of a reduction in the rate of tax on dividend income from 6th April, 1999 there should be no increase in the income tax borne by UK resident individual shareholders in respect of dividend income. Tax credits will in general no longer be repayable to individual shareholders whose tax liability is less than the associated tax credit.

Capital gains tax

The market value of GEC ordinary shares at 31st March, 1982 depends on the treatment afforded to the capital repayment of 15 pence per 25 pence share made by the Company in November, 1982 and the treatment of proceeds received in respect of the Auction or Exercise of Put Warrants in October, 1998.

If the capital repayment in November, 1982 has been treated as a part disposal for capital gains purposes, the market value is 163.1 pence per ordinary share of 5 pence each; where the November, 1982 capital repayment has been treated as a reduction of a shareholder's capital gains cost, the market value is 160.1 pence per ordinary share of 5 pence each. These market values are adjustable for individuals by the indexation allowance for periods up to 5th April, 1998 but not thereafter for disposals made after 5th April, 1998.

The resultant market values will need adjustment for the treatment of proceeds received in respect of the Auction of Put Warrants or the capital element received on Exercise of Put Warrants.

Shareholder Services

Registrar

Enquiries concerning shareholdings in GEC such as a change of address, dividend payments and share certificates should be addressed to:

The Registrar
The General Electric Company, p.l.c.
PO Box 310, Lichfield Road
Stafford ST17 4LN
Telephone: +44 (0)1785 251446
Facsimile: +44 (0)1785 251025

The GEC Share Purchase Scheme

The Company has appointed NatWest Stockbrokers Limited to manage the GEC Share Purchase Scheme, a facility open to individual GEC shareholders who wish to acquire additional GEC shares.

Details can be obtained by writing to:

The GEC Share Purchase Scheme
NatWest Stockbrokers Limited
Corporate and Employee Services
2nd Floor
55 Mansell Street
London E1 8AN
Telephone: +44 (0)171 895 5448

Individual Savings Account (ISA) and share dealing service

The Company has appointed Barclays Stockbrokers to manage the Company's ISA (limit £7,000 for year ending 5th April, 2000, thereafter annual limit £5,000) and to provide shareholders and prospective shareholders with a share dealing service.

Details can be obtained by writing to or telephoning:

Barclays Stockbrokers
Marketing Support Department
Tay House
300 Bath Street
Glasgow G2 4JR
Telephone: +44 (0)345 777400

Share price information

The GEC share price is available on Ceefax, Teletext and the FT Cityline service, telephone number 0336 432676 (calls charged at 39p per minute cheap rate and 49p per minute at all other times).

General enquiries

For enquiries relating to matters not mentioned above, please write to:

The Secretary
The General Electric Company, p.l.c.
One Bruton Street
London W1X 8AQ
or telephone during normal office hours on +44 (0)171 493 8484

Annual General Meeting

The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE, 12 noon, 6th August, 1999.

Unsolicited Mail

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