

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.

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.

we act 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.

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.



we are global

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.

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 leaders

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.

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

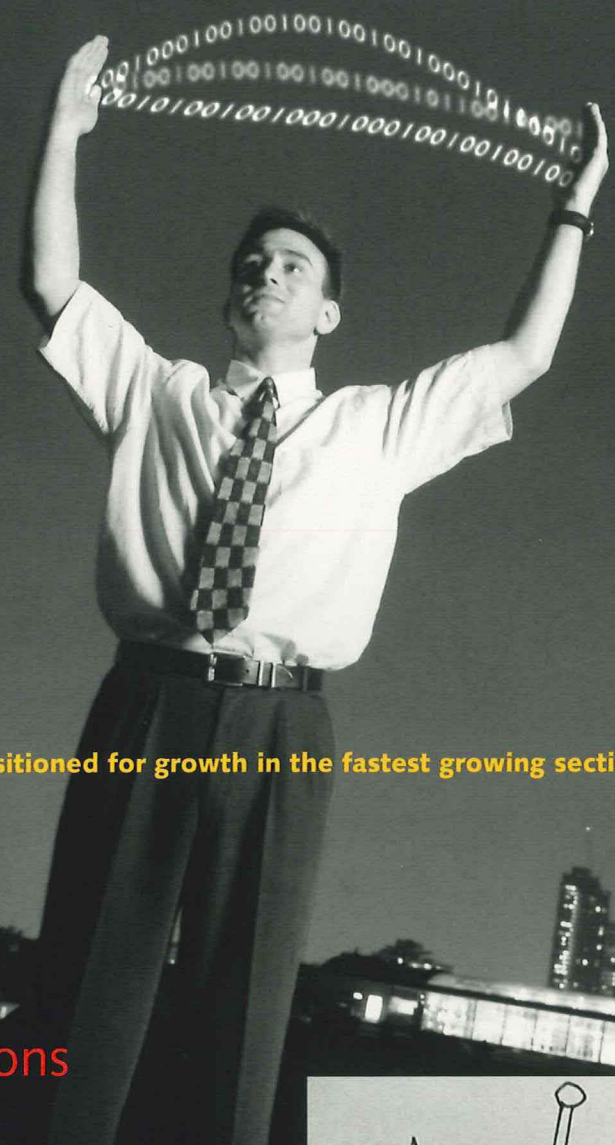
Three profitable and growing companies which have strong market positions, leading technology and established installed bases with global customers. Based in and managed from the US, the businesses are linked by a common technological capability in the collection, management and communication of digital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

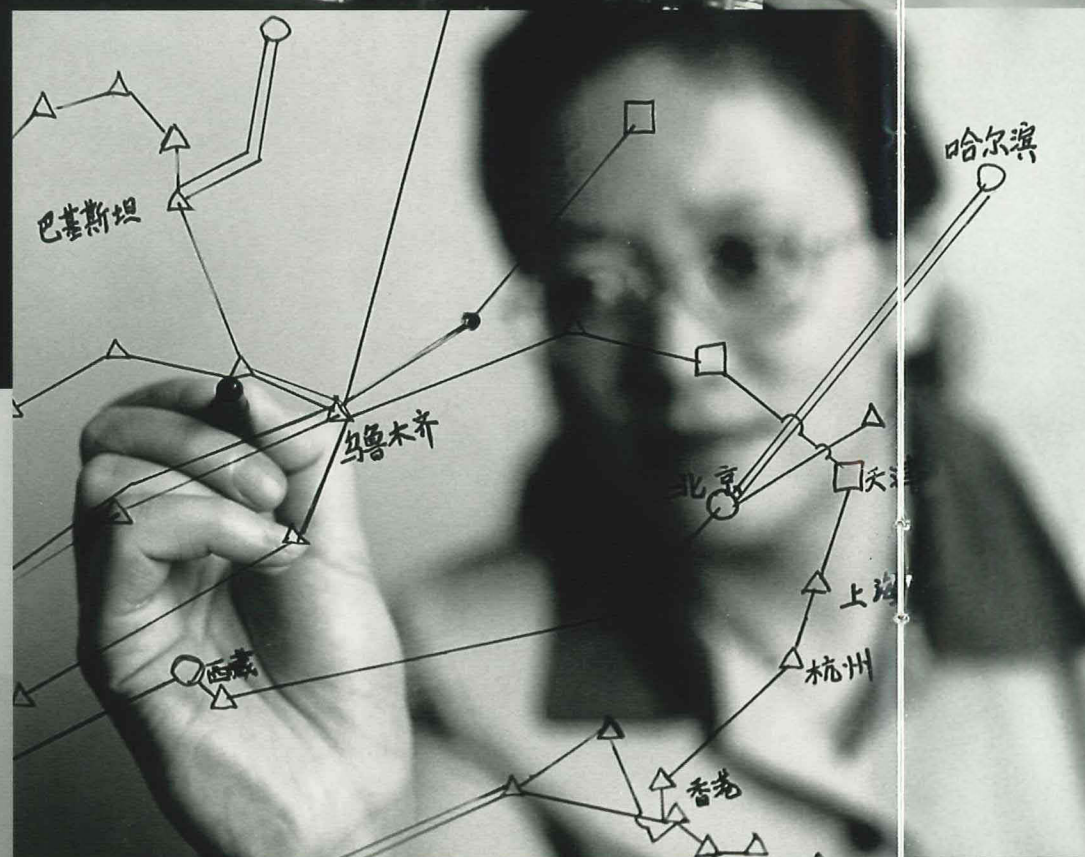
GDA » Avery Berkel » Woods » EEV » EASAMS » Fibreway » Comstar » Payphones » Property



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.

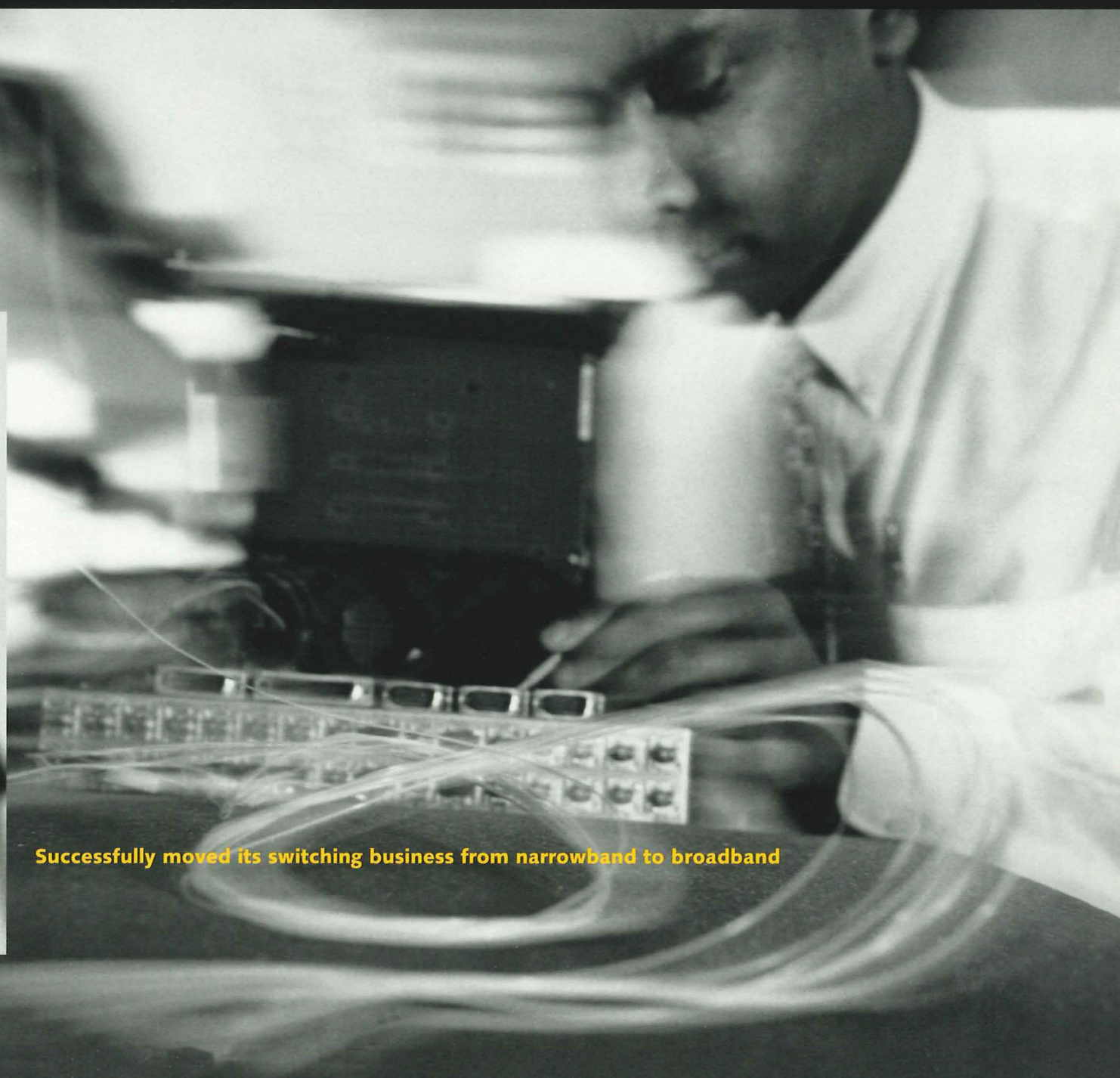
Marconi Communications' SDH technology has captured one-third of the total market, including the two largest networks in the world – in Australia and the People's Republic of China. Other countries upgrading their networks with Marconi equipment include France, Holland, Belgium and more than 80 per cent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

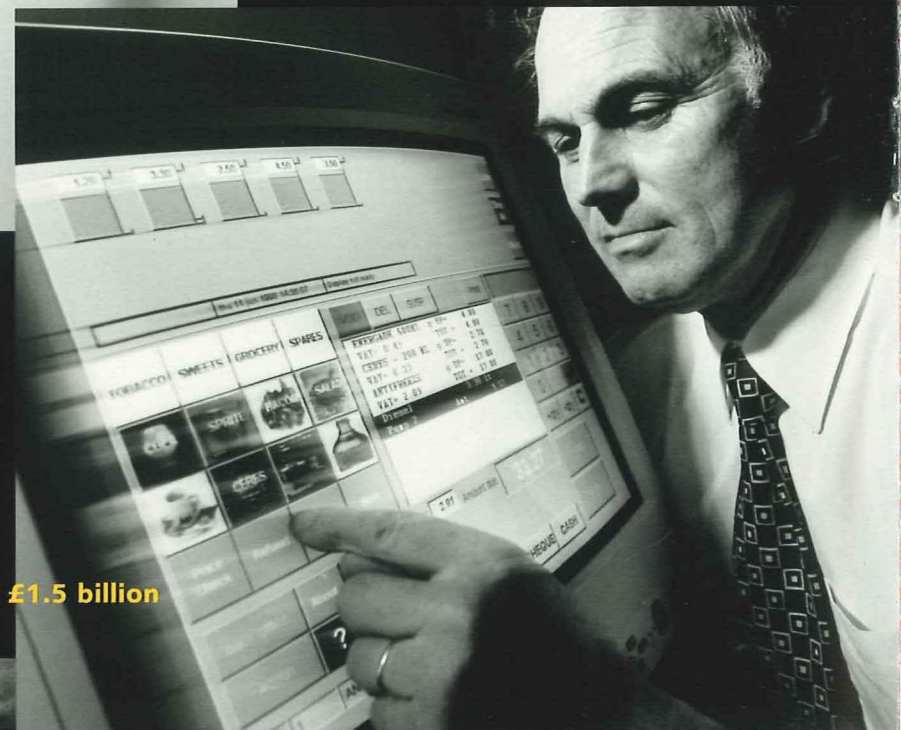


Successfully moved its switching business from narrowband to broadband



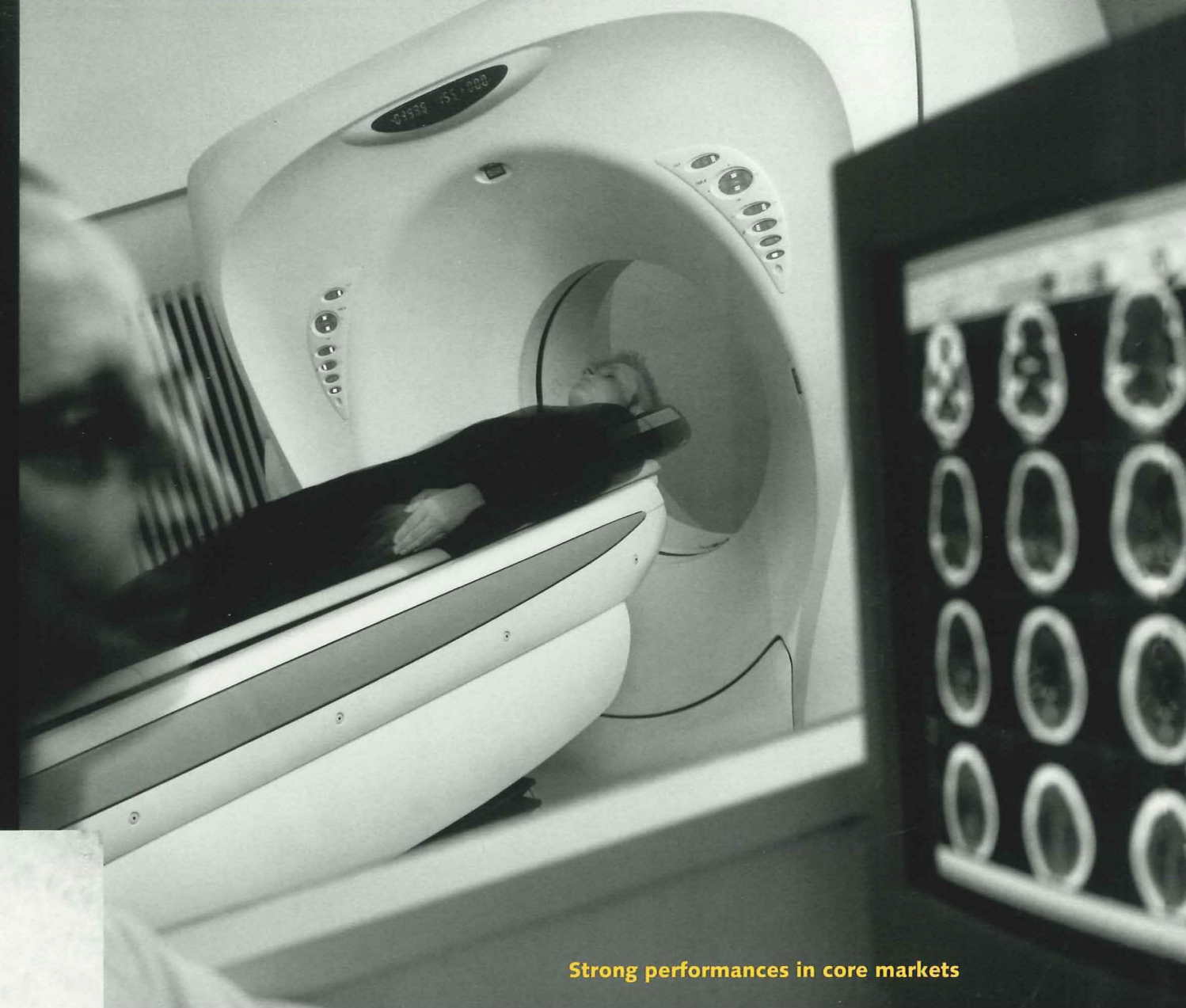
Mike Donovan Divisional Chief Executive

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

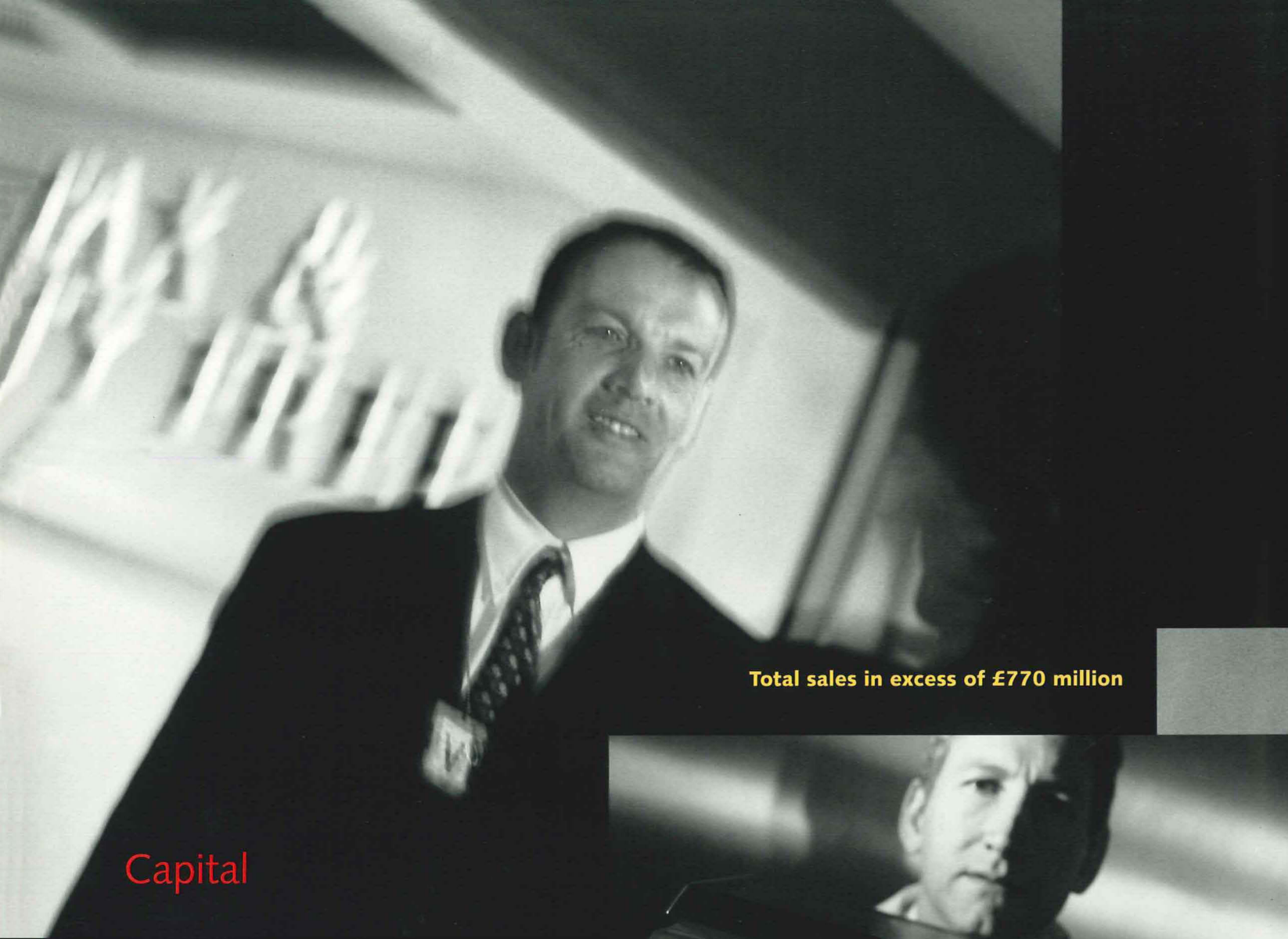
A world leader in medical imaging, specialising in magnetic resonance, nuclear medicine and computed tomography technologies with a significant international installed base. The company is focusing on developing opportunities it sees in the provision of radiology support and in meeting the growing demand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

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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

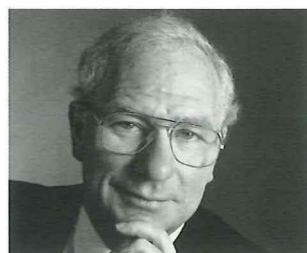
The restructuring of GEC is now well advanced and we have moved decisively into new and exciting markets. Further details of these changes can be found in the Chief Executive's Review on page 18.

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 played a major part in our strategy to refocus the Group's activities. The Siemens transaction provided the opportunity to integrate the telecommunications activities of GPT and Marconi SpA, forming the basis of our new telecommunications division, Marconi Communications.

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.

Although these moves built on Marconi Electronic Systems' (MES) world-class position, it became clear 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 success.

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, which requires regulatory and shareholder approval, will create a strong British defence company capable of competing on the global stage. At the same time, it takes GEC nearer to its strategic objective of becoming a high technology company focused on the long-term growth sectors of communications and IT.

Having potentially resolved our defence 'dichotomy', we set about 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.

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.

The rest of GEC has been re-organised into two new divisions: Marconi Systems and GEC Capital. Marconi Systems forms the basis of our plans to develop an information technology division in GEC as part of our strategic shift to high technology, high growth sectors. 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 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.

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 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. 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. This large reduction is mainly accounted for by the loss of some 45,000 employees as a result of the Alstom flotation. The completion of our proposed transaction with BAe will herald another downward shift in the number of people employed by 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.

The optical network business had another exceptional year, consolidating its position as the world number one in Synchronous Digital Hierarchy (SDH). The UK support services business grew strongly, increasing sales by 13 per cent to almost £109 million. Growth in the access technology sector, which was flat, will be substantially enhanced in 1999/00 by the impact of the RELTEC acquisition.

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 in 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 comprises Picker International, Videojet Systems International and Gilbarco. 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.

Chief Executive's Review continued

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)

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.

Capital

This new division 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 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.

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 Tracor helped to boost sales by 18 per cent. Profits were up by 29 per cent.

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)

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)

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.

Alenia Marconi Systems was formed in December 1998 as a 50/50 joint venture between Marconi Electronic Systems and Finmeccanica of Italy, creating a strong international company.

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 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*

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, Baldrige 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*

Summary Directors' Report

The Directors present the Summary Directors' Report and Summary Financial Statement for the year ended 31st March, 1999. It is a summary of the information contained in the full Report and Accounts.

Profits and Dividends

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

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

Key financial highlights are set out on pages 24 to 27 and a review of the Company's performance and future prospects are set out in the Chairman's Statement and Chief Executive's Review on pages 17 and 18 to 20 respectively.

Share Capital

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.

Structure of the Group

Since 31st March, 1999, the following main changes have taken place in relation to the structure of the Group:

- in April, 1999, a subsidiary of the Company acquired RELTEC Corporation;
- in April, 1999, Tracor, Inc., acquired Synectics Corporation; and
- in April, 1999, a subsidiary of the Company made a tender offer to acquire FORE Systems, Inc.

Marconi Electronic Systems

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

The present members of the Board are:

Sir Roger Hurn *Chairman*
 Lord Simpson *Chief Executive*
 R E Artus CBE *Non-Executive Director*
 W M Castell *Non-Executive Director*
 The Rt Hon The Baroness Dunn DBE *Non-Executive Director*
 P O Gershon
 Sir Christopher Harding *Non-Executive Director*
 M Lester *Vice-Chairman*
 Sir Charles Masefield *Vice-Chairman*
 J C Mayo
 R I Meakin
 Dr A W Rudge CBE *Non-Executive Director*
 Hon Raymond G H Seitz *Non-Executive Director*
 N J Stapleton *Non-Executive Director*

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.

Details of Directors' emoluments are set out on page 23.

Annual General Meeting

Notice of the forthcoming Annual General Meeting is set out in the letter from the Chairman to shareholders.

Summary Directors' Report continued

Summary Financial Statement

This Summary Financial Statement does not contain sufficient information to give as full an understanding of the results of the Group and state of affairs of the Company and the Group as would be provided in the full Report and Accounts.

The Auditors' Report on the Report and Accounts of the Company for the year ended 31st March, 1999 was unqualified and did not contain a statement under either Section 237(2) or Section 237(3) of the Companies Act 1985.

Shareholders may obtain a copy of the Report and Accounts (free of charge) by telephoning the Company's Registrar on 01785 251446.

If you wish to elect to receive the full Report and Accounts for future financial years, please write to the Company's Registrar at the address recorded in the Information for Shareholders section.

The Summary Financial Statement was approved by the Board on 9th June, 1999.

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

Auditors' Statement

Auditors' statement to the shareholders of The General Electric Company, p.l.c.

We have examined the Summary Financial Statement set out on pages 24 to 27.

Respective responsibilities of Directors and Auditors

The Summary Financial Statement is the responsibility of the Directors. Our responsibility is to report to you our opinion on its preparation and consistency with the full Report and Accounts.

Basis of opinion

We conducted our work in accordance with the Auditing Guideline, 'The Auditors' Statement on the Summary Financial Statement', adopted by the Auditing Practices Board.

Opinion

In our opinion the Summary Financial Statement is consistent with the full Report and Accounts of The General Electric Company, p.l.c. for the year ended 31st March, 1999 and complies with the requirements of the Companies Act 1985 and regulations made thereunder applicable to summary financial statements.



Deloitte and Touche
 Chartered Accountants and Registered Auditors
 Hill House, 1 Little New Street, London EC4A 3TR
 9th June, 1999

Directors' Emoluments

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

	Excluding pension contributions		Gains made on the exercise of share options	
	1999 Total £000	1998 Total £000	1999 Total £000	1998 Total £000
Sir Roger Hurn	89	—	—	—
Lord Simpson	1,085	904	—	—
J B Cronin	111	470	—	—
P O Gershon	702	573	121	—
M Lester	688	569	—	22
J C Mayo	877	501	—	—
Sir Charles Masefield	185	—	—	—
R I Meakin	489	—	—	—
The Rt Hon Lord Prior	160	341	—	104
R E Artus	30	25	—	—
W M Castell	25	12	—	—
The Rt Hon The Baroness Dunn	25	15	—	—
Sir Christopher Harding	30	22	—	—
Dr A W Rudge	25	10	—	—
Hon Raymond G H Seitz	25	20	—	—
N J Stapleton	25	15	—	—
Former Directors	—	970	—	11
	4,571	4,447	121	137
Pension Contributions (Executive Directors Only)	735	510	—	—
Total	5,306	4,957	121	137

Consolidated Profit and Loss Account

For the year ended 31st March, 1999

	1999 £ million	1998 Restated £ million
Turnover		
Group turnover	6,590	5,875
– retained businesses		
– disposals	–	394
Share of joint ventures	1,035	896
	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)
	574	524
Disposals	–	9
Share of joint ventures after £10 million (1998 nil) exceptional charges		
– 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	(50)	–
Exceptional items, gains less losses on disposals of subsidiaries and other fixed assets	775	20
Income from loans, deposits and investments, less interest payable		
Group	54	64
Share of joint ventures	13	10
Alstom	6	26
	73	100
Profit on ordinary activities before taxation	1,504	879
Tax on profit on ordinary activities	(433)	(311)
Profit on ordinary activities after taxation	1,071	568
Minority interests	(17)	(59)
Profit on ordinary activities attributable to the shareholders	1,054	509
Dividends	(348)	(311)
Retained profit for the financial year	706	198
Earnings per share	38.9p	18.2p
Earnings per share before exceptional items and goodwill amortisation	27.1p	23.8p
Diluted earnings per share	38.5p	18.1p

Consolidated Balance Sheet

31st March, 1999

	1999 £ million	Group 1998 Restated £ million
Fixed assets		
Goodwill	3,281	1,781
Tangible assets	982	871
Investments:		
Joint ventures		
Share of gross assets	1,439	821
Share of gross liabilities	(995)	(498)
Share of net assets	444	323
Alstom	943	725
Other associates	32	98
Other	52	20
	1,471	1,166
	5,734	3,818
Current assets		
Stocks and contracts in progress	1,052	940
Debtors	1,953	1,726
Investments	224	331
Cash at bank and in hand	1,135	1,097
	4,364	4,094
Creditors: amounts falling due within one year	(3,216)	(2,131)
Net current assets	1,148	1,963
Total assets less current liabilities	6,882	5,781
Creditors: amounts falling due after more than one year	(266)	(231)
Provisions for liabilities and charges	(535)	(635)
	6,081	4,915
Capital and reserves		
Called up share capital	134	136
Share premium account	208	182
Capital redemption reserve	9	6
Revaluation reserve	847	–
Profit and loss account	4,791	4,371
Equity shareholders' interest	5,989	4,695
Minority interests	92	220
	6,081	4,915

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

Signed on behalf of the Board of Directors.

Sir Roger Hurn }
Lord Simpson } *Directors*

Cash Flow Statement

For the year ended 31st March, 1999

	1999 £ million	1998 Restated £ million
Net cash inflow from operating activities	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	25	32
Tax paid	(358)	(269)
Net cash outflow from capital expenditure and financial investment	(286)	(242)
Net cash inflow/(outflow) from acquisitions and disposals	(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	138	(85)
Net cash inflow/(outflow) from financing:		
Purchases of ordinary shares	(310)	(301)
Other	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

For the year ended 31st March, 1999

	1999 £ million	1998 Restated £ 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

	1999 £ million	1998 Restated £ million
Total recognised gains and losses	1,925	378
Dividends	(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 and by £19 million for the after-tax effect of the FRS 12 adjustment.

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 1/9ths. 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.

Information for Shareholders continued

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

GEC, like other companies, is obliged by law to make its share register available upon request to other organisations provided that the organisations concerned pay the appropriate statutory fee. If shareholders wish to restrict the receipt of unsolicited mail they may like to write to:

The Mailing Preference Service
Freepost 22, London W1E 7EZ

who can help shareholders have their names removed from certain kinds of lists.



The General Electric Company, p.l.c.
One Bruton Street, London W1X 8AQ

Telephone: +44 (0)171 493 8484
Website: www.gec.com

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