As filed with the Securities and Exchange Commission on September 28, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2001

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 0-30924

MARCONI plc
MARCONI CORPORATION plc

(Exact name of Registrant as specified in its charter)

Not Applicable	England and Wales
(Translation of Registrant's name into English)	(Jurisdiction of incorporation or organization)

One Bruton Street
London W1J 6AQ
England
(Telephone: 44-(0)-20-7493-8484)
(Address and telephone number of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:
None

Securities registered or to be registered pursuant to Section 12(g) of the Act:

Title of each class	Name of each exchange on which registered
American Depositary Shares of Marconi plc, evidenced by American Depositary Receipts of Marconi plc, each representing two Ordinary Shares of Marconi plc	Nasdaq National Market
Ordinary Shares, par value 5 pence each, of Marconi plc*	Nasdaq National Market*

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
$900,000,000 7¾% Bonds due 2010
$900,000,000 8⅜% Bonds due 2030

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:
2,785,189,896 Ordinary Shares

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES ☒ NO ☐ NOT APPLICABLE ☐

Indicate by check mark which financial statements item the registrant has elected to follow.

ITEM 17 ☐ ITEM 18 ☒

(* Not for trading but only in connection with the registration of the American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.)

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this annual report, the terms ''we'', ''us'', ''our'', ''Marconi'', ''the Marconi Group'', ''the Group'' and similar terms refer to Marconi plc and its subsidiaries and joint ventures, as the context requires. Marconi plc is incorporated as a public limited company under the laws of England and Wales. Marconi Corporation plc is also incorporated as a public limited company under the laws of England and Wales. Marconi Corporation plc is an indirect, wholly-owned subsidiary of Marconi plc.

We state our financial statements in U.K. pounds sterling. In this annual report, references to pounds sterling, pounds or £ and to pence or p are to the currency of the United Kingdom, references to euro or € are to the common legal currency of the members of the European monetary union, which is used in electronic transactions pending the issuance of euro bank notes and coins in January 2002, and references to U.S. dollars, U.S.$ or $ are to the currency of the United States.

This annual report also contains translations of pound sterling amounts into U.S. dollar amounts at specified rates. Unless otherwise stated, the U.S. dollar equivalent for amounts in pounds sterling is based on the noon buying rate in the City of New York for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York on March 31, 2001, which was $1.42 to £1. This rate may differ from the rates used in the preparation of our consolidated financial statements included in this annual report. These translations are provided solely for your convenience. You should not construe these translations as representations that the pound sterling amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rates indicated or at any other rates. See ''Item 3—Key Information—Exchange Rate Information'' for historical information regarding the noon buying rate for pounds sterling.

Some of the market share information and other statements in this annual report regarding our position relative to our competitors with respect to the manufacture or distribution of particular products are not based on published statistical data or information obtained from independent third parties. Rather, such information and statements reflect our management's best estimates based upon information obtained from our customers and from trade and business organizations and associations and other contacts within the industries in which we compete. Unless otherwise specified or the context otherwise requires, market share and market data are based on fiscal 2001 sales.

The information concerning Alstom and other associates contained in this annual report, including financial information, has been taken from or based upon publicly available documents and, where applicable, records on file with the SEC, supplemented by additional information obtained in our capacity as shareholders.

Our fiscal year ends on March 31. Unless otherwise specified, all references in this annual report to our fiscal year refer to a twelve-month financial period ending March 31. For example, fiscal 2001 represents the fiscal year beginning on April 1, 2000 and ending on March 31, 2001.

The consolidated financial statements contained in this annual report have been prepared in accordance with accounting principles generally accepted in the United States, known as U.S. GAAP.

Various amounts and percentages set forth in this annual report may have been rounded and, accordingly, may not total.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 concerning our business, operations and financial performance and condition as well as for our plans and objectives for our business operations and financial performance and condition. You can identify these statements by words such as ''aim,'' ''anticipate,'' ''assume,'' ''believe,'' ''could,'' ''due,'' ''estimate,'' ''expect,'' ''goal,'' ''intend,'' ''may,'' ''objective,'' ''plan,'' ''positioned,'' ''should,'' ''target,'' ''will,'' ''would'' and other similar expressions which are predictions of or indicate future events and future trends. These forward-looking statements involve known and unknown risks, uncertainties and other factors which are in some cases beyond our control and may cause our actual results, performance and condition or achievements to differ materially from those expressed or implied by such forward-looking statements. Factors that may cause such differences include but are not limited to the risks described under ''Item 3—Key Information—Risk Factors'' as well as the risks set forth below:

- continued decline in market demand for telecommunications products.
- adverse changes or uncertainties in general economic conditions and business conditions in the markets we serve.
- our failure to execute our restructuring plan or, once executed, the failure of our restructuring plan to achieve the goals set by management, in particular to reduce our levels of debt.
- adverse changes in the markets for our products, including as a result of increased competition and consolidation in the highly competitive international markets for such products, or a change in the technology used as the industry standard or as the technology of choice of customers.
- reduction in the levels of funding made available to us by institutional lenders or adverse changes to the terms of such funding.
- changes in environmental, tax and other laws and regulations, which, among other things, could cause us to incur substantial additional capital expenditures and operational and maintenance costs.
- any large-scale employee turnover.
- any further downgrading of our debt ratings or pronouncements of negative outlook from ratings agencies.
- any major disruption in production at our key facilities.
- failure of our emerging and development businesses to grow into competitive businesses.
- adverse changes in foreign exchange rates.
- terrorism and acts of war.

PART I

Item 1. ***Identity of Directors, Senior Management and Advisers***

Not applicable.

Item 2. ***Offer Statistics and Expected Timetable***

Not applicable.

Item 3. ***Key Information***

RISK FACTORS

You should consider the following risks and uncertainties described below and other information in this annual report.

Our trading position has declined significantly in recent months. If our trading position continues to decline, our financial condition and results of operations would be detrimentally affected.

On September 4, 2001 we provided a trading update. In this update we announced that, on a U.K. GAAP basis:

- Group sales declined by 12% for the first fiscal quarter ended June 30, 2001 and within the core business, sales of networks products and services declined by 25% compared with the same period in 2000;
- the Group suffered an operating loss of £227 million, before exceptional items, for the first fiscal quarter ended June 30, 2001;
- the Group experienced an operating cash outflow of £553 million for the first fiscal quarter ended June 30, 2001;
- net debt was £4.4 billion at August 31, 2001 compared to £3.2 billion as at March 31, 2001;
- we will record an increase in inventory provisions of approximately £500 million for the six months ended September 30, 2001;
- we will record an increase in provisions for doubtful debts of approximately £150 million for the six months ended September 30, 2001;
- we will write down the value of historical goodwill and expect to take a charge in the range of £3.0 billion to £3.5 billion for the six months ended September 30, 2001;
- we have decided to halt dividend payments for the current financial year; and
- by August 31, 2001, 5,977 employees had left Marconi as a result of our restructuring plan and a further 1,625 employees had been transferred to Jabil Circuit as a part of our manufacturing outsourcing program.

After our September 4 trading update was published, events arising from the tragic terrorist destruction of the World Trade Center and the Pentagon on September 11 have increased the general uncertainty in our markets, and there can be no assurance that the actions we announced on September 4 will be sufficient to offset the decline in Group sales or that we will be able to achieve our forecasts for the six months ended September 30, 2001.

If our trading position continues to decline, our financial condition and results of operations would be detrimentally affected.

Market demand for communications products and services has declined and may continue to decline. If market demand for our communications products does not recover and our cost cutting measures are insufficient to offset the effect of the decline in demand, our profitability may further decline.

The overall rate of capital spending by network services providers and our principal customers has declined substantially in recent months. New network services providers are finding it increasingly difficult to raise capital to finish building their communications networks and they have high levels of debt. Reduced overall demand for communications products and services has resulted in an overcapacity of communications products. As a result, our inventories have increased and our revenues have declined. In addition, the risk of bad debts has increased. If market demand for communications products and services continues to decline, we may be unable to reduce our inventories and our revenue and profits may continue to decline. If our revenues and profits continue to decline at a rate exceeding the rate at which we reduce our costs, this would detrimentally affect our financial condition and results of operations. We may have to reduce the prices of our products and services to reduce our inventory and generate revenue, which would reduce our margins. We may also have to write down further the value of some of these inventories. We cannot be sure that demand for our products will increase or that the measures we are taking and that we plan to take to reduce our cost base will be successful to offset the effect of the decline in demand for our products.

We may fail to achieve the objectives of our restructuring plan, which could detrimentally affect our business.

In September 2001, we completed an operational review of our business. From this operational review we formulated a restructuring plan that includes four principal areas:

- focusing on our core communications business;
- transferring our non-core activities to our capital group to be managed for value;
- reducing costs by £600 million by reducing our workforce, consolidating our facilities and properties, outsourcing our manufacturing operations and back office infrastructure and integrating our headquarters and divisional structure into a single organization; and
- reducing our debt to between £2.7 billion and £3.2 billion by March 31, 2002 by improving cash flow from operations, limiting capital expenditure, delaying the implementation of and reducing the scope of company-wide information technology systems, ceasing to invest further in development businesses and disposing of non-core businesses and other assets.

In order to implement our restructuring plan we have incurred, and we will continue to incur, costs. We expect to incur costs of £450 million in relation to headcount reductions and other associated restructuring charges during the current fiscal year. We have also expended, and we will continue to expend, management's time on implementing our restructuring plan which will divert management's attention away from other matters relating to our business. In addition, employee turnover may increase as a result of uncertainties associated with the implementation of our restructuring plan. Accordingly, the efficiency of the operation of our business may not be optimal during this transition phase.

We may also fail to achieve expected cost savings and revenue objectives. We plan to achieve cost savings of £600 million, £400 million of which are expected to be generated from reductions in operating overheads and £200 million of which are expected to be generated from a reduction in the direct cost of sales. We may not achieve this goal. We plan to achieve a target net debt level of between £2.7 billion and £3.2 billion by March 2002. We expect to generate more than £500 million from operating income and reductions in working capital. We are planning a significant reduction in capital expenditure and expect capital expenditure will be less than depreciation charges in our core communications business in the 2002 fiscal year. We may not, however, achieve planned levels of operating cash flows or capital expenditure. Finally, we plan to achieve over £500 million in proceeds from the sale of assets and other disposals, in addition to the approximately £780 million we expect to receive for the sale of medical systems. We may not be able to secure satisfactory terms for the sale of these businesses and the proceeds that we receive may be less than anticipated. Moreover, the sale of medical systems is subject to standard closing conditions, including regulatory approvals. We may also not be able to complete these transactions within the time period we have designated. As a result, we may not be able to repay outstanding debt as soon as expected or in the amounts expected and we may have less proceeds available for our near-term and other financing needs. Our failure to successfully complete our restructuring plan and achieve our goals could detrimentally affect our financial condition and results of operations.

Standard & Poor's Ratings Services (S&P) and Moody's Investors Services (Moody's) have downgraded our credit ratings. We may be further downgraded. These downgrades could make it more difficult and expensive to finance our operations and our prospects could be detrimentally affected as a result.

S&P and Moody's have downgraded our credit ratings to BB and Ba1, respectively. We may be further downgraded. The downgrading by S&P and Moody's has resulted in non-investment grade status for our debt. In the future, non-investment grade status could increase our financing costs by increasing interest rates at which we would be able to refinance existing debt and incur new debt, and could harm our ability to obtain future finance. In addition, non-investment grade status could result in selling of our debt by bondholders because some bondholders may be barred from holding any or a proportion of non-investment grade debt in their portfolios. The decline in our debt ratings and trading position could also result in our customers reducing the amount of business they do with us. It could also result in our trading and financial partners reducing the amount of business they do with us or requiring security for continuing to do business with us. If any of these events were to occur, our operations and our prospects could be detrimentally affected as a result.

Our liquidity and financial stability could be detrimentally affected if we were unable to access our syndicated credit facilities.

At August 31, 2001, our net indebtedness was £4.4 billion. Marconi plc is the sole guarantor under a €4.5 billion syndicated revolving credit facility dated March 25, 1998, under which Marconi Corporation plc is a borrower. On May 30, 2001, Marconi Corporation plc, as initial borrower, entered into a €3.0 billion revolving credit facility with a syndicate of banks. Marconi plc is also the sole guarantor under the 2001 facility.

Each of the 1998 facility and the 2001 facility contains standard covenants, representations and warranties and events of default. Neither credit facility contains any financial covenants, although both facilities provide that it is an event of default if there has been a material adverse change in the financial condition of the Group taken as a whole since the date of the latest annual accounts delivered to the agent of such facility which has had or will have a material adverse effect on the ability of Marconi plc to comply with its payment obligations under the facility. This is an objective test and requires that the requisite material adverse effect has occurred or will occur. Although we have not received any correspondence from any of the banks or the agent under either the 1998 or 2001 facility suggesting that the respective banks believe that the material adverse change event of default has been triggered, under both facilities we would be unable to draw down new money if there has been an event of default or a potential event of default. Also, under each facility, the occurrence of an event of default entitles the agent or the majority of banks, among other things, to accelerate and declare immediately due and payable all outstanding amounts under the respective facility. The acceleration of our obligation to repay borrowings under either or both of our syndicated credit facilities would trigger an event of default under our yankee bonds if the aggregate amount of such accelerated obligations is equal to or exceeds the greater of (1) €50 million or its equivalent in any other currency or (2) 1.0% of Marconi Corporation plc's consolidated shareholders' equity. The acceleration of our obligation to repay borrowings under either or both of the syndicated facilities would trigger an event of default under our eurobonds if the aggregate amount of the accelerated obligations is equal to or greater than €50 million or its equivalent in any other currency.

Our products are sold in markets that are characterized by rapid adoption of new technologies, many new product introductions, shortening product lifecycles and evolving industry standards.

The process of developing new products based on pacing technologies for broadband fixed networks, optical networks and third generation wireless networks is complex and variable. It requires innovative solutions based on accurate insights into technology and market trends. Our success depends on the successful and timely introduction of new products or enhancements to existing products in a way that meets customer needs and differentiates our products from those offered by others. At the same time, these new product introductions must achieve market acceptance, emerging industry standards and interoperability with current and competitor products. An unforeseen change in one or more of the technologies affecting telecommunications, or an unanticipated change in market demand for products based on specific technologies, could have a detrimental effect on our business, operational results and financial condition if we fail to detect and react in a timely way to such changes. In addition, larger competitors with greater resources than we have may be able to spend more time and money on research and development and may be in a better position to acquire or develop proprietary technology. Competition may intensify further as our competitors consolidate or otherwise jointly pursue projects, which may place us at a greater disadvantage in acquiring or developing new products and may reduce our revenues and profits.

We face fierce competition to retain and, where necessary, to hire high technology workers in the communications industry, which may result in delays or an inability to develop new products.

Our continued success depends substantially on our ability to retain and motivate and, where necessary, to hire a number of highly skilled technology specialists, including those with expertise in important emerging technologies. Because the number of people with key high technology skills is limited, suppliers compete vigorously for their services and attempt to lure them away from their competitors. A number of our competitors in the communications industry have greater financial and technological resources than we do and are currently better known and are more established in the industry than we are. Accordingly, these larger competitors may be in a better position to attract such employees. In addition, in the past 12 months, our share price has declined substantially. The declining values of our option plans and other stock-based forms of compensation could cause us to lose the services of key personnel and to be unable to attract additional qualified personnel. The potential consequences of our loss of, or our inability to retain and, where necessary, to attract a sufficient number of, key workers include delays or inability to develop new products, with a consequent reduction in sales and profits. Alternatively, we may have to offer more attractive remuneration packages than our competitors and this might reduce our margins.

The loss of British Telecom as our customer would detrimentally affect our revenues and profits.

For the fiscal year ended March 31, 2001, sales to British Telecom represented £853 million, or 15.5%, of revenues of the Marconi Group on a U.S. GAAP basis. Moreover, during this same period, sales to British Telecom represented 19.8% of the sales of our communications networks business and 19.6% of the sales of our communications services business. In fiscal 2001, sales made to British Telecom by our core communications businesses, which include our communications networks, communications services and mobile communications businesses, represented 18.3% of their total sales. The loss of or any substantial reduction in orders by British Telecom, particularly for the products and services of our core communications businesses, would detrimentally affect our revenues and profits.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following selected consolidated income statement data for Marconi plc and subsidiaries for each of the three fiscal years ended March 31, 2001, and the consolidated balance sheet data as of March 31, 2001, 2000 and 1999, have been derived from the audited consolidated financial statements, prepared in accordance with U.S. GAAP, that are included elsewhere in this annual report or the registration statement filed on form F-1 on August 25, 2000. The selected consolidated financial information for the fiscal years ended and as of March 31, 1998 and 1997 has been derived from other Marconi information. The information set forth below is not necessarily indicative of future operations and should be read in conjunction with ''Item 5—Operating and Financial Review and Prospects'', ''Item 11—Quantitative and Qualitative Disclosures about Market Risk'' and the consolidated financial statements, related notes and other financial information included elsewhere in this annual report. Amounts are presented in accordance with U.S. GAAP.

During the fiscal year ended March 31, 2001, management approved a formal plan to dispose of the medical systems business. After our fiscal 2001 year end, an agreement was signed to sell this segment for approximately £780 million ($1.1 billion). During the fiscal year ended March 31, 2000, the international aerospace, naval shipbuilding, defense electronics and defense systems business was separated and was subsequently merged with BAE Systems. The data for each of the periods presented has been restated to reflect the effects of accounting for these businesses as discontinued operations. See ''Item 4—Information on the Company—History and Development of the Company—Recent developments—Acquisitions and disposals'' and Note 18 to the consolidated financial statements included in this annual report.

During the fiscal year ended March 31, 2001, our commerce systems business was divided into two separate businesses: the service station equipment business and the retail automation systems business. The service station equipment business was reported within our other businesses segment. The retail automation systems business is not sufficiently material to the Group as a whole to exist as a separate segment and is reported within our other businesses segment. The data for each of the periods presented has been restated to reflect the reporting of our service station equipment business and retail automation systems business within our other businesses segment. See ''Item 4—Information on the Company—Our Data Systems Business'', ''Item 4—Information on the Company—Our Other Businesses'' and Note 18 to the consolidated financial statements included in this annual report. In our current fiscal year we plan to rejoin the retail automation systems business and the service station equipment business under the name commerce systems and report their results within our capital division for segmental purposes. See ''Item 4—Information on the Company—Our Other Businesses'' and Note 18 to the consolidated financial statements included in this annual report.

Separate financial statements or other financial disclosures regarding Marconi Corporation plc have not been presented. Marconi Corporation plc is a wholly-owned subsidiary of Marconi plc. The only difference between the consolidated assets, liabilities and results of operations of Marconi plc and the consolidated assets, liabilities and results of operations of Marconi Corporation plc at March 31, 2001 and 2000, respectively, relates to non-interest bearing intercompany loans totaling £167 million and £304 million, respectively, payable by Marconi Corporation plc group companies to other companies in the Marconi plc group which are not subsidiaries of Marconi Corporation plc and cash balances held in Marconi plc of £141 million and £nil, respectively. During the year ending March 31, 2001, Marconi Corporation plc issued debt in the U.S. public debt market. Marconi plc fully and unconditionally guaranteed this issuance. This guarantee will terminate in certain circumstances which may occur at any time.

Our financial condition as of March 31, 2001 will change as a result of our restructuring plans and the results of our fiscal quarter ending June 30, 2001 and fiscal half year ending September 30, 2001. On September 4, 2001 we provided a trading update and announced a wide-reaching set of actions to sharpen our focus on our core communications business, to restore operational efficiency and reduce debt and to develop a sustainable business model for future performance improvement. We will record an increase in inventory provisions of approximately £500 million, an increase in provisions for doubtful debts of approximately £150 million and we will write down the value of historical goodwill and expect to take a charge in the range of £3.0 billion to £3.5 billion for the six months ended September 30, 2001. These amounts are not reflected in the accompanying selected consolidated financial information included in this annual report. On September 4, 2001, we also announced changes to our board of directors and senior management. For a discussion of this trading statement, see ''Item 4—Information on the Company—Business Overview''; ''Item 4—Information on the Company—History and Development of the Company—Recent developments''; and ''Item 5—Operating and Financial Review and Prospects—Group discussion''.

SELECTED CONSOLIDATED FINANCIAL INFORMATION — (continued)

(In millions, except share data)	Fiscal year ended March 31,					
	1997	1998	1999	2000	2001	2001
	£	£	£	£	£	$
Consolidated income statement data						
Revenues (1)						
Communications networks	*	1,232	1,343	2,535	3,268	4,640
Communications services	*	221	244	543	1,016	1,444
Mobile communications	*	262	271	295	331	470
Data systems	*	186	218	235	239	339
Other	*	1,178	815	819	637	905
Total Marconi group	3,555	3,079	2,891	4,427	5,491	7,797
Gross profit	1,064	864	1,066	1,677	2,125	3,017
Operating expenses	807	522	726	1,995	2,132	3,027
Operating income/(loss)	257	342	340	(318)	(7)	(10)
Other income/(expense) net	76	194	977	(21)	171	243
Income/(loss) from continuing operations before income taxes and minority interest	333	536	1,317	(339)	164	232
Income/(loss) from continuing operations	163	365	857	(412)	115	164
Net income/(loss)	315	622	1,129	285	180	256
Earnings per share—basic						
Income/(loss) from continuing operations (£ per share)	0.06	0.13	0.32	(0.15)	0.05	0.06
Net income/(loss) (£ per share)	0.11	0.22	0.42	0.11	0.07	0.10
Earnings per share—diluted						
Income/(loss) from continuing operations (£ per share)	0.06	0.13	0.32	(0.15)	0.04	0.05
Net income/(loss) (£ per share)	0.11	0.22	0.41	0.10	0.06	0.09
Cash dividends declared per common share(2)						
£ per share	£0.13	£0.13	£0.12	£0.11	£0.05	—
$ equivalent per share	$0.21	$0.21	$0.20	$0.17	$0.08	—
Other information (3)						
Operating income before non-recurring items, purchased in-process research and development and amortization of goodwill and other intangibles, after discontinued operations	355	401	468	623	669	950

(In millions)	Fiscal year ended March 31,					
	1997	1998	1999	2000	2001	2001
	£	£	£	£	£	$
Consolidated balance sheet data						
Total assets	6,695	6,858	8,047	9,855	12,110	17,196
Net assets	5,081	4,964	5,526	4,039	4,772	6,776
Capital stock	331	387	414	622	946	1,343

(1) The analysis of revenues by segment presented reflects the reportable segments of the Marconi group for the fiscal year ended March 31, 2001, identified in accordance with Statement of Financial Accounting Standards (SFAS) No. 131: ''Disclosures about Segments of an Enterprise and Related Information''. The information necessary to present an analysis of revenues by these reportable segments for the year ended March 31, 1997 is not available and, accordingly, is not presented.

(2) Dividend payments were made out of profits which included profits from discontinued operations.

(3) We believe that the other information provides useful information regarding our profitability. Operating income before non-recurring items, purchased in-process research and development and amortization of goodwill and other intangibles should not be considered in isolation or as a substitute for operating income/(loss) prepared in accordance with U.S. GAAP.

EXCHANGE RATE INFORMATION

The noon buying rate for pounds sterling expressed in U.S. dollars per pound sterling on September 24, 2001 was £1.00 = $1.4616.

The following table sets forth the high and low noon buying rate for pounds sterling expressed in U.S. dollars per pound sterling for each of the previous six months:

2001	High	Low
March	1.4725	1.4190
April	1.4470	1.4200
May	1.4400	1.4103
June	1.4190	1.3730
July	1.4290	1.3995
August	1.4577	1.4135

The following table sets forth the average noon buying rate for pounds sterling expressed in U.S. dollars per pound sterling for each of the five most recent fiscal years. We have not used these rates to prepare our consolidated financial statements.

Fiscal year ended March 31,	Average*
1997	1.5884
1998	1.6417
1999	1.6538
2000	1.6113
2001	1.4740

* The average of the noon buying rate on the last business day of each month.

Item 4. *Information on the Company*

BUSINESS OVERVIEW

We are a global group focused primarily on the communications market. Our communications business activities include developing and supplying communications and data networking equipment to telecommunications companies and providers of Internet services for their public networks, also known as carrier, service provider or core networks, and to large corporations, government departments and agencies, utilities and educational institutions for their private networks, also known as enterprise networks. We also develop and supply advanced electronic and information technology products and services to a wide range of retailers, manufacturers and other businesses and institutions internationally.

In recent months there has been a significant decline in market demand. On September 4, 2001, we provided a trading update and announced a wide-reaching set of actions to sharpen our focus on our core network communications business, to restore operational efficiency and reduce debt and to develop a sustainable business model for future performance improvement. We also announced changes to our board of directors and senior management. Set forth below is a summary of the trading update, board changes and management appointments and operational review we announced on September 4, 2001. Also set forth below is a discussion of our former corporate organizational structures and how our restructuring plan has affected these structures. All amounts referred to below are on a U.K. GAAP basis unless otherwise indicated.

Trading update

Sales

On September 4, 2001, we announced that in the first quarter ended June 30, 2001, Group sales were £1,134 million (June 2000: £1,287 million), a decline of 12%. Within the core business, sales of networks products and services in the first quarter have shown a decline of more than 25% compared with the same period in the prior year. These figures compare with Group fourth quarter sales to March 2001 of £2.1 billion. The speed of sales reduction exceeded the rate at which we were able to reduce costs. This combined with adverse mix has led to a first quarter Group operating loss of £227 million and an operating cash outflow of £553 million.

In the current quarter, we announced on September 4, 2001 that we were seeing an increase in sales over the first quarter, albeit below our earlier expectations. The combination of the sales increase we expected to achieve in the second quarter and the impact of cost reduction measures already implemented was forecast to lead to a breakeven operating result and positive operating cash flow in the second quarter overall. Accordingly, on September 4, 2001 we announced that we expected a first half operating loss of around £227 million.

In light of the continued uncertainty regarding levels and timing of service provider spending, on September 4, 2001 we announced that we were not in a position to give further sales and operating profit guidance for the full financial year. However, as a result of existing cost reduction programs and the incremental actions implemented as a result of our operational review, on September 4, 2001 we expected to generate annualized cost savings of approximately £600 million. This would allow us to reduce the annual operating costs of our core business to £1 billion by March 31, 2002 from £1.4 billion on a first quarter 2001/02 run-rate basis. This would result in a quarterly breakeven level of sales of approximately £800 million.

For additional information concerning our sales, see ''Item 5—Operating and Financial Review and Prospects—Group discussion'', and ''Item 5—Operation and Financial Review and Prospects—Segmental discussion''. A discussion of our operational review and restructuring plan appears below under ''—Operational review''.

Headcount

By August 31, 2001, 5,977 employees had left the Group as a direct result of restructuring plans and a further 1,625 employees had been transferred to Jabil Circuit Inc. as part of our on-going manufacturing outsourcing program. For additional information concerning our employees and employee headcount reductions, see ''—History and Development of the Company—Recent developments—Outsourcing'' and ''Item 6—Directors, Senior Management and Employees—Employees''.

Net debt

On September 4, 2001 we announced that net debt stabilized during August and at August 31, 2001 was £4.4 billion, compared with £3.2 billion at March 31, 2001. The primary component of the increase between these dates was the first quarter operating cash outflow of £553 million. The balance of the increase was accounted for by a number of items including transactions, restructuring costs, interest, dividends and a reclassification of share-option related indebtedness.

We are working to secure regulatory approval and completion of the sale of our medical systems business before the end of the calendar year 2001. On September 4, 2001 we announced that the expected cash proceeds from this disposal will reduce net debt by £780 million. We plan and are targeting a reduction in net debt to between £2.7 billion and £3.2 billion by March 2002.

In light of our revised sales and profit expectations and our target to reduce our net debt position by March 2002, our board of directors has decided to halt dividend payments for the current financial year. Future dividend policy will be reviewed by our board of directors at the appropriate time in the light of trading results.

Inventory

On September 4, 2001 we announced that we had reviewed our current level of inventory. As a consequence of the decision to exit certain product lines and a more uncertain sales outlook, on September 4, 2001 we announced that we would record an increase in inventory provisions of approximately £500 million for the six months to September 30, 2001.

Doubtful debts

On September 4, 2001 we announced that we would record an increase in provisions for doubtful debts of approximately £150 million for the six months to September 30, 2001.

Goodwill

On September 4, 2001 we announced that we had carried out a goodwill impairment review. The more uncertain sales outlook and more conservative assessment of future growth prospects of acquired businesses led to the board of directors' decision to write down the value of historical goodwill. On September 4, 2001 we announced that we would take a charge for the six months to September 30, 2001, expected to be in the range of £3.0 billion to £3.5 billion.

Board changes and management appointments

On September 4, 2001 we announced changes to our board of directors and management. Sir Roger Hurn and Lord Simpson resigned from their positions on the board of directors and in the Group. Derek Bonham, senior non-executive director, accepted the board of directors' invitation to become interim Chairman of Marconi plc until a new Chairman is appointed. Mike Parton, CEO Networks, was appointed Chief Executive. Mike Donovan, Executive Director-Operations, was appointed Chief Operating Officer. Neil Sutcliffe was appointed CEO Marconi Capital. Geoff Doy was appointed CEO Sales & Marketing. For a discussion of additional changes to management, see ''—History and Development of the Company—Recent developments—Management changes'' and ''Item 6—Directors, Senior Management and Employees—Directors and Senior Management—Recent management changes''.

Operational review

On September 4, 2001 we announced that we had completed the operational review that we announced at our annual general meeting on July 18, 2001. The review covered our markets, operations and scope of business, and focused on adapting Marconi to the changed circumstances of the telecommunications market following the substantial current decline in demand.

The resulting action plan centers on four principal areas:

- sharper focus on core network communications businesses
- non-core activities to be managed for value
- further cost reductions
- debt reduction measures

Sharper focus on core network communications businesses

Following the operational review, we will focus resources primarily on:

- optical networks (SDH/DWDM)
- high capacity packet switches
- broadband access platforms which interface with the core of the networks
- software and support services associated with these products

Through this portfolio of core technologies, we will deploy the scalable, re-configurable, and high-capacity networks required to underpin the current and future revenue-generating services of our established customers. This is the next stage of network evolution, which we expect over the medium to long term to be an attractive and growing market as voice, data and multimedia traffic continues to require additional network capacity.

We will continue to focus on our existing customer base which predominantly comprises established European and US wireline and wireless operators. Our large installed base and our increasing ability to cross-sell our full range of products to these existing customers position us well to take advantage of a market upturn.

As a result of the decision to refocus our portfolio on products at the core of the network, a number of strategic actions will be taken. In particular, we will:

- in the enterprise market, concentrate on selected major customers and distribution channels that require carrier-class networks;
- streamline our portfolio of access platforms; and
- seek partners to assist in selected development activities such as optical components and third generation mobile base stations.

The majority of the research and development investment in the core business will be directed to the development of our reconfigurable, highly resilient optical networks consisting of ring-based and ultra long-haul optical systems and optical cross-connects, along with very high capacity switch routing platforms, a multi-service switching platform and a high-density digital subscriber line access multiplexer known as DSLAM. This concentration enables us to invest competitive levels to maintain our world-class portfolio of networking products.

Non-core activities to be managed for value

We will transfer our non-core activities to Marconi Capital. Businesses in Marconi Capital are managed for value in order to enhance the Group's earnings and cash flow and to reduce debt.

Further cost reductions

We plan to significantly reduce costs within our core business. To achieve this target, on September 4, 2001 we announced that we will be implementing the following additional actions:

- **Further headcount reduction:** reducing headcount by a further 2,000 in addition to the 8,000 already announced this year. We expect to incur costs of £450 million in relation to headcount reductions and other associated restructuring charges during the current financial year.
- **Streamlined organization:** integrating our current headquarters and three-divisional structure into a single organization.
- **Additional outsourcing:** pursuing further outsourcing initiatives beyond the previously announced agreement with Jabil Circuit Inc. In particular we intend to outsource parts of our back office infrastructure.
- **Rationalization of facilities and property:** implementing an extensive global program to reduce the number of locations and eliminating duplication, sub-scale sites, and surplus property assets.

Overall, we expect to reduce the headcount in our core business to around 29,000 employees by March 2002. This represents a 25% reduction from the 39,000 employed in this group of businesses at March 31, 2001. On September 4, 2001 we announced that these additional headcount reductions and other measures will take the annualized cost savings up from £350 million previously announced to approximately £600 million, of which £400 million relates to operating overheads and £200 million relates to direct cost of sales. On September 4, 2001 we announced that, after these savings, we expect to enter the next financial year with an operating cost base of £1 billion in our core business.

Debt reduction

On September 4, 2001 we announced that we are targeting to achieve a level of net debt of between £2.7 billion and £3.2 billion by March 2002 through a series of clearly defined actions:

- **Operating cashflow:** We expect to generate more than £500 million from operating income and reductions in working capital. Contributing to this is significant planned reduction in capital expenditure (£360 million compared with £561 million in the previous year). By the end of the current financial year, capital expenditure will be less than the depreciation charge in the core business.

- **Reduced IT spend:** As part of the operational review, the planned investment in a new single company-wide IT platform has been rescheduled and reprioritized. This will reduce the expected investment from £250 million to £150 million, of which £75 million will be spent during the current financial year. These costs will be recorded as operating exceptional items in the period in which they are incurred.
- **No further investment in cash consuming business development activities:** We have in the past invested significant capital resources in non-core business development initiatives. As a result of the operational review, we will not invest further capital in ventures of this nature.
- **Disposal and other asset realizations:** We intend to generate proceeds from disposals and other asset realizations in excess of £500 million in addition to those already announced.

Former corporate organizational structures

The reorganization of our corporate structure into a communication division for our core businesses and a capital division for our non-core businesses is effective as of September 4, 2001. Between April 1, 2001 and September 3, 2001, we were organized around three customer-facing divisions:

- **Networks.** Networks focused on customers with a telecommunications license that do not predominately rely on wireless.
- **Wireless.** Wireless focused on customers that rely on wireless communications.
- **Enterprise.** Enterprise focused on customers without a telecommunications license.

On and before March 31, 2001, our corporate structure was organized into five divisions, as described below:

- **Communications networks.** Our communications networks business designed communications systems, comprised of our own products and those of third parties to provide communications solutions to our customers in the public network and private network markets internationally. This business supplied telecommunications companies and providers of Internet services with a broad range of products for their public networks, including optical networks systems, access systems, broadband, or very high capacity, switches and software management systems which were sold along with our communications networks products.
- **Communications services.** Our communications services business focused on providing services in response to operators' increasing outsourcing of network design and planning, network building and deployment and network operation and maintenance in the highly competitive global communications market. This business provided a broad range of support services to the communications industry worldwide tailored to suit customers' needs, and also supported our own communications and information technology products.
- **Mobile communications.** Our mobile communications business designed, developed and integrated communications and information technologies into wireless communications systems for security forces and other uses. Mobile communications' main activities included secure communications for military use, private mobile radio systems such as those used by emergency services and public mobile networks.
- **Data systems.** Our data systems business designed, developed, manufactured, distributed, sold and supported digital imaging systems and supplies. During fiscal 2000,

we identified three separate systems businesses as reportable segments: data systems, medical systems and commerce systems. During fiscal 2001, we began accounting for the retail automation systems business and the service station equipment business of our commerce systems business separately and reported the results of both businesses within our other businesses segment. Our medical systems business became a non-core business as a result of our agreement to sell this business to Philips Electronics. See ''Item 3—Key Information—Selected Consolidated Financial Information'', ''—Our Data Systems Business'', and ''—Our Other Businesses''.

- **Other.** In addition to our principal businesses, during fiscal 2001 we invested in technology start-up and early stage businesses that we believed had growth potential or technology that was complementary to our principal businesses. We also retained other businesses with a view to development or disposal.

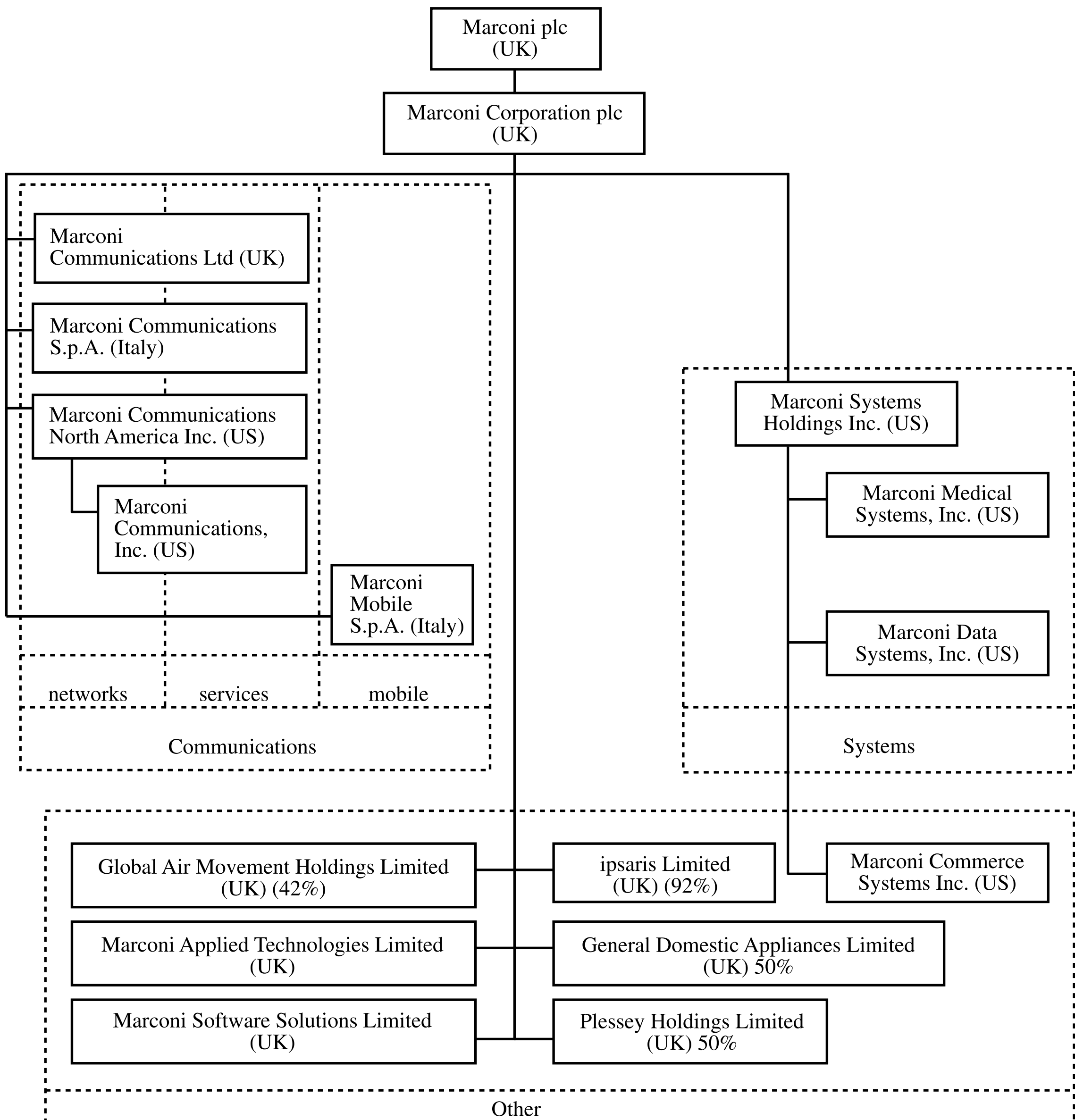
For simplified legal structure charts of our organizational structure at March 31, 2001 and September 24, 2001, see ''—Organizational Structure''.

For a discussion of revenues by principal activity and by geographic market for the past three years, see ''Item 5—Operating and Financial Review and Prospects—Results of Operations —Segmental discussion'' and ''Item 5—Operating and Financial Review and Prospects—Results of Operations—Revenues by geographical region''. See also the discussion of each of our principal businesses in ''—Our Communications Networks Business'', ''—Our Communications Services Business'', ''—Our Mobile Communications Business'' and ''—Our Data Systems Business''.

ORGANIZATIONAL STRUCTURE

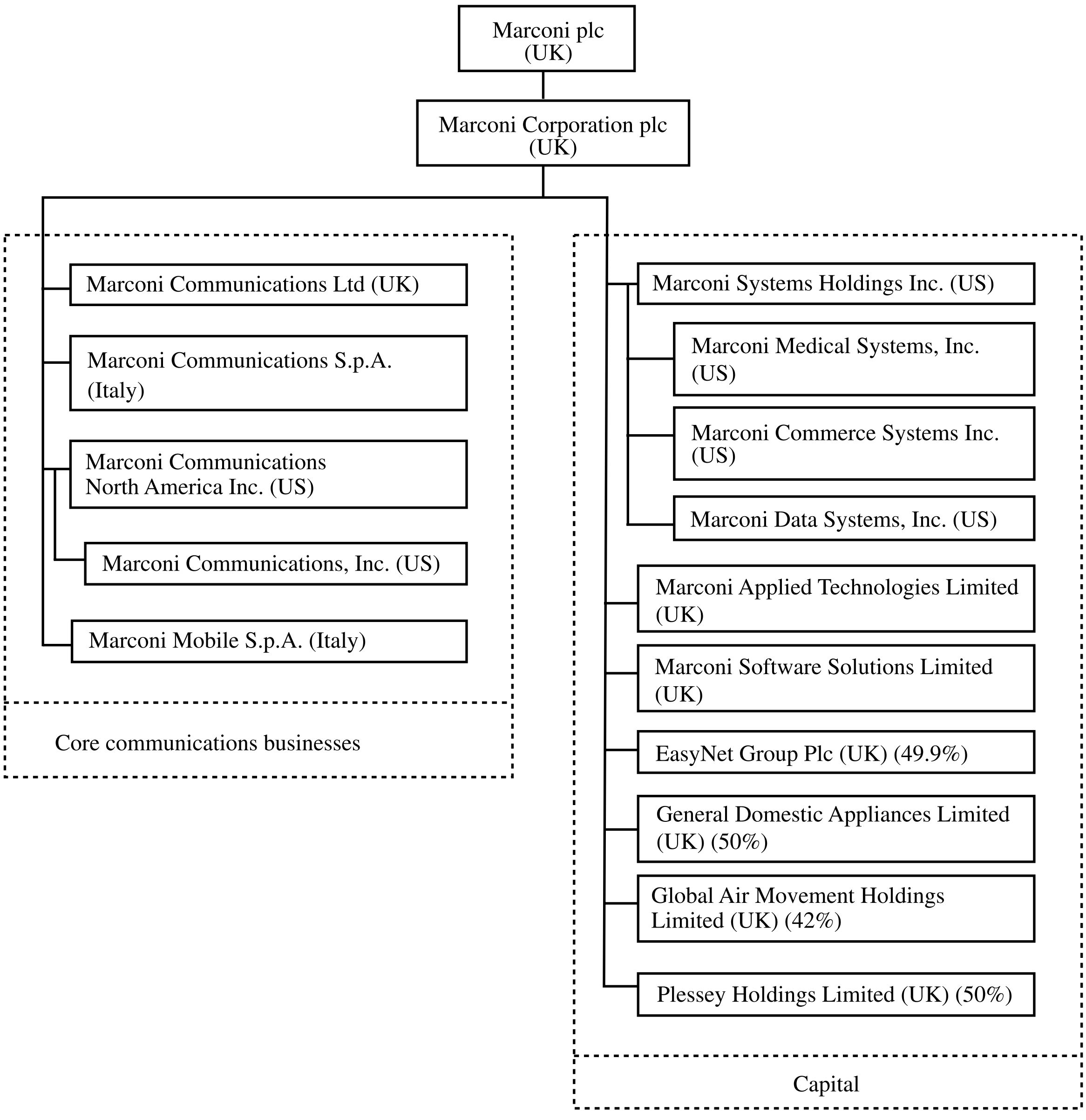
Set forth below are simplified legal structure charts of principal Marconi Group companies at March 31, 2001 and September 24, 2001. Neither chart shows all intermediate companies. At both March 31, 2001 and September 24, 2001, all companies shown were wholly-owned indirectly by Marconi plc and wholly-owned directly or indirectly by Marconi Corporation plc, as applicable, unless otherwise stated. Marconi Corporation plc is an indirect wholly-owned subsidiary of Marconi plc. The dotted lines show how these companies fit within the business groups as of March 31, 2001 and September 24, 2001, respectively. For information regarding principal subsidiaries of Marconi plc and Marconi Corporation plc at March 31, 2001 and September 24, 2001, see ''Item 10—Additional Information—Subsidiary Information''. Lists of the significant subsidiaries of Marconi plc and Marconi Corporation are also included as Exhibits 8.1 and 8.2 to this annual report.

Legal structure at March 31, 2001:



At March 31, 2001, Marconi Commerce Systems was reported in our other businesses segment as two separate businesses: retail automation systems and service station equipment business.

Legal structure at September 24, 2001:



On July 4, 2001, we agreed to sell Marconi Medical Systems to Philips Electronics. The transaction is subject to standard closing conditions, including regulatory approvals, and, subject to these conditions being met and approvals being received, is expected to close in the fourth calendar quarter of 2001.

Effective July 26, 2001, we merged our 92% interest in ipsaris Limited into EasyNet Group Plc, acquiring 71.9% of the issued share capital of EasyNet and control of 49.9% of EasyNet's issued voting capital.

HISTORY AND DEVELOPMENT OF THE COMPANY

Marconi plc was incorporated as a public limited company under the laws of England and Wales on September 17, 1999. It is the top holding company of the Marconi Group. Marconi Corporation plc is an indirect, wholly-owned subsidiary of Marconi plc. Marconi Corporation plc was formerly known as The General Electric Company, p.l.c. (GEC), which was incorporated as a public limited company under the laws of England in 1900 under the name The General Electric Company (1900) Limited.

Early history

GEC originally operated its business in the electrical industry. GEC expanded its presence in this industry in the 1960s with acquisitions, like the acquisition of The English Electric Company in 1968 which included, among other entities, the Marconi Company, the world's first wireless telegraph company, established by Guglielmo Marconi in 1897. In the 1970s and 1980s, GEC expanded its electrical business to include medical scanners and imaging systems, printing systems and service station equipment by acquiring companies like Picker, Videojet and Gilbarco. GEC also expanded and strengthened its position in the telecommunications and defense electronics industries by forming joint ventures with Plessey (known as GPT), Alcatel (known as GEC Alsthom) and the General Electric Company of the United States (known as General Domestic Appliances, or GDA). In the 1990s, GEC further strengthened its position in defense electronics and implemented a strategy of focusing its activities on defense electronics, communications and intelligent electronics businesses including, in communications, acquiring the share of the GPT joint venture it did not already hold. It also formed Marconi Communications by placing the businesses of GPT, Marconi in Italy, GEC Hong Kong, and GEC's telecommunications interests in South Africa under the same management structure.

Separation of defense electronics and systems business; reconstruction of the Marconi Group

In the second half of 1998, GEC's board conducted a detailed review of the future of the international aerospace, naval shipbuilding, defense electronics and defense systems business, which it concluded would be better positioned in the long term as part of a larger combined defense business. This resulted in its announcement in January 1999 that GEC and BAE Systems had reached agreement on the principal terms of a proposed reconstruction which would involve the separation of the business under review from GEC's other businesses, the merger of the business under review with BAE Systems and the reorganization of GEC's remaining businesses under a new holding company, Marconi plc. Shareholders of GEC became shareholders of Marconi plc and GEC became an indirect wholly-owned subsidiary of Marconi plc and was renamed Marconi Corporation plc. These transactions were completed on November 29, 1999.

Modern history

After the reconstruction in 1999, the Marconi Group implemented a strategy of focusing its businesses on communications and intelligent electronics. In fiscal 2000, we acquired Reltec, a U.S.-based company that provides telecommunications access, power and outside plant products and services; Fore Systems, another U.S.-based company that provides broadband switches; Nokia's equipment transmission business; and Bosch's public networks business. In fiscal 2001, we acquired Metapath Software International (MSI), a Delaware company headquartered in London, England, that provides software and services used in the wireless telecommunications market to launch and support mobile voice and data services. We also divested non-core assets. For a comprehensive list of the acquisitions and disposals we conducted for the three fiscal years ended March 31, 2001, see ''Item 5—Operating and Financial Review and Prospects—Acquisitions and Dispositions''.

Recent developments

Acquisitions and disposals

We entered into an agreement dated July 3, 2001 with Philips Electronics to sell our medical systems business for approximately £780 million ($1.1 billion) in cash. Subject to customary regulatory approvals and other closing conditions, this transaction is expected to close in the fourth quarter of the 2001 calendar year.

In addition, since March 31, 2001, we entered into the following transactions which, in aggregate, were not material:

- in April 2001, the Marconi Group:
    - acquired Telit Networks S.p.A. and a 19.9% interest in Telit Mobile Terminals S.p.A.;
    - acquired Harman Information Technology Pty Limited; and
    - formed a 50-50 joint venture with Railtrack of the United Kingdom (known as Ultramast);
- in May 2001, we acquired Northwood Technologies;
- in June 2001, the Marconi Group:
    - disposed of our remaining interest in Alstom; and
    - formed a 50-50 joint venture with Oxford GlycoSciences (UK) Limited (known as Confirmant Limited); and
- in July 2001, we merged our 92% owned subsidiary, ipsaris, into EasyNet Group Plc, a U.K.-registered company listed on the London Stock Exchange, acquiring 71.9% of the issued share capital of EasyNet and control of 49.9% of its issued voting capital.

Outsourcing

Marconi and Jabil Circuit, Inc. entered into an agreement on January 11, 2001 to transfer five Marconi manufacturing operations in the United States, the United Kingdom, Italy and Germany to Jabil Circuit. Following the transfer, Jabil Circuit will provide Marconi, for a three year term, with electronics manufacturing services including printed circuit board assembly and repair services. Under the terms of the agreement, approximately 2,200 Marconi employees in Bedford, Texas; Liverpool and Coventry, United Kingdom; Marcianise, Italy; and Offenburg, Germany will progressively transfer to Jabil Circuit. The sale of the United Kingdom and the Italian businesses closed on June 15, 2001. Part of the sale of the U.S. businesses closed on September 4, 2001 and the remaining sales of the U.S. and German businesses are expected to close in 2002. In order to create a more flexible and scalable business better adapted to the volatile market in which we operate, we intend to pursue further outsourcing initiatives beyond those announced with Jabil Circuit. In particular, we intend to outsource parts of our administrative functions like human resources.

Suspension of trading

We were obliged under the rules of the U.K. Listing Authority (UKLA) to announce on July 4, 2001 the agreement to sell our medical systems business to Philips Electronics. In order to prevent a false market in our shares, we could not permit trading in our shares on the basis of an announcement of a major disposal without also informing the market of our current trading position. On that date, however, our board of directors had not yet completed its review of the Group's trading position or approved the trading announcement. For this reason, on July 4, 2001, we requested a suspension in the trading of our shares before the opening of the markets on that day. The suspension of trading took place before the market opened in London on July 4, 2001. The trading update was issued after the market closed in London on that day, and trading in our shares in London resumed at the beginning of trading on July 5, 2001.

Debt ratings downgrades

On July 5, 2001, S&P placed the corporate credit ratings of Marconi plc on ''CreditWatch'' with negative implications, citing our forecasts of halving of operating profits before restructuring costs and a 15% reduction in revenues for fiscal 2002. On August 6, 2001, S&P lowered Marconi plc's long-term corporate and senior unsecured ratings from BBB+ to BBB− and lowered Marconi plc's short-term ratings from A-2 to A-3. S&P announced that its outlook remained negative. In its comments, S&P announced that the downgrade was partly due to extremely weak market conditions prevailing in the global telecommunications equipment industry as well as the industry's very limited forward visibility, meaning that it is difficult to determine when conditions might improve. S&P also stated that it believed our March 31, 2002 debt and profitability targets would be difficult to meet. On September 5, 2001, S&P lowered Marconi plc's corporate credit ratings again, to BB for our long-term corporate and senior unsecured ratings and to B for our short-term ratings. S&P also lowered Marconi Corporation plc's long term corporate and senior unsecured ratings to BB from BBB−. S&P's outlook remains negative.

On May 4, 2001, Moody's placed Marconi plc's corporate credit ratings on negative outlook, citing softness in the telecommunications equipment market. On July 5, 2001, Moody's placed Marconi plc's corporate credit rating on review for a possible downgrade. Moody's stated it was concerned about the outlook for our operating cash flows, about the progress of reducing working capital and disposing of other non-core holdings and consequently the pace of debt reduction. On August 8, 2001, Moody's downgraded Marconi plc's senior unsecured debt ratings from A3 to Baa2 and stated that the rating outlook was negative. Moody's stated that the ratings action reflected primarily the outlook for lower cash generation over the medium term resulting from slower growth in the telecommunications equipment market and rising competition among the suppliers, citing uncertainties regarding market demand and price competition. It also expressed concern for our debt reduction plans in the current market environment. On September 7, 2001, Moody's lowered Marconi plc's senior debt ratings and the ratings for Marconi Corporation plc's bonds from Baa2 to Bal and stated that the outlook remained negative.

Management changes

On April 10, 2001, Steve Hare was appointed Chief Financial Officer of Marconi plc and John Mayo was appointed Deputy Chief Executive of Marconi plc. Derek Bonham, Chairman of Cadbury Schweppes plc and Imperial Tobacco Group plc, joined the board of directors of Marconi plc as a non-executive director and was appointed senior non-executive director and chairman of the remuneration committee of Marconi plc. Mike Donovan, a member of the board of directors of Marconi plc, was appointed Chief Sales Officer of Marconi plc. We confirmed that Sir Roger Hurn would retire as both Chairman and member of the board of directors of Marconi plc and Lord Simpson would become Chairman of Marconi plc. Marconi plc also announced the intention to form a technology advisory committee to be chaired by Sir Alan Rudge, a non-executive director of Marconi plc. This committee will include external appointees with relevant technical knowledge and strategic perspective to ensure we continue to inform and improve the direction of our research programs.

On July 6, 2001, John Mayo resigned from all positions he held in the Marconi Group with immediate effect. On September 4, 2001, Sir Roger Hurn and Lord Simpson resigned from all positions they held in the Marconi Group with immediate effect. Derek Bonham agreed to become interim Chairman of Marconi plc with immediate effect until a new Chairman is appointed. Mike Parton, the Chief Executive Officer of Marconi Communications Networks, was appointed Chief Executive of Marconi plc with immediate effect. Mike Donovan, the Chief Sales Officer, was appointed Chief Operating Officer of Marconi plc with immediate effect. In addition, under the new corporate structure effective as of September 4, 2001, Neil Sutcliffe will serve as Chief Executive Officer of the capital division and Geoffrey Doy will serve as Chief Executive Officer of sales and marketing of Marconi plc.

Restructuring

On April 10, 2001, we announced a reorganization of our activities into three customer-facing divisions: Networks, Wireless and Enterprise.

At our annual general meeting on July 18, 2001 we announced our intention to conduct a comprehensive review of our business. On September 4, 2001, we announced the completion and results of our operational review. From our review we formulated an action plan that centers on four principal areas:

- focusing on our core communications business;
- managing non-core businesses for value or disposal;
- reducing costs; and
- reducing debt.

The September 4, 2001 restructuring plan supersedes the April 10, 2001 plan. For a detailed discussion of our current restructuring plan, see ''—Business Overview''.

Trading updates

On July 4, 2001, we issued a profits warning. We expected sales for the year ending March 31, 2002 to be around 15% lower than the previous year and operating profit before exceptional items to be down by approximately 50%. On July 4, 2001, we also announced that we were taking further steps to accelerate and expand our previously announced cost-cutting actions in order to re-align our cost base with the revised sales forecasts. We announced that the reduction in our global workforce by around 3,000 positions exceeded its target and over 4,000 people had left or had agreed to leave the Group. In addition, as a result of the further review of our cost base, on July 4, 2001 we announced plans to withdraw from a number of existing facilities and increasingly concentrate our activities on major sites. On July 4, 2001, these measures were expected to reduce our workforce around the world by a further 3,000 jobs. In addition, we announced that we will be taking steps to streamline our management structure, reducing the overall number of management positions by around 1,000. In total, including the transfer of employees to Jabil Circuit within the framework of our outsourcing program, we announced on July 4, 2001 that this will lead to a total headcount reduction of over 10,000.

On September 4, 2001 we provided a trading update and announced a wide-reaching set of actions to sharpen our focus on our network communications business, to restore the operational efficiency and reduce debt and to develop a sustainable business model for future performance improvement. For a discussion of the September 4, 2001 trading update, see ''—Business Overview—Trading update''.

FTSE Index

In September, 2001 FTSE International Ltd., which calculates and maintains indices to illustrate the performance of various sectors of the UK and European markets, announced that as of the close of business on September 21, 2001 Marconi plc would no longer be included in the FTSE 100 Index. This index includes the 100 largest companies in the United Kingdom based on market capitalization. As a result of the substantial decline in market capitalization, Marconi plc no longer qualified for inclusion in the index. As of September 24, 2001, Marconi plc is included in the FTSE 250 Index.

FSA Inquiry

The U.K. Listing Authority (UKLA) has initiated inquiries concerning the events leading up to the suspension of trading in Marconi plc's shares on the London Stock Exchange on July 4, 2001 and Marconi plc's trading updates of July 4, 2001 and September 4, 2001. The UKLA has requested documents and has begun to interview our employees. If the UKLA determines that we have breached its listing rules, it may issue a public censure.

OUR COMMUNICATIONS NETWORKS BUSINESS

Our communications networks business designs communications systems, comprised of our own products and those of third parties, to provide communications solutions to our customers in the public and private network markets internationally. We supply telecommunications companies and providers of Internet services with a broad range of products for their public networks, including optical networks systems, access systems, broadband switches and software management systems which are sold along with our communications networks products.

On September 4, 2001, we announced the conclusion and results of an operational review of our business. From our operational review we formulated a restructuring plan that includes a reorganization of our business divisions and a refocusing of our portfolio of products. Effective September 4, 2001, our corporate structure was organized into two divisions: a communications division and a capital division. The communications division includes the businesses within our communications network business as well as the businesses within our communications services business and our mobile communications business. It is our single principal business. All other businesses are included in the capital division. For a full discussion of our new organizational structure, see ''—Business Overview'' and ''—Organizational Structure''.

Marconi and Jabil Circuit, Inc. entered into an agreement on January 11, 2001 to transfer five Marconi manufacturing operations in the United States, the United Kingdom, Italy and Germany to Jabil Circuit. Following the transfer, Jabil Circuit will provide Marconi, for a three year term, with electronics manufacturing services including printed circuit board assembly and repair services. Under the terms of the agreement, approximately 2,200 Marconi employees in Bedford, Texas; Liverpool and Coventry, United Kingdom; Marcianise, Italy; and Offenburg, Germany will progressively transfer to Jabil Circuit. The sale of the United Kingdom and the Italian businesses closed on June 15, 2001. Part of the sale of the U.S. businesses closed on September 4, 2001 and the remaining sales of the U.S. and German businesses are expected to close in 2002.

Aggregate sales for all of communications networks' activities for the fiscal year ended March 31, 2001 were £3,268 million compared to £2,535 million in our 2000 fiscal year and £1,343 million in our 1999 fiscal year. Communications networks' aggregate sales for the fiscal year ended March 31, 2001 represented 59.5% of the Marconi Group's total sales for the same period (57.3% in 2000; 46.5% in 1999).

Our communications networks business is headquartered in Pittsburgh, Pennsylvania.

Products and services

Our communications networks products are used in:

- optical networks systems, which use optical fiber as a medium to transport data;
- access systems, which connect businesses and consumers to communications networks; and
- broadband routers and switches, which are very high digital data capacity devices that switch and route communications traffic.

Along with our communications networks products, we sell software management systems that monitor and control communications traffic over communications networks.

We also supply outside plant products which connect, protect or enclose part of a telecommunications network, as well as power equipment.

Optical networks

We have developed a comprehensive range of transmission equipment. Service providers use transmission equipment to transmit voice, data and video traffic over fiber optic networks. Transmission equipment is based on three technology standards: synchronous digital hierarchy (SDH); synchronous optical network (SONET) and dense wavelength division multiplexing (DWDM). SDH is the digital transmission standard that is used throughout Europe and most of Asia-Pacific. SONET is the digital transmission standard that is used throughout North America. DWDM is a new transmission standard that is used worldwide.

Our DWDM equipment, branded as SmartPhotoniX, uses multiple wavelengths of light to increase the capacity of optical fiber. The equipment is complementary to our SDH and SONET equipment and enables service providers to build high capacity optical networks. We recently launched the world's first remotely re-configurable photonic add-drop multiplexer (PMA). This product allows traffic streams to be inserted and removed from a transmission ring without disturbing other traffic streams. We also supply photonic line systems (PLT/A/D), which increase the capacity of the existing fiber infrastructure. We are developing an ultra-long-haul photonic line system (UPLT) that extends the distance that traffic can be transported before regeneration of the signal is required. We will also supply our photonic cross-connect (PXC) to service providers. This product is being developed specifically for wavelength switching within DWDM networks, which will have a much higher data capacity than SDH or SONET networks.

Our SDH equipment transports voice, data and video traffic over an optical network. SDH equipment enables carriers in Europe and Asia-Pacific to build access, regional and core networks. Our synchronous add-drop multiplexers transport traffic streams over ring-based optical fiber networks to provide protection against network failures. Our synchronous line systems transport high-capacity traffic streams between major traffic centers. We also supply synchronous cross-connects to provide points of flexibility and restoration within an SDH network.

We are developing a range of SONET products. The SONET and DWDM products will enable service providers in North America to build metropolitan and core networks. The products will support both voice and data services and will help to facilitate service providers' migration from voice-centric to data-centric networks.

All of our transmission equipment is managed by our network management system (ServiceOn). ServiceOn enables service providers to re-configure their networks in accordance with changing traffic patterns. ServiceOn also provides network performance information and has a fault detection capability to support the day-to-day operation of the network.

Access systems

We design, manufacture, sell and support a broad range of access equipment. Access equipment connects the end user to a telephone company's switch or local office across what has been traditionally known as the ''last mile'' or ''local loop''. This is the physical wire that runs from a subscriber's telephone set or other communications device to the telephone company's central office. We supply standards-based systems and equipment to maximize the capabilities of traditional physical transport media, including copper telephone lines, coaxial cable, fiber optics and both licensed and unlicensed wireless spectra.

Our access product portfolio primarily consists of the following product lines:

- **Next Generation Digital Loop Carriers/Digital Loop Carriers (NGDLC/DLC).** These products are typically telephone networks terminals that receive multiple calls from a central office switch and distribute services to a large number of subscribers. NGDLC/DLC technology makes use of digital techniques to bring a wide range of services to users via twisted-pair copper phone lines, typically from the central office. Our NGDLC/DLC systems, known as ''Advanced Copper''™, provide customers with cost-effective high density voice telephone services and high speed Internet ADSL (Asymmetric Digital Subscriber Line) services.

- **Fiber In the Loop (FITL).** Fiber In The Loop (FITL) is an industry standard means of providing residential and business subscriber services by extending fiber optic-support services very close to the customer and hosted from a remote office or small outdoor enclosure, rather than the more distantly located central office. The copper extension from this fiber optic ''feeder'' on a FITL system is typically 1,000 feet or less, and is provided on either copper telephone line pairs or coaxial cable for voice, broadcast video (CATV) and high speed DSL Internet services. Our FITL portfolio, known as ''Deep Fiber'', provides fiber-supported services including Fiber To The Node (FTTN), Fiber To The Curb (FTTC), and Fiber To The Home (FTTH). Deep fiber allows for very high speed data and high-capacity broadcast transmissions over a single fiber-optic feed; evolving from 25Mbps to rates exceeding 155Mbps, with the final subscriber delivery rate dependent on the type of media (copper, coax or fiber) installed across the remaining distance between the residence and fiber node.

- **Digital Subscriber Line Access Multiplexers (DSLAMs).** These products are typically located within a central office on one end of the subscriber loop, providing broadband Internet/DSL data services. Our next generation DSLAM offers one of the highest ratios of port density available in the market and is optimized for ease of configuration and management. This product, based on our generic Access Hub™ platform and architecture, incorporates further functionalities including integrated ATM edge switching and support for multiple subscriber services, including voice and video.

- **Broadband Wireless.** This product is a means of providing subscribers voice and broadband data services through existing airwaves as made available by each country's regulating authority. Our Skyband MDRS™ product family encompasses our point-to-point (PtP) products. The broadband PtP portfolio offers long and short haul SDH transmission for a range of services from trunk networking, local access bypass and mobile network feeder applications. The Skyband MDMS™ point-to-multi-point (PtMP) portfolio offers cost-effective broadband wireless solutions ranging from 2.4 Ghz to 32 Ghz depending on the country's frequency allocation, and supports subscriber voice and broadband data, using both standards-based and optimized techniques. Our comprehensive radio planning and installation services enhance our ability to offer customized, cost-effective solutions for network operators and service providers. Our Skyband WipLL™ lines began shipping for revenue as of March 31, 2001, with incremental development activities still occurring in order to enhance current offerings and ensure industry compliance as new wireless standards evolve. As part of the operational review we announced that we would reduce our current level of investment in our PtMP products. This statement applies to our MDMS product line, and will be a reduction only to the amount required in order to match the level of current market activity.

Broadband routing and switching

We supply a broad range of high-performance switch routers, whose function is to establish a transmission path across networks for voice and data communications. Our products address the three principle transmission protocols, namely asynchronous transfer mode (ATM), the dominant technology for broadband networks, Internet protocol (IP), which uses Internet addresses to route data between communications devices, and multi-protocol label switching (MPLS), an emerging standard which will speed up IP based data communications over ATM networks. In an MPLS network, packets (i.e. blocks of data in digital form) labelled as voice or data can be transmitted in their proper sequence, without disruption or delay, addressing the quality of service deficiencies of pure IP based networks.

Our products provide a migration path to service providers from their existing ATM networks to a next generation MPLS infrastructure. This will allow service providers to scale their revenue streams from existing services (voice, private line, ATM etc.) to new IP services such as virtual private networks and voice over IP.

We are developing a next-generation switch router, the BXR-48000, which can switch at transmission speeds ranging from 40 gigabits per second (Gbps) to 480 Gbps. Capable of multi-protocol concurrent transmissions, this will be a key product for our evolution solutions from existing ATM networks to MPLS networks.

We sell a carrier-class switch router, the ASX-4000, which scales from 10gbps to 40gbps, and may be positioned within the core or at the edge of service provider and carrier networks. Like the BXR, the ASX-4000 provides concurrent support of IP, MPLS and ATM traffic.

We provide a wide range of smaller switches for service providers and enterprises, and also a range of integrated access devices (IADs), which are cost-effective solutions supporting voice, data and video transmissions over single high capacity circuits. As part of the operational review, we announced that we will cease our development of new IAD products.

Outside plant and power equipment

We supply connection, protection and enclosure products for the outside plant portion of the local loop. These products include distribution pedestals, building entrance terminals, cross connect terminals, cable television enclosure products, fiber optic splice enclosures, large electronic configuration cabinets, central office main distribution frames, heat management systems, power surge protection devices and connection blocks and terminals. We also supply power equipment to service providers and telecommunications Original Equipment Manufacturers (OEMs) throughout the world. Our power products and systems include large power systems for central office applications, smaller cabinet power systems with ''plug and play'' flexibility, modular power systems, custom power subsystems sold to OEMs, DC distribution and DC-DC conversion systems and traditional ringing and signaling equipment. In addition, we manufacture hardware and develop software that allow for remote monitoring and control of power systems. Our family of power products is marketed under the Vortex® brand name and is based on a single integrated platform suitable for multiple wireline and wireless applications. This microprocessor-based ''plug and play'' architecture allows for software-based configuration, management, monitoring and intelligent local and remote power system access that is easily expanded for system configuration and control.

Overview of the communications market

There are two global communications network markets: the public network market, which includes telephone companies and companies that provide Internet services, and the private network market, which includes large corporations, government departments and agencies, utilities and educational institutions. We see a strong technological interdependency between new public networks and the new private networks that we expect will develop. For example, both telephone companies and providers of Internet services, as well as large corporations, government agencies and other organizations are exploring the ability to merge their data, voice and video transmission networks.

The public network market

Historically, state-owned or state-regulated monopolies have operated public networks, which traditionally transmitted voice calls between users in such states. Recent privatization and deregulation of public networks has led to the entrance of a large number of new companies into the public network market.

Reduced overall demand for communications products and services has resulted in an overcapacity of communications products. New operators are finding it increasingly difficult to raise the capital required to complete the build-out of their networks, leading to a series of bankruptcies and mergers. This has contributed to the reduction in capital expenditure in the current year. The competitive environment in the public network market is causing both existing and new operators to focus on data networking technologies which can increase capacity and satisfy the demand for data transmission services. They must do this while maintaining their current voice networks which provide the majority of their revenue and profits. We expect operators will seek to install new high capacity broadband upgrades which are capable of transferring data more rapidly across existing networks to meet demand for bandwidth and can be used to offload the data currently transported across their legacy voice networks. This will decrease their need to spend money on voice network upgrades. Eventually, continued bandwidth upgrades will result in networks becoming prohibitively complex and costly. Consequently we believe that public network operators will over time optimize their networks for the transport of data and multimedia traffic while preserving the capability to support their legacy voice services. The rate at which this occurs will be largely a function of the competitive environment.

The private network market

Private networks transmit primarily data over a network of computers or workstations connected together in a small area such as an office or building for large corporations, government agencies and other organizations.

As a result of the increase in delay-sensitive traffic over private networks and the increasing need for network reliability and quality of service, we believe large corporations, government agencies and other organizations will seek to enhance their networking infrastructure such that it is capable of transmitting voice and video traffic without disruption or delay. Because they tend to regard their networking infrastructure as a strategic asset, we believe that such organizations will be willing to expedite upgrades to newer technologies which more efficiently handle delay sensitive traffic; however, the majority will seek to implement such upgrades incrementally to their installed base.

Customers

Our communications networks business has customers in 90 countries. Our major public network customers include AT&T, BellSouth, British Telecom, Cable & Wireless, Deutsche Telekom, France Telecom, Level 3 Communications, MCI Worldcom, Qwest, SBC, Sprint, Telebras, Telecom Italia, Telefonica, Telstra and Verizon. Our major private network customers include Delta Airlines, Microsoft, Shell and Unisys.

Except for British Telecom, each of our customers accounted for less than 5% of Marconi plc's total revenues and communications networks revenues for the fiscal year ended March 31, 2001. For the same period, British Telecom accounted for approximately 15.5% of Marconi plc's total revenues, 19.8% of communications networks revenues and 18.3% of revenues for our communications-related businesses as a group.

We are targeting existing customers in the public network and private network markets.

Sales, marketing and distribution

Communications networks sells its products and services using its own dedicated sales force as well as local partners and distribution partners. In the fiscal year ended March 31, 2001, communications networks made approximately 80% of its total sales through direct sales efforts and 20% through distributors.

Communications networks' sales force includes sales and marketing organizations in three regions: the Americas; Europe, the Middle East and Africa; and Asia Pacific. We have specialized product marketing groups which support these organizations internally and a central marketing staff which provides strategic direction and customer and market communications support for these organizations externally. Each of these regional organizations has responsibility for account management, sales and contract negotiation. We have recently launched a new channel strategy for the enterprise and emerging operators markets whereby third-party partners will be trained and accredited to sell Marconi's carrier class products portfolio and provide network support and services.

Communications networks' distribution partners include Ericsson, Intracom, Italtel, Nokia, Sagem and Siemens in Germany. We signed a seven-year agreement with Ericsson in July 1999 that allows Ericsson to market the full range of our synchronous digital hierarchy (SDH) equipment to its worldwide customer base. We also entered into a four-year agreement with Nokia in November 1999 to market our synchronous digital hierarchy (SDH) and dense wavelength division multiplexing (DWDM) systems.

Research and development

Communications networks spent approximately £472 million on research and development in the fiscal year ended March 31, 2001, and £308 million in the year ended March 31, 2000. Approximately 6% (2000: 12%) of this amount was customer funded while the remainder was company funded.

Communications networks' current research and development programs are focused on:

- further enhancing its existing optical networking product range;
- developing a range of next generation photonics products (products which make use of both light (photons) and electronics);
- enhancing access network products; and
- developing switching products for new public and private networks.

Competition

The public network and private network markets in which our communications networks business operates are highly competitive. Communications networks' principal competitors in the public network market include Alcatel, Cisco Systems, Ericsson, Lucent Technologies, Nortel and Siemens. The primary method of competition in the public network market is the widespread use of open bids for public network equipment purchases. Service providers use a combination of factors to evaluate bids, including price, technical compliance, ability to deliver in the required timescale and provide after-sales support and long term visibility.

In the private network market, our principal competitors include Cabletron, Cisco Systems, Lucent Technologies and Nortel. The primary method of competition in the private network market is by a combination of open bids and selection/endorsement. Selection criteria are similar to those in the public network market, although long term visibility is not as important a selection factor in the private network market.

A number of our competitors have substantial technological and financial resources (including research and development resources) and operate in all significant market segments of the industry. As the public network and private network markets converge, other specialist companies in the information technology sector may also emerge as strong competitors.

Seasonality

Our sales are typically weighted more heavily towards the end of the six month periods ending September 30 and March 31, reflecting the buying pattern of our customers.

OUR COMMUNICATIONS SERVICES BUSINESS

Our communications services business is focused on providing services in response to operators' increasing outsourcing of network design and planning, network building and deployment and network operation and maintenance in the highly competitive global communications market. We provide a broad range of support services to the communications industry worldwide tailored to suit customers' needs, and we also support our own communications and information technology products.

On September 4, 2001, we announced the conclusion and results of an operational review of our business. From our operational review we formulated a restructuring plan that includes a reorganization of our business divisions and a refocusing of our portfolio of products. Effective September 4, 2001, our corporate structure was organized into two divisions: a communications division and a capital division. The communications division includes the businesses within our communications services business as well as the businesses within our communications networks business and our mobile communications business. It is our single principal business. All other business are included in the capital division. For a full discussion of our new organizational structure, see ''—Business Overview'' and ''—Organizational Structure''.

Aggregate sales of all communications services activities for the fiscal year ended March 31, 2001 were £1,016 million, compared to £543 million in our 2000 fiscal year and £244 million in our 1999 fiscal year. This amount of sales represents 18.5% of the Marconi Group's total sales for the same period (12.3% in 2000; 8.4% in 1999).

Communications services is headquartered in Coventry, England.

Service offerings

Our communications services business provides plan, build and operate support services to network operators in many countries around the world.

Our plan services include business consultancy, network architecture, technical consultancy, custom network management and financing. Our recent acquisitions have enhanced our technical expertise. For example, our acquisition of Metapath Software International, Inc. (MSI) broadened our capabilities in the wireless market. Our acquisition of Albany Partnership Ltd. (APT) provided us with the capability to acquire, plan and build cellular site infrastructure. We also have expertise in arranging and providing tailored financing structures, including private finance for government customers, pay-as-you-go and pay-as-you-grow packages where the service offering is paid for under a long-term service contract with no sale of equipment to the customer, and special structure finance companies for larger deals.

Our build services include network design, project management and build, network integration and testing services. Network build services currently represent the largest portion of our revenues.

Our operate services include network operation, network upgrades, web-based support, service management, maintenance, service provisioning, engineering support, technical education and marketing and selling services. We have twelve telephone call centers (three in each of the United States, the United Kingdom and the rest of Europe and one in each of Canada, Japan and Australia) offering around-the-clock telephone assistance to customers. We also have four network operating centers (one in each of the United States, the United Kingdom, Germany and Australia) for remote monitoring, fault diagnosis and network repair. We can support the Marconi product range as well as products supplied by other communications companies.

Overview of the communications services market

The growth in demand for data transmission and an increasingly liberalized and competitive communications market has created challenges for network operators and service providers. Existing operators need to upgrade their networks with very high-capacity, broadband equipment to make the best use of existing investment and support new data and mobile services. As a result, existing operators have been outsourcing the building and maintenance of their networks so they may focus on improving their services. New operators, on the other hand, need to install complete new networks quickly in order to compete effectively with existing operators and each other. As a result, new operators outsource the planning, building and operating of these complete new networks so that they do not have to recruit the necessary skilled workforce and can focus their attention on customer service. New operators are finding it increasingly difficult to raise capital to complete the build out of their networks. This contributes to the reduction in demand for communications services, until the spend levels of our customers increase as surplus capacity in their networks is utilized.

Wide area networks link the private networks of large corporations, government agencies and other organizations. We believe both existing and new network operators will require support services on a global scale and on an around-the-clock basis to meet their customers' needs for fast and reliable communications services.

Customers

Our customers include many of the world's leading service providers and major transport, health, finance, government and enterprise organizations worldwide. Our main public network customers include Bell South, British Telecom, Cable & Wireless, Colt, Deutsche Telekom, NTL, Omnitel, Sprint, Telecom Italia, Telstra and Viag. Our main private network customers include Adelphia Business Solutions, Delta Airlines, Hong Kong Mass Transit Railway Corporation, Italian Railways, London Underground, Railtrack and Shell.

For fiscal 2001, British Telecom accounted for approximately 15.5% of Marconi plc's total revenue, 19.6% of communications services revenue and 18.3% of revenues for our communications-related businesses as a group. For the same period, none of our other customers accounted for 5% or more of Marconi plc's total revenues or communications services revenues.

We target customers in the service provider, large scale ''carrier class'' markets and in the new applications markets.

Sales and marketing

Communications services uses communications networks as a primary marketing channel to service providers. Additionally, communications services has its own sales and marketing personnel to address other markets like transport and utilities.

Competition

The market for global services today is still emerging, and there are no dominant competitors. Major telecommunications vendors such as Nortel, Lucent Technologies, Alcatel and Cisco Systems are extending their service capabilities to offer total solutions, in direct competition to us. Major information technology and system integrators such as IBM, EDS and CSC are now offering telecommunications solutions to their customers. Furthermore, independent service and support organizations such as Dimension Data and Telindus offer a broad portfolio of services.

The market for support services is also fragmented. Currently a small number of companies have positions in specific territories. For example, communications services has a competitive position in the United Kingdom, Siemens has a competitive position in Germany and Alcatel has a competitive position in France.

The principal method of competition for plan, build and operate services is through open bidding. Services may also be sold as a part of, or linked to, equipment sales.

OUR MOBILE COMMUNICATIONS BUSINESS

Our mobile communications business designs, develops and integrates communications and information technologies into wireless communications systems for security forces and other uses. This business is also involved in the development of base stations and controllers for third generation networks, the next generation of public mobile networks. Mobile communications' main activities include secure communications, private mobile radio systems and public mobile networks.

On September 4, 2001, we announced the conclusion and results of an operational review of our business. From our operational review we formulated a restructuring plan that includes a reorganization of our business divisions and a refocusing of our portfolio of products. Effective September 4, 2001, our corporate structure was organized into two divisions: a communications division and a capital division. The communications division includes the businesses within our mobile communications business as well as the businesses within our communications services business and our communications networks business. It is our single principal business. All other business are included in the capital division. For a full discussion of our new organizational structure, see ''—Business Overview'' and ''—Organizational Structure''.

Aggregate sales of all mobile communications activities for the fiscal year ended March 31, 2001 were £331 million, compared to £295 million in our 2000 fiscal year and £271 million in our 1999 fiscal year. Mobile communications' aggregate sales for the fiscal year ended March 31, 2001 represented 6.0% of the Marconi Group's total sales for the same period (6.7% in 2000; 9.4% in 1999).

Mobile communications is headquartered in Genoa, Italy.

Products, services and customers

Secure communications

Secure communications designs and implements tactical networks, infrastructure networks, command and control systems, naval systems and avionics systems that provide communications services to military and security organizations like armed forces and police forces. Its products include:

- ground systems, which include
    - communications networks based on encrypted switched radio and optical fiber links that provide integrated communications services at a national level;
    - mobile networks, installed in vehicles or on man packs, based on encrypted single-channel and multi-channel radio links that enable secure communications and integrated communications services for ground military operations;
    - command and control systems, implemented on distributed computer networks, which support and automate the planning and control of military deployment at operational levels from field staff to individual units; and
    - auxiliary equipment, such as field telephones, portable computers, power supply management systems and antenna masts, for tactical communications;
- avionics systems, which include
    - communication, navigation and identification systems for helicopters and fixed-wing aircraft;

    - on-board opto-electronic sensors for aircraft and vehicles capable of detecting hostile laser designators; and
    - electro-luminescent display panels for aircraft instruments;
- naval systems, which include internal and external communications services for naval ships and submarines; and
- satellite systems, which include ground stations for military and civilian satellites ranging from large earth stations to mobile units.

Our secure communications customers include the armed forces of Brazil, Bulgaria, Denmark, Finland, Germany, Greece, Italy, Malaysia, Romania, Turkey, the United Kingdom, the United States and NATO and major aerospace contractors such as Alenia Aerospazio, British Aerospace, Boeing and Lockheed Martin. None of our secure communications customers accounted for 5% or more of Marconi plc's revenues for the fiscal year ended March 31, 2001. We will continue to target these types of customers.

Private mobile radio systems

Our private mobile radio business provides private mobile radio systems to police forces, ambulance services, fire departments, utilities, transportation organizations, air traffic control organizations and security services. Our private mobile radio systems use analog technology and the European standard for private digital mobile radio systems, called terrestrial trunked radio or TETRA. Our analog products include user terminal systems. Our TETRA products include:

- switching and control nodes suitable for small, medium and large networks;
- radio base stations using 400 MHz and 800 MHz frequency bands; and
- a range of user terminals and relevant accessories like hand portable, vehicular station and fixed station communications devices.

We supply software applications, dispatching systems and network management systems for both analog and TETRA systems. In addition, we supply a full range of services that cover all project phases, working with the customer to devise technical systems that meet the customer's needs, engineering and customizing of products, installation, commissioning and other field activities and post-sale customer support. We also provide ground-to-air radio communications equipment for air traffic control systems.

Our private mobile radio customers include the Italian Ministries of Interior, Justice, Finance and Defense and public utilities including regional gas, electric and transportation companies in Belgium, Germany, Italy, Portugal, Russia, Saudi Arabia and the United Kingdom. We supply communications equipment and systems to civil and military air traffic control authorities in more than 30 countries. None of our private mobile radio systems customers accounted for 5% or more of Marconi plc's revenues for the fiscal year ended March 31, 2001. We target emergency services, government departments, utilities, transportation and security organizations.

Public mobile networks

We are developing base stations and controllers for third generation (3G) networks. These networks will provide wireless communications to and from mobile phones with fixed-line quality sound, fast data transmission and video capability. We plan to offer 3G base stations and controllers to operate the wireless communications services to individual users. Our 3G public mobile network products will use technology that will comply with the standard wireless technology defined by the European Telecommunications Standardization Institute for third generation networks, called universal mobile terrestrial service or UMTS. We are targeting successful applicants for third generation licenses with our new 3G products. As part of our operational review, we announced that we are seeking partners to help us develop base stations for 3G networks.

Overview of the mobile communications market

Secure communications market

The market for secure communications includes armed forces, domestic police forces and other organizations that require particularly secure communications services capable of maintaining communications links under harsh environmental conditions. Following a period of low demand since the end of the cold war, the market for secure communications has experienced growth. The growing use of armed forces in international peace-keeping and civil defense operations has caused defense budgets to increase, particularly for sophisticated communications equipment. Military personnel and military organizations have increasingly been relying on sophisticated communication to make more effective use of limited personnel. Consolidation in the U.S. and European defense industries has caused defense companies in these markets to outsource non-core defense activities such as secure communications.

Private mobile radio systems market

The market for private mobile radio systems includes public safety organizations such as police forces, fire departments, ambulance services, utilities, transport organizations, air traffic control authorities and security services that require special communications services. These customers require a communications system with a high level of call privacy and security, fast call connection speed, guaranteed connections even when the system is busy, simultaneous voice and data transmission, group calling, direct mode operations (handset direct to handset for communications in remote areas) and rugged and reliable service in time-critical situations that public mobile networks cannot provide.

The European Telecommunications Standardization Institute has adopted terrestrial trunked radio or TETRA as the standard digital technology in Europe for private mobile radio services. Many countries in Asia have also adopted TETRA as their standard. The U.S. private mobile radio market, which represents approximately half of the world private mobile radio market, uses a variety of technologies without a clear standard, and currently TETRA is not used in the United States. Our mobile communications business is participating in discussions with other European and U.S. private mobile radio providers concerning the adoption of TETRA in the United States, but we cannot be certain of success and we believe it is likely that the United States will not adopt TETRA. We believe, however, that demand for TETRA will increase as other world markets adopt the TETRA standard for their private mobile radio systems.

Public mobile networks technology and market

The market for public mobile networks serves operators that provide wireless communications services to individual users. Users are increasingly demanding data transmission and Internet access from their handsets. Existing technology for public mobile networks, known as second generation technology, is incapable of meeting these demands as it can transmit data only at very slow speeds. Some public mobile networks providers are upgrading existing technology with hardware and software changes to increase data transmission speed and bandwidth. These upgrades, known as 2.5G technology, however, do not have the speed or bandwidth to keep pace with the growth in the number of users and their increasing demand to access the Internet and to transmit data with their handsets. These upgrades also do not improve voice quality of mobile telephone calls. Public mobile networks providers are developing a third generation, or 3G, technology which will further improve call quality and clarity, making mobile communications very similar to fixed-line communications. It will also broaden service options as it will be able to support high resolution video or multimedia applications at much faster and more reliable data transmission rates than currently provided by second generation and 2.5 technology.

Two types of 3G technology are currently being developed. The European Telecommunications Standardization Institute has selected UMTS as the standard wireless technology eventually to replace GSM in Europe. The U.K. government has auctioned 3G licenses and other European governments have already begun assigning 3G licenses to operators so that 3G networks may be launched in Europe as early as January 1, 2002. Japan has also adopted UMTS as its 3G standard to replace a variety of existing second generation technologies, and has auctioned 3G licenses to operators so that 3G networks may be launched before the end of 2001. The United States may adopt CDMA2000 as its 3G standard to replace a variety of existing second generation technologies, and is expected to launch third generation networks in 2003. UMTS and CDMA2000 are not compatible.

As a result of the high cost for licenses, public mobile network providers have accumulated high levels of debt and have faced an overcapacity in their networks. The high cost of licenses has increased pressure on operators to roll out their networks quickly to recover their costs in revenues from their customers and to consider consolidation or network partnership arrangements. We expect demand for UMTS-based public mobile networks will increase over time as 3G networks are launched in Japan and Europe, and will continue to grow as 3G networks in these areas are built out.

Sales, marketing and distribution

Our mobile communications business distributes its products and services through direct sales and through third party distributors. Occasionally, our secure communications business uses local agents in markets outside the United Kingdom and Italy.

Research and development

Our mobile communications business spent £82 million on research and development in the fiscal year ended March 31, 2001, of which £13 million was funded by grants from the Italian government for research in secure communications. A portion of research and development investment, £6 million, has been allocated to our public mobile networks business for the development of third generation public mobile networks products.

Competition

The secure communications market is fragmented because of the high level of specialization among industry suppliers and the domination of national champions in the United States and Western Europe. The major competitors in this market are European-based companies BAE Systems, Ericsson Microwave Systems, European Aeronautic Defence and Space Co., Rohde & Schwarz, Tadiran and Thomson-CSF (now known as Thales) and American-based companies Harris, Raytheon and Rockwell. The principal method of competition is a two-step process. The first step is to demonstrate compliance with the criteria of the relevant government agency or company. The second step is to submit a competitive bid. Local manufacturing arrangements and price are important factors in the selection process. Increasingly, secure communications products are being supplied as a subcontract of a prime contract package proposed by manufacturers of platforms such as ships, aircraft and vehicles. In this case, important factors in being selected as a subcontractor are price and a good track record with platform manufacturers for being a low-risk supplier.

The private mobile radio market is currently dominated by Motorola, followed by Comnet-Ericsson, Matra and Nokia. The principal method of competition is by open bid. The key drivers for competitive positioning are brand strength and organization size, custom-tailored solutions capability, in-country business operations and installed base and pricing. We believe we have an opportunity to compete in this market by developing and marketing our TETRA products. We believe TETRA products have the following competitive advantages:

- custom-tailored solutions capability;
- cost-effectiveness;
- good fit in target vertical markets; and
- applications for vertical markets.

The market for public mobile networks is currently dominated by Alcatel, Ericsson, Lucent, Motorola, Nokia, Nortel and Siemens. We believe the principal method of competition is the ability to provide a complete product offering that meets customer requirements. We believe we may have an opportunity to compete in this market by developing third generation technology compliant with UMTS, the new mobile standard for Europe and Japan.

OUR DATA SYSTEMS BUSINESS

Our data systems business designs, develops, manufactures, distributes, sells and supports digital imaging systems and supplies.

During fiscal 2000, we identified three separate systems businesses as reportable segments: data systems, commerce systems and medical systems. We separated our commerce systems business into two businesses: service station equipment and retail automation systems. We reported the results of our service station equipment business within our other businesses segment. Because retail automation systems was not sufficiently material to the Group to stand alone as a business segment, we reported it within our other businesses segment. Accordingly, each of the service station equipment business and retail automation systems business was reported within our other businesses segment for accounting purposes with retroactive effect although remaining separate businesses. We reunited these two businesses under the name commerce systems and will report the results of this combined business within our capital division for fiscal 2002. In addition, during fiscal 2001, management approved a formal plan to dispose of the medical systems business. Accordingly, the results of operations of medical systems were reclassified as discontinued for all years presented.

On September 4, 2001, we announced the conclusion and results of an operational review of our business. From our operational review we formulated a restructuring plan that includes a reorganization of our business divisions and a refocusing of our portfolio of products. Effective September 4, 2001, our corporate structure was organized into two divisions: a communications division and a capital division. Our data systems business is included in the capital division. For a full discussion of our new organizational structure, see ''—Business Overview'' and —Organizational Structure''.

Aggregate sales of all data systems' activities for the fiscal year ended March 31, 2001 were £239 million, compared to £235 million in our 2000 fiscal year and £218 million in our 1999 fiscal year. Data systems' aggregate sales for the fiscal year ended March 31, 2001 represented 4.4% of the Marconi Group's total sales for the same period (5.3% in 2000; 7.5% in 1999).

Our data systems business is headquartered in Wood Dale, Illinois.

Products and services

Data systems designs, develops, manufactures, distributes, sells and supports industrial, graphic and bar code inkjet printers, laser coding systems and inks and fluids under the brand names ''Videojet,'' ''Marsh'' and ''Cheshire.'' We are a leader in the industrial product marking and coding systems market.

- **Digital imaging systems.** This business provides inkjet printing and laser imaging systems that apply large, small and micro high resolution images on many different types of materials and surfaces. These systems are used on a wide variety of different products, such as food and beverage containers, automotive and aerospace parts, cosmetics, electronic components and cables, pharmaceuticals and personal care items as well as printed materials. Inkjet printing products include industrial, graphics and bar code printers. Excel and IPRO, our high-end fully-featured models, and the Videojet 37 series, our entry-level model which supports many foreign languages for use in lesser developed countries, are used in industrial applications. PrintPro is a graphics printer used for promotional mail. Patrion Plus and Overture are bar coding and graphic imaging systems for cartons and packages. Excel IPRO and PrintPro are Videojet brands and Patrion Plus and Overture are Marsh brands. Laser imaging technology applies energy, rather than ink, which etches surfaces to create permanent markings. Our laser printers include the LaserPro DM and Focus, both of which are Videojet brands.

- **Digital imaging supplies.** This business offers a broad range of inks and fluids that are compatible with many printing systems and product surfaces and that provide customers with consistent operation in challenging imaging and ambient environments. For example, we supply inks which are suitable for printing on extruded plastic as it exits a heat-forming tunnel, coding on ice cream packages as they enter the freezing chamber and printing on cold, wet substrate moving at high speeds (like beverage bottles on a filling line). InkSource is our global ink brand.

Our data systems business operates five manufacturing and research facilities in three countries. Throughout the production process, we seek to minimize costs while adhering to strict quality standards by outsourcing the manufacture of component parts. As a result, most of data systems' manufacturing facilities focus on the assembly and testing of final products.

Overview of data systems' markets

The variable imaging marketplace includes a range of products and services that generate human and machine readable codes on items to manage and track their use and to generate and manage personalized documents such as promotional mail. Our data systems business serves primarily the industrial product and package marking market, which we estimate was approximately $1.6 billion in 2000 and will grow annually at a rate of 4% from 2000 to 2003. Our data systems business also markets imaging products in the graphic arts, mailing and commercial printing markets and in the related area of postal encoding systems, segments which are not independently monitored for growth and performance.

Customers

Data systems has customers for digital imaging products in over 65 countries worldwide and an installed base of over 100,000 units. Over 52% of its sales are made in the United States. Digital imaging customers include postal companies and consumer and industrial producers such as food packaging companies, beverage companies, household goods providers, pharmaceutical and medical supply companies, chemical manufacturers, and electronics, automotive and aviation companies. Our main customers include Siemens, Japan Ministry of Post and Telecommunications, Toshiba, Coca-Cola, Unilever, Standard Brands, PepsiCo and Anheuser-Busch. None of our customers accounted for 5% or more of Marconi plc's revenues for the fiscal year ended March 31, 2001.

Sales, marketing and distribution

Our data systems business distributes its products either through direct sales, third party distributors or both, depending on the product and the location of the customer. Data systems has a large worldwide network including 20 direct operations and more than 120 distributors. All direct and indirect locations provide sales, support and service with direct links to a broader range of corporate capabilities. In addition, data systems provides customers with the ability to purchase fluids and repair parts direct from the factory through an e-commerce website. Approximately 67% of data systems' sales are direct sales to customers.

Research and development

Data systems businesses spent approximately £15 million on research and development in the fiscal year ended March 31, 2001. Substantially all of data systems' research and development is company funded.

Competition

The variable imaging market in which data systems competes is highly competitive. Principal competitors in the area of inkjet printing technology include Domino Printing Sciences, Imaje (a division of Dover International), Willett International, Markem Corporation and Scitex Digital Printing. Domino Printing Sciences is also a principal competitor in the area of laser imaging technology. All of data systems' principal competitors in the variable imaging market have a global presence and have direct sales channels or indirect distribution. Principal methods of competition are product reliability, print quality, price, the ability to meet customer application requirements such as harsh operating environments or unique substrates or surfaces, and breadth of product line as customers generally prefer to deal with a common supplier for multiple applications.

We believe data systems enjoys a competitive position based on its worldwide distribution network, wide product range of equipment and large existing customer base. Data systems seeks to differentiate itself from its competition by increasing the level of software, systems integration and service in its product offerings. Data systems plans to use the skills and experience of our communications networks and communications services businesses to enhance its competitive position.

OUR OTHER BUSINESSES

In addition to our principal businesses, during fiscal 2001 we invested in technology start-up and early stage businesses that we believed had growth potential or technology that was complementary to our principal businesses and we retained, with a view to development or disposal, other businesses that may not have fit into our business model. During fiscal 2000 we established a capital fund called Marconi Ventures through which we would invest in emerging technology businesses. We had allocated $100 million to Marconi Ventures and we spent approximately $7.5 million in one investment in fiscal 2000 and approximately $40 million in fiscal 2001 in seven investments. We no longer invest in emerging technology businesses. One of the investments has since failed, and we are likely to make a partial provision against two more investments at September 30, 2001.

On September 4, 2001, we announced the conclusion and results of an operational review of our business. From our operational review we formulated a restructuring plan that includes a reorganization of our business divisions and a refocusing of our portfolio of products. Effective September 4, 2001, our corporate structure was organized into two divisions: a communications division and a capital division. Our non-core businesses are included in the capital division. For a full discussion of our new organizational structure, see ‘‘—Business Overview’’.

As of March 31, 2001, we include the following businesses, investments and other associated companies in our other businesses segment:

- **Alstom.** Alstom is a French-based company that designs, manufactures and commissions equipment and systems for the power generation and transmission industries and for railway support and industry. In February 2001, we reduced our approximate 24% stake in Alstom to an approximate 6% stake through a public offering of shares. On June 19, 2001, we disposed of our final remaining interest in Alstom.

- **General Domestic Appliances (GDA).** This company is a 50-50 joint venture formed in 1989 with the General Electric Company of the United States. It manufactures, sells and services domestic appliances, including washing machines and dryers, electric and gas cookers, refrigerators and dishwashers. GDA’s brands include Hotpoint, Creda, Cannon, Redring and Xpelair.

- **GPT Payphones (now known as Interactive Systems).** This company supplies a range of modular payphones for outdoor and indoor applications and is focusing on developing a new range of payphones with Internet capability.

- **InfoChain.** InfoChain is an emerging business which intends to provide a range of products and services, including data application, automated data capture and Internet-based services, that help customers manage their supply chains. Supply chain management systems monitor and manage goods and provide real-time information concerning the status of products as they move from suppliers, manufacturers and distributors to end consumers. This business was formerly a part of our data systems business. On July 13, 2001, Marconi Online, which was formally a part of our commerce systems business became a part of InfoChain.

- **ipsaris (formerly known as Fibreway and subsequently merged into EasyNet).** This business has an installed fiber optic communications backbone in the United Kingdom which it leases to telecommunications operators and large corporations to provide broadband, or very high capacity, communication capability. At March 31, 2001, we owned 92% of this business and British Waterways owned the remaining interest.

On July 26, 2001, we merged our 92% interest in this company into EasyNet Group Plc, a U.K.- registered company listed on the London Stock Exchange, acquiring 71.9% of the issued share capital of EasyNet and control of 49.9% of EasyNet's issued voting capital.

- **Marconi Applied Technologies (MTech).** This business designs and manufactures high technology components in the areas of RF power, microwave devices and optical imaging. It sells to a range of sectors, including communications, industrial, medical, military, safety and security. It has started manufacturing a range of EDFAs (Erbium Doped Fiber Amplifiers).
- **Marconi Optical Components (formerly known as Marconi Caswell).** This business is Marconi's research laboratory, specializing in developments involving indium phosphide and gallium arsenide for photonic and microwave devices. Its activities involve design, analysis and production from base materials through high volume chip production to optical modules, such as tuneable lasers.
- **Marconi property.** This business provides property advice to Marconi companies worldwide and manages a number of U.K. properties which are held for income, development or disposal.
- **Marconi Software Solutions.** This business provides systems integration and application development capabilities using Oracle, web-based, Java, C++ and other software language support. Marconi Software Solutions works on projects within the Marconi Group and externally.
- **Retail automation systems.** This business provides systems for attended and unattended points of sale for retailers for in-store and outdoor applications. It offers products under the brand name ''Gilbarco.'' In May 2000, the retail automation systems business expanded its presence in retail automation systems through the launch of Marconi Online, a developer and provider of intelligent vending technology. As of July 13, 2001, Marconi Online has become part of InfoChain. In fiscal 2002, retail automation systems will be rejoined with the service station equipment business as a combined business under the name commerce systems in our capital division.
- **Service station equipment business.** This business manufactures and distributes fuel dispensing equipment. It offers products under the brand name ''Gilbarco.'' In fiscal 2002, the service station equipment business will be rejoined with the retail automation systems business under the name commerce systems in our capital division.
- **Woods Air Movement.** This business manufactures a wide range of fans and air movement equipment. In January 2001, we completed the sale of the Woods Group to Global Air Movement Holdings (GAMH), financed by Compass Partners International. We retain a 42% interest in GAMH.

FACILITIES

Our headquarters and registered office are located at One Bruton Street, London, W1J 6AQ, England.

We have production facilities in the United Kingdom, continental Europe, North America, Africa, Asia and Australasia. We own or lease all of our principal manufacturing facilities. Our principal facilities are as follows:

Owned property	Principal use	Building or site area
Backnang, Germany	Communications offices, research and development, laboratories, manufacturing	714,160 sq. ft. on 15.2 acres
Genoa, Italy	Communications offices, research and development	406,800 sq. ft. on two adjoining sites totaling 5.3 acres
*Greensboro, North Carolina	Commerce systems factory, offices, warehouse	598,000 sq. ft. on 61.2 acres
**Highland Heights (Cleveland), Ohio	Medical systems office, assembly, distribution, research and development	755,000 sq. ft. on 48.78 acres (part under construction)
Liverpool, England	Communications research and development	670,216 sq. ft. on 22.5 acres
Lorain (Cleveland), Ohio	Communications offices, research and development, manufacturing.	354,610 sq. ft. in six separate buildings and sites in close proximity (includes leased warehouse of 14,329 sq. ft.)
Warrendale (Pittsburgh), Pennsylvania	Communications offices, research and development, manufacturing.	577,343 sq. ft. on 101.38 acres (part under construction)

Leased property	Term	Principal use	Building or site area
Coventry, England	Four leases to September 2021 with tenants break option	Communications offices, research and development	669,000 sq. ft. on 35 acres
*Wood Dale, Illinois	Lease to November 30, 2011	Data systems offices, research and development, manufacturing	250,355 sq. ft. on 15.28 acres
London, England	Lease to June 23, 2018	Marconi headquarters, offices	43,820 sq. ft.

* These properties are part of the capital division as of September 4, 2001.

** This property will be transferred to Philips Electronics when the sale of medical systems is completed. This transaction is subject to standard closing conditions, including regulatory approvals, and, subject to these conditions being met and approvals being received, is expected to close in the fourth calendar quarter of 2001.

As a result of our corporate restructuring, we plan to withdraw from a number of existing facilities and concentrate our activities on our remaining major locations. For a detailed discussion of our corporate restructuring, see ''—Business Overview''.

We believe that our principal manufacturing facilities are suitable and adequate for their use. Use of these facilities may vary with economic and other business conditions, but none of the principal plants is idle.

INTELLECTUAL PROPERTY

We own a number of patents, trademarks and registered trademarks throughout the world. We have a number of patent and know-how (and other) licenses from third parties relating to products and methods of manufacturing products. We have also granted patent and know-how (and other) licenses to third parties.

Because we develop some of our technologies through customer-funded research or joint ventures, we may not always retain proprietary rights to the products we develop. Generally speaking, our joint venture agreements provide that proprietary technologies developed in joint ventures will remain the property of the entity that develops them. However, these agreements typically also give us the non-exclusive right, subject to non-competition provisions, to use and commercially exploit such technologies for the duration of the joint venture.

We rely on patents, trademarks, trade secrets, copyrights, confidentiality provisions and licensing agreements to establish and protect our proprietary technology and to protect against claims from others. Infringement claims have been and may continue to be asserted against us or against our customers in connection with their use of our systems and products. We cannot ensure the outcome of any such claims and, should litigation arise, such litigation could be costly and time-consuming to resolve and could result in the suspension of the manufacture of the products utilizing the relevant intellectual property. In each case, our operating results and financial condition could be materially affected. See ''Item 8—Financial Information—Legal Proceedings.''

The ''Marconi'' trademark used by many of our businesses is identified with and important to the sale of our products and services. It is either registered or the subject of an application for registration in approximately 120 territories, including all of those territories which we currently view as being our major trading territories. We do not believe that any patent, trademark, registered trademark, license or other intellectual property right other than the ''Marconi'' trademark is material, by itself, to our business.

ENVIRONMENTAL AND OTHER REGULATIONS

Environmental, health and safety regulation

We are subject to increasingly stringent regulation under various U.K., U.S., EU and other national and local laws and regulations relating to employee safety and health, and to the handling, and emission into the environment, of various substances that our facilities use.

In the United Kingdom, the United States and elsewhere, we are subject to environmental laws governing the cleanup of soil and groundwater contamination. These laws may impose strict, joint and several, and retroactive liability on us for the costs of investigating and cleaning up releases of hazardous materials at sites currently or formerly owned, operated or leased by us. This liability may also, in certain circumstances, include the cost of cleaning up historical contamination, whether or not caused by us. Several of our facilities are located in areas in which industrial activities have been ongoing for many years.

We are currently conducting investigation and cleanup of approximately 25 sites, principally in the United States, the United Kingdom and Germany, either pursuant to a directive from the appropriate governmental authority, as part of a group of named potentially responsible parties, or voluntarily, in connection with the acquisition or disposition of property. We estimate the total cost to clean up all of these sites will be between approximately £10 million and £20 million.

The European Commission has issued two directives which will require member states of the EU to meet certain targets of collection, re-use and recovery of waste electrical and electronic equipment. In the United Kingdom, it is likely that these obligations would be achieved through legislation placing the responsibility for meeting these obligations on the producers of the equipment. Producers may also be required to phase out certain hazardous materials from the equipment. Other member states of the EU are likely to implement similar requirements. This proposed legislation, if implemented, could significantly increase costs to producers of electrical and electronic equipment.

Our facilities are subject to internal environmental, health and safety audits governing all aspects of employee protection, materials handling and environmental compliance. We have not incurred material capital expenditure for environmental, health or safety matters during the past three years, nor do we anticipate having to incur material capital expenditure during the current or the succeeding fiscal year. We believe that any non-compliance or liability under current environmental laws and regulations will not have a material adverse effect on our financial condition or results of operations as a whole.

Other government regulation

Our products are subject to industry-specific government regulation and legislation in the United States, the EU and throughout the world. For example:

- our communications networks business must comply with U.S. Federal Communications Commission requirements and regulations and other safety regulations governing communications products sold in the United States;
- our data systems business must comply with the U.S. Food and Drug Administration regulation governing food additives and colorants for ink products;
- our retail automation and service station equipment businesses are subject to regulations of the U.S. National Institute of Standards and Technology and the U.S. National Conference on Weights and Measures covering the design and control of liquid

measuring devices and national and international standards governing both the commercial and environmental aspects of power operating petroleum product dispensing devices.

In each of these industries, our businesses would suffer if they failed to obtain or lost the certifications, clearances and authorizations required to participate in new or existing projects. Further, we could be subject to fines, criminal sanctions or the revocation of important licenses and certifications if we fail to comply with government regulations. While we believe that our systems of obtaining and maintaining industry and regulatory certification and compliance are adequate, new and more stringent government regulation or industry oversight might make compliance more difficult or more costly and have an adverse impact on our businesses.

Item 5. *Operating and Financial Review and Prospects*

You should read the discussion and analysis below in conjunction with "Item 3—Key Information—Selected Consolidated Financial Information" and the consolidated financial statements and the related notes and the descriptions of our businesses included elsewhere in this annual report.

Overview

We are a global group focused primarily on the communications market. During the year ended March 31, 2001, our communications business activities included developing and supplying communications and data networking equipment and services. In addition, we had businesses that focus on medical and data systems markets for high technology products and services. During the year ended March 31, 2001, our operations comprised principally:

- communications networks;
- communications services;
- mobile communications;
- data systems; and
- medical systems (which has been classified as a discontinued operation for all years reported—see below)

During the year ended March 31, 2001, the service station equipment business which was previously reported within "Commerce systems" has been reported within "Other" for segmental purposes. The retail automation systems business remained a separately identifiable systems business, but has not been disclosed as a separate segment as its results are not considered material to the Group. Accordingly, the results of the retail automation systems business have also been reported within "Other". The results of operations have been restated to reflect such changes.

During the year ended March 31, 2001, management approved a formal plan to dispose of its medical systems business. Subsequent to year end, an agreement was signed to dispose of the segment for approximately £780 million ($1.1 billion). Accordingly, the results of operations of this business have been restated as discontinued for all years presented.

Following the operational review announced on September 4, 2001, Marconi announced that it will integrate its current headquarters and divisional structure into a single organization. Marconi also announced that it intends to focus on its core communications businesses. For a full discussion of our new organizational structure, see "Item 4—Information on the Company—Business Overview—Operational review", "Item 4—Information on the Company—Business Overview—Former corporate organizational structures" and "Item 4—Information on the Company—Organizational Structure".

The formation of Marconi plc

Marconi plc was incorporated on September 17, 1999. Its ordinary shares were listed on the London Stock Exchange on November 30, 1999 when it became the new holding company of the remaining businesses of Marconi Corporation plc (formerly The General Electric Company, p.l.c. (GEC)). This followed the separation of GEC's international aerospace, naval shipbuilding, defense electronics and defense systems business and the subsequent merger of this business with British Aerospace Public Limited Company (now known as BAE Systems). This business has been included as a discontinued operation in our consolidated financial statements. The following discussion of our businesses and results of operations relates only to our continuing operations for the year ended March 31, 2001.

Acquisitions and dispositions

Acquisitions

During the three years ended March 31, 2001 we made the following significant acquisitions:

- Mariposa Technology, Inc. in October 2000 for a total consideration of $268 million.
- Metapath Software International, Inc. in June 2000 for a total consideration of approximately $618 million;
- Fore Systems in June 1999 for approximately $4.5 billion (approximately £2.9 billion);
- Reltec Corporation in April 1999 for approximately $1.8 billion (approximately £1.0 billion) (excluding assumed debt of £0.2 billion); and
- Siemens' 40% interest in GPT in August 1998 for a total consideration of £700 million of which £610 million was settled in cash and the balance by the sale of our 49.9% interest in Siemens GEC Communication Systems Ltd. to Siemens.

Other acquisitions in the same period, which were not significant, include:

March 2001	a further 10% interest in Highspeed Office Ltd. following the acquisition of an initial 5% interest in November 2000
February 2001	The telecommunications equipment business of TI Projeckte GmbH
February 2001	9.74% of Arraycomm, Incorporated
January 2001	42% of Global Air Movement Holdings Ltd.
December 2000	1% of Calient Networks, Inc.
December 2000	0.5% of IPG Photonics Corporation
November 2000	5% of Highspeed Office Ltd.
November 2000	1.5% of Time Domain Corporation
November 2000	9.525% of Media.Net Communications, Inc.
October 2000	Bizware Software Solutions, Inc.
October 2000	Splice Transmissao SA
October 2000	A venture capital investment in Amadeus II
September 2000	72.5% of Guilin Marconi Telecomms Ltd. (formerly Guilin Nokia Telecom Ltd.)
September 2000	5.7% of CosmoCom, Inc.
September 2000	12% of Z-Kat Inc.
September 2000	15% of Netdecisions Holdings Ltd.
July 2000	Albany Partnership Ltd.
July 2000	Amtec S.p.A.
July 2000	Davies Industrial Communications Ltd.
June 2000	Systems Management Specialists, Inc.
April 2000	The assets and certain liabilities of The Software Works!
April 2000	0.9% of Viewlocity, Inc.
April 2000	VMC vertrieb marketing consultancy Ing. Michael Huemer GmbH

April 2000	Miscellaneous assets of Arpec SA
April 2000	Intervest SA
April 2000	Remaining 30% of Marconi Commerce Systems Latin America SA not already owned
March 2000	acquisition of 8,864,292 Series C shares of Ten Square (formerly iAM networks.com), representing approximately 22.5% of the Series C shares and approximately 10% of the total share capital of Ten Square
March 2000	a further 10% interest in Xcert International, Inc. following the acquisition of an initial 15% interest in August 1999
March 2000	the vending machine business and assets of Harvest Electronics Group
March 2000	Scitec Ltd.'s Australian communications solutions business
January 2000	the public networks business of Bosch
December 1999	Nokia's transmission equipment business
December 1999	27% of Atlantic Telecom's equity and the formation of a strategic relationship with Atlantic Telecom (such 27% interest was diluted to a 19.7% interest as a result of Atlantic Telecom's acquisition of First Telecom)
September 1999	the high field whole body magnetic resonance imaging business of SMIS Ltd.
August 1999	the business and assets of RDC Communications Ltd.
March 1999	the remaining 66.6% of Telephone Manufacturers of South Africa (Pty.) Ltd. not already owned
February 1999	Tetrel Ltd.
February 1999	Logitron Srl.
December 1998	Electronic Automation Ltd.
November 1998	the computed tomography division of Elscint Ltd.
August 1998	a further 11.1% interest in Avery India Ltd. to increase GEC Avery International Ltd.'s interest in Avery India Ltd. from 39.9% to 51%

Dispositions

During the three years ended March 31, 2001, we made the following significant dispositions:

- the sale of Avery Berkel Group for approximately £103 million in June 2000;
- the separation of GEC's international aerospace, naval shipbuilding, defense electronics and defense systems business;
- the sale of the interest in Siemens GEC Communication Systems Ltd. to Siemens; and
- 26% interest in Alstom for approximately £952 million in June 1998 upon its initial public offering, and a further 18% interest for approximately £631 million in February 2001 through a further offering of shares.

Other dispositions, which were not significant, in the period include:

March 2001	The Solar Cell assets of Marconi Applied Technologies Ltd.
February 2001	Our 25% share of Xcert International, Inc.
January 2001	Woods Air Movement Ltd. to Global Air Movement Holdings Ltd., in which we acquired a 42% interest
January 2001	Dunchurch Conference Centre Division of Marconi Corporation plc
January 2001	Commaf Limited
December 2000	The Liquid Crystal Display business of Marconi Applied Technologies Ltd.
December 2000	50% share of Comstar
December 2000	The GPL business of Marconi Data Systems
September 2000	The Resource Management division of Marconi Software Solutions Ltd.
September 2000	The Irish branch of Marconi Medical Systems UK Ltd.
September 2000	Image Guided Surgery Business of Marconi Medical Systems Inc. for consideration of a $4.7 million note and $2.3 million of shares in Z-Kat, Inc.
September 2000	The lifts and escalators business including the following companies: The General Electric Company of Hong Kong Ltd., GEC China Ltd., Exelco Elevator Company Pte Ltd., GEC Brunei Sdh Bhd.
July 2000	The Nite-Watch and Blackwatch business of Marconi Applied Technologies Ltd.
April 2000	The Marconi Security Systems business of Marconi Software Solutions Ltd.
March 2000	Marconi Communications, Network Components & Services—Europe Ltd. and Shanghai Reltec Communications Technology Co. Ltd. to Viasystems Inc.
March 2000	The facilities management and processing services businesses of Easams Ltd. to Itnet plc.

Recent developments

Acquisitions and dispositions since March 31, 2001 are discussed in ''Item 4—Information on the Company—History and Developments of the Company—Recent developments—Acquisitions and disposals''.

Results of operations

Since Marconi is a U.K. company and produces its U.K. annual financial statements under U.K. GAAP, the chief decision maker evaluates segment performance using measures determined under U.K. GAAP.

The financial statements of Marconi plc included in this annual report have been prepared under U.S. GAAP which includes (in footnote 19 of the financial statements) segmental analysis on a U.K. GAAP basis, reconciled in total to a U.S. GAAP basis. In the following analysis:

- revenues are discussed on a segmental basis under U.S. GAAP, which is the same as under U.K. GAAP, except for revenue of joint ventures within ''Other'', the presentation of the medical systems segment as a discontinued operation; and timing differences arising under long term contracts; and
- operating profits are discussed on a segmental basis under U.K. GAAP.

As part of the discussion, both revenues and profits are reconciled in total to a U.S. GAAP basis. A brief explanation of the primary differences between U.K. and U.S. GAAP is also included. In addition, gross profit, operating expenses and other income/expenses are discussed on a U.S. GAAP basis in total.

Revenues-U.K. GAAP

The primary revenue performance measure is revenue on a U.K. GAAP basis. Revenues attributable to joint ventures (that is equity share in affiliates) are included in U.K. GAAP revenues but excluded from U.S. GAAP revenues. All Marconi's joint ventures are in ''Other'' for the purposes of segment analysis. During the year ended March 31, 2001, management approved a plan to dispose of its medical systems business. Accordingly, the results of this business have been rereclassified as discontinued for all years presented under U.S. GAAP. Timing differences arising on the recognition of revenue under long-term contracts gave rise to a reconciling difference between U.K. and U.S. GAAP in the year ended March 31, 2001. The following is a reconciliation from the U.K. GAAP basis to the U.S. GAAP basis for the fiscal years ended March 31, 2001, 2000 and 1999:

	1999	2000	2001
(In millions)	**£**	**£**	**£**
Net revenues per segments-U.K. GAAP	4,090	5,724	6,942
Less: joint ventures	(301)	(287)	(289)
Less: Medical systems disclosed as discontinued	(898)	(1,010)	(1,112)
Less: Long-term contract adjustment	—	—	(50)
Revenues-U.S. GAAP	2,891	4,427	5,491

The discussion on revenues which follows uses the U.S. GAAP basis.

Revenues by geographical region-U.S. GAAP

The following table presents Marconi's revenues by geographical region and the approximate percentage of total revenues for the fiscal years ended March 31, 2001, 2000 and 1999:

	1999		2000		2001	
(In millions)	**£**	**% of total**	**£**	**% of total**	**£**	**% of total**
United Kingdom	1,440	50	1,826	41	1,957	36
The Americas	498	17	1,616	37	2,022	37
Rest of Europe	648	22	686	15	1,205	22
Africa, Asia and Australia	305	11	299	7	307	5
	2,891	100	4,427	100	5,491	100

Total revenues increased by £1,064 million, or 24.0%, to £5,491 million in fiscal 2001 compared to fiscal 2000.

The increase within Rest of Europe of £519 million in fiscal 2001 compared to fiscal 2000 was due to like-for-like increases in sales of optical networks and communication services products, and the effect of acquisitions, principally the full-year effect of the acquisition of the public networks business of Bosch.

Growth within The Americas of £406 million in fiscal 2001 compared to fiscal 2000 was due to like-for-like growth within the Communication services segment, and the full year effect of the acquisition of Fore Systems within the Communication networks segment.

Total revenues increased by £1,536 million, or 53.1%, to £4,427 million in fiscal 2000 compared to £2,891 million in fiscal 1999. Growth in revenues in fiscal 2000 before taking account of the impact of acquisitions was £263 million, or 9.1%. The main acquisitions in the year, Fore Systems and Reltec, contributed revenues of £412 million, and £826 million, respectively. These acquisitions were primarily responsible for the increase of £1,118 million, or 225%, in revenues from the Americas between fiscal 2000 and fiscal 1999.

Segmental discussion

Revenues by segment—U.S. GAAP

The following table presents Marconi's revenues by segment and the approximate percentage of total revenues for the fiscal years ended March 31, 2001, 2000 and 1999:

	1999		2000		2001	
(In millions)	**£**	**% of total**	**£**	**% of total**	**£**	**% of total**
Communications networks	1,343	46	2,535	57	3,268	60
Communications services	244	8	543	12	1,016	19
Mobile communications	271	9	295	7	331	6
Data systems	218	8	235	5	239	4
Other (1)	815	29	819	19	637	11
	2,891	100	4,427	100	5,491	100

(1) ''Other'' includes the service station equipment and retail automation systems businesses previously classified within ''Commerce systems''.

Communications networks

Revenues within this segment increased by £733 million, or 28.9%, to £3,268 million for the year ended March 31, 2001 from £2,535 for the year ended March 31, 2000.

Optical networks increased by £400 million, or 41.8% to £1,358 million for the year ended March 31, 2001. Growth within this area was driven by volume increases for SDH products and new Photonics equipment sales, principally within the European markets. Some price erosion was experienced in these markets which partially offset the volume increases.

Access system sales increased by £471 million, or 52%, to £1,372 million for the year ended March 31, 2001. Like-for-like growth of £239 million was due to increased volumes of Outside Plant and Power sales. The Bosch Public Networks business increased wireless access sales in its domestic market as well as expanding international sales with new contracts from Vodafone and Retevision.

Broadband switching revenues increased by £6 million, or 1%, to £427 million for the year ended March 31, 2001. Like-for-like revenues reduced by £78 million, due principally to lower sales volumes to enterprise customers. This was off set by the full year effect of the fiscal 2000 acquisition of Fore Systems (£55 million) and the exchange gain due to the strengthening of the US dollar against the pound (£29 million). This business is undertaking a transition away from highly competitive markets serving enterprise customers. We are concentrating our commercial and technical resources in supporting customers who need carrier-class networks, and we have started to ship a new range of MPLS-based products. Broadband Switching sales were split approximately equally between service providers and enterprise customers, compared with the split of 15% service provider versus 85% enterprise when we acquired this business.

Other revenues reduced by £144 million, or 56%, to £111 million for the year ended March 31, 2001. This was due to the disposal of the Rainsford European Enclosures business and the closure of the legacy contracting business in Hong Kong. The business remaining in the ''Other'' category is principally our communications interests in South Africa.

Revenues for this segment increased by £1,192 million, or 88.8%, to £2,535 million in fiscal 2000 compared to £1,343 million in fiscal 1999. Of this increase optical networks accounted for growth in revenues of £239 million (17.8% growth in revenues of communications networks). The increase resulted from the continued strength in demand for digital transmission equipment during fiscal 2000. In addition, revenues increased as a result of:

- the acquisition of Fore Systems, which contributed sales in broadband switching of £363 million (27.0% growth in revenues of communications networks); and
- the acquisitions of Reltec and the Bosch public networks business which increased sales in access systems by £573 million (42.7% growth in revenues of communications networks).

Communications services

Revenues for the communications services segment increased by £473 million, or 87.1%, to £1,016 million in the year ended March 31, 2001 compared to £543 million in the year to March 31, 2000. Like-for-like revenue increases were driven primarily by higher demand for network planning and build services from European incumbent operators. The fiscal 2001 acquisitions of Metapath Software International and Systems Management Specialists and the full year effect of the fiscal 2000 acquisition of Bosch Public Networks increased revenues for the year ended March 31, 2001 by £94 million, £51 million and £56 million respectively.

Revenues for the communications services segment increased by £299 million, or 122.5%, to £543 million in fiscal 2000 compared to £244 million in fiscal 1999. The increase in revenues excluding the impact of acquisitions was £82 million, or 33.6%, as a result of higher demand. In addition, revenues increased as a result of the acquisitions of Fore Systems and Reltec which contributed £49 million and £165 million, respectively.

Mobile communications

Revenues within the mobile communications segment increased by £36 million, or 12.2%, to £331 million for the year ended March 31, 2001. Increased sales within the Secure Communications and Private Mobile Radio Systems businesses were due to additional sales volumes in European markets compared to prior year.

Revenues for the mobile communications segment increased by £24 million, or 8.9%, to £295 million in fiscal 2000 compared to £271 million in fiscal 1999. The increase in revenues was primarily the result of strong growth in sales of Private Mobile Radio Systems.

Data systems

Revenues for the data systems segment increased by £4 million, or 2%, to £239 million in fiscal 2001 compared to £235 million in fiscal 2000. Favorable exchange movements, principally the strengthening of the United States (U.S.) dollar against the pound, accounted for an increase of £14 million in fiscal 2001. Like-for-like revenues decreased by £9 million due to reduced volumes of equipment sales following the second half economic slowdown in the U.S. and lower U.S. cyclical postal sales.

Revenues for the data systems segment increased by £17 million, or 7.8%, to £235 million in fiscal 2000 compared to £218 million in fiscal 1999. The increase in revenues was primarily the result of increased demand for new models and the impact of sales and marketing programs.

Other

Revenues for other businesses decreased by £182 million, or 22.2%, to £637 million in fiscal 2001 from £819 million in fiscal 2000, due principally to the disposals of Avery Berkel (£139 million) and parts of our Marconi Software Solutions business (£35 million).

Revenues for other businesses increased by £4 million, or 0.5%, to £819 million in fiscal 2000 compared to £815 million in fiscal 1999. The increase in revenues was primarily the result of:

- a full year contribution from Logitron;
- a small increase in sales in Marconi Applied Technologies and Woods Air Movement; parially offset by
- the sale of the managed services division of Easams; and
- weak market conditions for GPT Payphones in the Far East.

Reconciliation of operating profit information to U.S. GAAP

The chief decision maker evaluates profit performance using measures determined under U.K. GAAP. The primary profit performance measure is ''operating profit before exceptional items and goodwill amortisation.'' (''operating profit'')

The following is a reconciliation from the U.K. GAAP operating profits based on our segment analysis to the U.S. GAAP measure of income from continuing operations before income taxes and minority interests for the three fiscal years ended March 31, 2001:

	1999	2000	2001
(in millions)	**£**	**£**	**£**
Total segment operating profit-U.K. GAAP	508	750	807
U.S. GAAP adjustments	41	(124)	24
Medical Systems operating profit (Discontinued)	(49)	(76)	(105)
Adjusted operating profit	500	550	726
Operating exceptional items	(46)	(79)	(19)
Joint ventures	(25)	(25)	(22)
Goodwill and other intangibles amortization and purchased in-process research and development	(89)	(764)	(692)
Other income / (expense), net	977	(21)	171
Income / (loss) from continued operations before income taxes and minority interest-U.S. GAAP	1,317	(339)	164

The discussion which follows uses the U.K. GAAP measure of ''operating profit before exceptional items and goodwill amortization'' to compare segmental performance in fiscal 2001 to fiscal 2000 and fiscal 2000 to fiscal 1999. Further information explaining the total segment operating profit reconciliation above and the main differences between the U.K. GAAP measures reviewed by the chief decision maker and the U.S. GAAP financial statements follows the segmental profits discussion. Operating profits are discussed on a segmental basis under U.K. GAAP.

Segment operating profit-U.K. GAAP

Total segment operating profit on a U.K. GAAP basis increased by £57 million, 7.6%, to £807 million in fiscal 2001 compared to £750 million in fiscal 2000.

Total segment operating profit for fiscal 2000 on a U.K. GAAP basis increased by £242 million, or 47.6%, from £508 million in fiscal 1999.

	1999	2000	2001
(in millions)	£	£	£
Communications networks	247	416	465
Communications services	32	73	112
Mobile communications	16	26	15
Data systems	57	59	55
Other (1)	107	100	55
Medical Systems (Discontinued)	49	76	105
	508	750	807

(1) ''Other'' includes the service station equipment and retail automation systems businesses previously classified within ''Commerce systems''.

Communications networks

Operating profit increased by £49 million, or 11.8%, to £465 million for the year ended March 31, 2001. Operating profits increased within our Optical Networks and Access Systems businesses, mainly as a result of the increase in revenues. Within our Broadband Switching and Other networks businesses, operating profit in fiscal 2001, compared to fiscal 2000, was reduced by a number of factors: a reduction in like-for-like revenues, increased expenditure in the areas of selling, marketing and global advertising and an increase in the level of research and development expenditure.

Operating margins decreased to 14.0% in fiscal 2001 compared to 16.4% in fiscal 2000. This was due to higher company-funded research and development expenditure and increased selling and marketing expenditure, which increased from 10.2% and 8.6% of segment sales in fiscal 2000 to 13.3% and 12.3% of segment sales in fiscal 2001, respectively.

Operating profit increased by £169 million, or 68.4%, to £416 million in fiscal 2000 compared to £247 million in fiscal 1999. Access systems operating profit increased by £69 million, with the acquisition of Reltec contributing £41 million and continuing strong demand for switching systems contributing £28 million. The acquisition of Fore Systems contributed £53 million to the increase in broadband switching profits. Ongoing strong demand for digital transmission equipment saw optical networks systems profit increase by £43 million.

Operating margins decreased to 16.4% in fiscal 2000 compared to 18.4% in fiscal 1999 mainly as a result of higher company funded research and development costs, which rose from 9.1% of segment sales in fiscal 1999 to 10.7% of segment sales in fiscal 2000.

Communications services

Operating profit increased by £39 million, or 53.4%, to £112 million in fiscal 2001 compared to £73 million in fiscal 2000. This was due to the growth in like-for-like revenues offset in part by higher overheads to support this rapid expansion.

Operating profit percentage decreased to 11.0% in fiscal 2001 from 13.4% in fiscal 2000. This was due to the effect of businesses acquired in the period, which typically had lower operating profit margins than our established business.

Operating profit increased by £41 million, or 128.1%, to £73 million in fiscal 2000 compared to £32 million in fiscal 1999. The acquisition of Reltec and Fore Systems increased operating profit by £33 million, while increased sales of higher value added support services, offset by higher overheads to support this growth, added £8 million to operating profit.

Operating margins increased to 13.4% in fiscal 2000 compared to 13.1% in fiscal 1999. This is principally due to increased sales of higher value added support services, from both the acquisitions of Fore Systems and Reltec and organic growth.

Mobile communications

Operating profit in the year to March 31, 2001 decreased by £11 million, or 42.3%, to £15 million compared to £26 million in the prior year. Research and development expenditure increased by £15 million, although this increase was partly offset by the revenue increases reported within both our Secure Communications and Private Mobile Radio Systems businesses.

Operating margins reduced from 8.8% in fiscal 2000 to 4.5% in fiscal 2001. This was due to higher research and development expenditure, which increased from 9.1% of segment sales to 13.3% of segment sales.

Operating profit increased by £10 million, or 62.5%, to £26 million in fiscal 2000 compared to £16 million in fiscal 1999. Increased sales of private mobile radio products contributed £3 million to operating profit. Overhead efficiencies and increased grants received from the Italian government to reimburse expenditure on secure communications product development contributed a further £13 million. An increase of £8 million in privately funded research and development partially offset these increases.

Operating margins increased to 8.8% in fiscal 2000 compared to 5.9% in fiscal 1999. This is principally due to the increased sales of private mobile radio equipment and the increased grants received from the Italian government.

Data systems

Operating profit decreased by £4 million, or 6.8%, to £55 million in fiscal 2001 compared to £59 million in fiscal 2000. Like-for-like operating profits decreased by £8 million due to a combination of lower sales volumes of digital imaging equipment and lower margins across all products as a result of competitive pricing pressures. Favourable exchange movements accounted for an increase in operating profit of £4 million from fiscal 2000.

Operating margins decreased to 23.0% in fiscal 2001 from 25.1% in fiscal 2000, due to lower like-for-like revenues and margin pressure on digital imaging equipment sales due to greater worldwide pressure to match lower competitive pricing.

Operating profit increased by £2 million, or 3.5%, to £59 million in fiscal 2000 compared to £57 million in fiscal 1999. The increase was due principally to the increase in demand for new models.

Operating margins decreased to 25.1% in fiscal 2000 compared to 26.1% in fiscal 1999. The decrease was a direct result of a change in product mix.

Other

Operating profit within our Other businesses decreased by £45 million, or 45.0%, to £55 million in fiscal 2001 compared to £100 million in fiscal 2000. Approximately £20 million of the decrease relates to businesses sold during fiscal 2001. The remaining reduction was a result of decreases across a number of our emerging and mature businesses.

Operating profit decreased by £7 million, or 7%, to £100 million in fiscal 2000 compared to £107 million in fiscal 1999. Increases in operating profit of £8 million in Marconi Property, £3 million in Marconi Applied Technologies and £3 million following the acquisition of Logitron were offset by decreases in operating profit of £4 million in Avery Berkel, £4 million in Marconi Software Solutions and increased corporate operating costs of £12 million primarily as a result of increased staff costs and lower other income.

U.S. GAAP adjustments

U.S. GAAP adjustments as related to the information reported on a segment basis are the result of differences in the accounting for pensions and post retirement benefits, reorganization costs, long term contracts and employee share options. These are explained in more detail in footnote 19 of the financial statements.

Operating exceptional items

Under U.K. GAAP, amounts included within operating profit may be separately disclosed if they are unusual in size or nature and are not expected to recur. These items are referred to as operating exceptional items. There is no equivalent term or treatment in U.S. GAAP and the items are included in the appropriate line item in arriving at operating income. In the fiscal years ended March 31, 2001, 2000 and 1999 these primarily related to costs of reorganizing acquired and continuing businesses. These items are explained more fully within the selling, general and administrative expenses section below.

Joint ventures

Under U.K. GAAP, operating profit from joint ventures is included within consolidated operating income. Under U.S. GAAP the equity in net income of affiliates is included within other income / (expense), net. All joint venture income relates to ‘‘Other’’ for the purposes of segment analysis.

Goodwill and other intangibles amortization and purchased in-process research and development

These are U.S. GAAP items and are discussed in more detail below.

Other income / expense, net

These are U.S. GAAP items and are discussed in more detail below.

Group discussion

In the remaining discussion and analysis U.S. GAAP measures of profits and expenses as they appear in our consolidated statement of income are used and significant changes are attributed to segments where appropriate.

Gross profit

(In millions, except percentages)	1999 £	2000 £	2001 £
Gross profit	1,066	1,677	2,125
Gross margin %	36.9%	37.9%	38.7%

Gross profit increased by £448 million, or 26.7%, to £2,125 million in fiscal 2001 compared to £1,677 million in fiscal 2000, and gross profit percentage increased from 37.9% to 38.7% in the same period. Gross profit increased due mainly to the volume increases reported within each of the communications businesses.

Gross profit increased by £611 million, or 57.3%, and the gross margin increased 1.0 percentage point in fiscal 2000 compared to fiscal 1999. The major reason for the increase in gross profit was the acquisitions of Fore Systems and Reltec. The improvement in gross margins was mainly in the communications networks and communications services segments due to Fore systems where average gross margin was higher than that of our other businesses.

Operating expenses—selling, general and administrative

(In millions, except percentages)	1999 £	2000 £	2001 £
Selling, general and administrative expenses	454	890	919
As a percentage of revenues	15.7%	20.1%	16.7%
As a percentage of revenues excluding non-recurring charges	14.4%	16.1%	16.2%

Selling, general and administrative expenses increased by £29 million, or 3.3%, and decreased by 3.4% as a percentage of revenues in fiscal 2001, compared to fiscal 2000. Further expansion of our direct selling capabilities in the communications networks and communications services segments, particularly in the US, increased the level of selling, general and administrative expenses in fiscal 2001. However, the reduction in the company share price between March 2000 and March 2001 led to a charge of £7 million in respect of compensatory stock option schemes in fiscal 2001, compared to a charge in fiscal 2000 of £95 million. Non-recurring charges of £79 million, principally related to the year 2000 systems rectification and the re-organisation of acquired and continuing businesses, were recorded in fiscal 2000. The corresponding charge in fiscal 2001 was £19 million, and relates to the cost of voluntary redundancy schemes and other one-off restructuring costs.

Selling, general and administrative expenses increased by £436 million, or 96.0%, and increased 4.4 percentage points as a percentage of revenues in fiscal 2000 compared to fiscal 1999. The increase was as a result of several different factors. In the communications networks and communications services segments, Fore Systems and Reltec, which were acquired in the year, had higher average selling, general and administrative expenses expressed as a percentage of revenue than our other businesses. In addition, investment in expanding the direct selling capability of our businesses in the communications networks and communications services segments increased the level of selling, general and administrative expenses. The expenditure on year 2000 systems rectification was £9 million higher in fiscal 2000 than in fiscal 1999 primarily in the communications networks and communications services segments. The Marconi Group has undergone significant internal reorganization over the past two fiscal years reflecting the change in focus of the business. Expenditure on reorganizing acquired and continuing businesses (primarily in the communications networks and communications services segments) totalled £59 million in fiscal 2000 compared to £16 million in fiscal 1999. Marconi has share option plans which are compensatory in nature. The compensation expense included in selling, general and administrative in fiscal 2000 was £95 million compared to £nil in fiscal 1999. The reasons for the increase were:

- £38 million due to the separation of the discontinued operations which accelerated the vesting date for some variable plan options over GEC shares; and
- £57 million due to the introduction of a stock appreciation rights scheme in the year.

Upon launch in November 1999 Marconi carried out a major branding campaign which cost £24 million in fiscal 2000.

Operating expenses-research and development

	1999	2000	2001
(In millions, except percentages)	**£**	**£**	**£**
Charged in direct costs	73	87	51
Charged in operating expenses	183	341	566
Total research and development expenses	256	428	617
As a percentage of revenues	8.9%	9.7%	11.2%

Research and development expenditure increased by £189 million, or 44.2%, and increased 1.5% as a percentage of revenues in fiscal 2001 compared to fiscal 2000. Expenditure within Communications networks increased by £164 million, where the main focus of fiscal 2001 spending was the continued development of ultra-long haul DWDM and metro Photonics products, fibre-based access platforms and very high capacity broadband switching products and network management software. Photonics products combine the use of light (photons) and electronics. Network management products monitor and control the flow of communications traffic over a network.

Research and development expenses increased £172 million, or 67.2%, and increased 0.8 percentage points as a percentage of revenues in fiscal 2000 compared to fiscal 1999. This was primarily in the communications networks segment as a result of the acquisitions of Fore Systems and Reltec, which contributed an additional £113 million of research and development expenditure. The main focus of the fiscal 2000 research and development expense was the development of photonics, access, broadband or very high capacity switching and network management products.

Total operating expenses-in-process research and development

	1999	2000	2001
(In millions)	**£**	**£**	**£**
In-process research and development expenses	—	277	32

In connection with the acquisitions in the communications networks and communications services segments of Mariposa Technology and Metapath Software International during fiscal 2001 £4 million of the purchase price for Mariposa and £28 million for MSI has been allocated to purchased in-process research and development costs. Both of these amounts have been written off in fiscal 2001.

In connection with the acquisitions in the communications networks and communications services segments of Fore Systems and Reltec during fiscal 2000 £174 million of the purchase price for Fore Systems and £103 million for Reltec has been allocated to purchased in-process research and development costs. Both of these amounts have been written off in fiscal 2000.

The projects to which purchased in-process research and development has been allocated are set out below.

(In millions)	£
Mariposa Technology	
The Sierra series. A low-end IAD solution, which will meet small and medium size enterprise customer needs as well as carrier requirements in the growing xDSL new market segment	4
Total	4

(In millions)	£
Metapath Software International	
Planet. An integrated planning software tool allowing operators to design, plan and operate wireless networks. In-process versions of this product will provide CDMA, GSM, TDMA and W-CDMA functionality	16
Ceos. An operating system support software product designed to incorporate third generation functionality and scalability. The in-process version of this product will mediate IP data from AAA servers.	6
Ceer. A Customer Relationship Manager software solution for carriers that integrates near real-time customer usage data with demographic and lifestyle information, and which supports the implementation of closed-loop architecture and information management with greater flexibility and effectiveness.	4
Orca. A software product incorporating Service Quality Management functionality in addition to the existing capabilities of the Ceer product	2
Total	28

(In millions)	£
Fore Systems	
BXR-48000. A new Asynchronous Transfer Mode (ATM) switch to be capable of switching at very high speeds (40 Gbps to 480 Gbps). ATM organizes digitized voice and other data into small packets and transmits them at high speed over a communications network	85
Asynchronous Transfer Mode (ATM) switches. Known as our ASX1000 and ASX4000	77
Other projects	12
	174

(In millions)	£
Reltec	
A project to produce a very high capacity platform enabling service providers to maximise their use of optical fiber which extends to within 500 feet of the end user. We call this project the MX platform	63
Cable TV (CATV) applications that enhance the performance of the DISC'S/MX platform. We call this advancement the "Deep Fiber HFC" initiative	14
Other projects	26
	103

Further details are set out in Note 3 of our consolidated financial statements included in this annual report.

Total operating expenses—goodwill and other intangible amortization

(In millions)	1999 £	2000 £	2001 £
Goodwill and intangible amortization	89	487	660

Goodwill and intangible amortization expense increased by £173 million, or 35.5%, in fiscal 2001 compared to fiscal 2000. This was due to a full year's amortisation in respect of Fore Systems, accounting for an additional £47 million in fiscal 2001.

Goodwill and intangible amortization expense increased £398 million, or 447.2%, in fiscal 2000 compared to fiscal 1999. The increase in the charge was primarily as a result of the acquisition of Fore Systems (£272 million) and Reltec (£103 million) within the communications networks and communications services segments.

Total other income / (expense), net, income tax expense and minority interest

(In millions)	1999 £	2000 £	2001 £
Gain on sale of investments	850	4	461
Equity in net income of affiliates	87	83	(137)
Interest income	93	102	46
Interest expense	(53)	(210)	(199)
Other income / (expense), net	977	(21)	171
Income / (loss) before income taxes and minority interests	1,317	(339)	164
Income tax expense	(448)	(70)	(44)
Effective income tax rate	34.0%	(20.6%)	26.8%
Minority interest	(12)	(3)	(5)

Other income / (expense), net was a net income of £171 million in fiscal 2001, a net expense of £21 million in fiscal 2000 and a net income of £977 million in fiscal 1999.

The main component of the total balance in fiscal 2001 was the profit of £536 million recognized on the sale of an 18% interest in Alstom. However, during the six months to September 30, 2000, we recorded a charge for our equity share of losses recorded in Alstom of £146 million which partially offset this gain.

The main component of the total balance in fiscal 2000 was interest expense of £210 million compared to interest expense of £53 million in fiscal 1999. The increase in interest expense reflects the additional funding required for the acquisitions of Reltec and Fore Systems in fiscal 2000 and the share repurchase program effected in late fiscal 1999.

The main component of the total balance in fiscal 1999 was the gain realized on the sale of investments of £850 million. £841 million of this gain related to the sale of a 26% holding in Alsthom following its initial public offering in June 1998. Alsthom was the new holding company of GEC Alsthom, which had previously been a 50-50 joint venture between GEC and Alcatel.

Income tax expense in fiscal 2001 was £44 million compared to £70 million in fiscal 2000 and £448 million in fiscal 1999.

The fiscal 2001 effective rate was less than the U.K. statutory rate of 30%, primarily due to book gain versus taxable gain (£100 million), income from investments which attracts no additional U.K.

tax (£10 million) and a benefit for the impact of non-UK tax rate differences (£28 million). These amounts were partially offset by the tax effect of non-deductible goodwill amortization (£97 million) and taxes recorded on items no longer considered permanently reinvested (£39 million).

In fiscal 2000 there was a tax charge despite the book loss. This was primarily due to non-deductible goodwill amortization (£148 million in terms of tax) and taxes recorded on disposals (£47 million). These amounts were partially offset by income from investments which attract no additional U.K. tax (£14 million) and a benefit for the impact of non-U.K. tax rate differences (£9 million). The fiscal 1999 rate exceeded the U.K. statutory rate of 31% primarily due to non-deductible goodwill amortization and the tax rate differential on non-U.K. profits.

Total minority interest expense increased to £5 million in fiscal 2001 from £3 million in fiscal 2000 and decreased from £12 million in fiscal 1999. The increase in fiscal 2001 was due to higher net income in a number of businesses with minority interests within our mobile communications segment. The reduction in fiscal 2000 compared to fiscal 1999 was primarily as a result of the purchase of the 40% minority interest in GPT from Siemens in August 1998.

Liquidity and capital resources

Each of our segments produced sufficient cash to finance its working capital needs and long-term debt except communications networks, which had operating cash outflows of £374 million on a UK GAAP basis. These outflows were funded through the group's existing internal and external sources of finance. The sector specific, long-term debt including finance leases is not material. Long-term debt is arranged and drawn down centrally.

Companies which have been acquired are generally owned by corporate intermediary holding companies rather than within segments and therefore the cost of those acquisitions is not funded by the segments.

Capital expenditure is budgeted, reported and controlled on a segmental basis. An analysis of segmental capital expenditure and commitments is included below.

We control acquisitions centrally. Because of the uncertainty surrounding potential acquisitions, they are not budgeted but central control of prospective acquisitions allows our group treasury to plan resources to meet our needs.

In addition we monitor capital employed which includes the majority of the businesses' net assets but excludes those balances such as cash, debt and liabilities for corporate taxes which central functions (treasury and tax) oversee. We monitor the trends in capital employed because it is an indicator of how effectively the segments are using their fixed assets and working capital.

Responsibility for the management of working capital, other than cash, is undertaken by the individual businesses. Cash balances at individual businesses are reported to group treasury on a weekly basis and group treasury seeks explanations for any significant movements.

Our group treasury oversees the management of our cash and borrowings. Each business has its own bank accounts. The main centres for cash management are in the United Kingdom and United States, where cash management is conducted by our group treasury staff who operate a system under which the cash balances of the businesses are effectively combined so that the cash surpluses in bank accounts can be applied to offset cash deficits in other accounts. We manage the resultant net balances of all the accounts on a daily basis. A net surplus is invested with, or a net deficit is funded by, the group's bankers. In this way, the funding requirements of our businesses are met, and economies are achieved, by combining our liquid resources.

Cash flows by category for the fiscal years ending 1999, 2000 and 2001 were as follows:

	1999	**2000**	**2001**
(In millions)	**£**	**£**	**£**
Cash flows from operating activities	(182)	403	(541)
Cash flows from investing activities	719	(2,973)	(109)
Cash flows from financing activities	174	1,644	431

During the years ended March 31, 2001, 2000 and 1999, the Marconi group funded its liquidity requirements mainly through a combination of internally generated funds, bank borrowings, debt issues in the capital markets and the disposal of non-core businesses.

At March 31, 2001 and 2000, the Marconi group had total borrowings of £3,724 million and £2,768 million respectively, comprising:

- yankee bonds with principal amount of £1,247 million and £nil respectively;
- eurobonds with principal amount of £927 million and £900 million respectively;
- syndicated bank loans of £1,014 million and £1,612 million, respectively; and
- other borrowings of £536 million and £256 million, respectively.

At March 31, 2001 and 2000, the Marconi group had cash and equivalents and short-term investments of £974 million and £722 million, respectively.

For fiscal 2001, cash used for operating activities totaled £541 million, against cash provided by operating activities in fiscal 2000 of £403 million. This was due to changes in operating assets and liabilities leading to an operating outflow in fiscal 2001 of £1,084 million compared to an operating inflow of £22 million in fiscal 2000.

For fiscal 2000, cash provided by operating activities totaled £403 million and cash used for operating activities in fiscal 1999 totaled £182 million. The difference was due mainly to changes in the group's working capital.

Cash used for investing activities in fiscal 2001 totaled £109 million, in fiscal 2000 totaled £2,973 million and cash provided by investing activities in fiscal 1999 totaled £719 million.

The group's main investing activities in fiscal 2001 were:

- proceeds of £631 million from the sale of an 18% interest in Alstom;
- purchase of property, plant and equipment of £559 million; and
- £379 million paid for acquisitions, notably £200 million in respect of MSI.

The group's main investing activities in fiscal 2000 were:

- £3,974 million for acquisitions, mainly within the communications networks and communications services segments for Reltec and Fore Systems; and
- the group received net proceeds of £1,179 million from the separation of the discontinued operations. The proceeds were used to repay amounts outstanding under the Group's syndicated credit facilities.

In fiscal 1999 the main investing activities were:

- cash receipts from investments in affiliates, in the form both of dividends and proceeds from the sale of investments, totaling £1,475 million; and
- expenditure on acquisitions, spread across all segments, totaling £779 million.

Capital expenditure for the fiscal years 2001, 2000 and 1999 was £559 million, £285 million and £141 million, respectively analyzed by segment as follows:

	1999	2000	2001
(In millions)	£	£	£
Communications networks	55	174	246
Communications services	6	11	46
Mobile communications	8	16	34
Data systems	5	5	5
Other	67	79	228
	141	285	559

Total capital expenditure in the group increased by £274 million, or 96.1%, to £559 million in fiscal 2001 compared to £285 million in fiscal 2000.

Capital expenditure within communication networks increased by £72 million, due to additional optical networks expenditure in the U.K. and Italy, the construction of new facilities in the UK, IT infrastructure improvements and supply chain improvements.

Capital expenditure within the Other category increased by £149 million, or 188.6%, to £228 in fiscal 2001 compared to £79 million in fiscal 2000. This was principally due to expenditure in our Fibreway business (subsequently known as ipsaris and subsequently merged with EasyNet) of £147 million in fiscal 2001 in order to extend and complete the network infrastructure of the business. Further, capital expenditure in our Caswell business (now known as Marconi Optical Components) increased by £22 million, as a result of upgrade of existing facilities and capabilities and the setting up of a new module manufacturing capability.

Capital expenditure within communications services increased by £35 million due to a program of enhancements in the customer maintenance and support infrastructure and the effect of businesses acquired during fiscal 2001.

Capital expenditure increased by £144 million, or 102.1%, to £285 million in fiscal 2000 compared to £141 million in fiscal 1999. Capital expenditure within communications networks increased by £119 million, or 216.4%, to £174 million in fiscal 2000 from £55 million in fiscal 1999. The acquisitions of Fore Systems and Reltec contributed £64 million and £35 million respectively to this increase. Fore Systems purchased its building, which was previously leased, for £40 million. The increase in expenditure was also due to the acquisition and upgrading of test equipment and other information technology infrastructure which was required for the expansion of the business.

Capital commitments increased by £34 million, or 59%, to £92 million in fiscal 2001 compared to £58 million in fiscal 2000.

Cash provided by financing activities for the fiscal years 2001 and 2000 totaled £431 million and £1,644 million, respectively. The reduction reflects the short-term borrowings used for the acquisitions of Fore and Reltec in fiscal 2000.

At March 31, 2001, the Marconi Group had two committed multi-currency revolving credit facilities syndicated with its main relationship banks, with HSBC Investment Bank plc as agent, amounting in total to €7.0 billion. Under Marconi's 1998 syndicated credit agreement a group of banks committed a facility of €1.3 billion (approximately £800 million) on an unsecured, revolving basis. Such facility expired on March 22, 2001 and was not renewed. Under the same credit agreement, a group of banks committed a maximum of €4.5 billion (approximately £2.8 billion) at March 31, 2001 and 2000 on an unsecured, revolving basis until March 25, 2003, subject to an extension, at the banks' discretion, to March 25, 2005. Borrowings under this facility bear interest of 0.175% per annum over the London inter-bank offered rate. This facility includes covenants, warranties and events of default, including a clause that it is an event of default if there has been a material adverse change in the financial condition of the Group taken as a whole since the date of the latest annual accounts delivered to the agent under the terms of this revolving credit facility agreement which has had or will have a material adverse effect on the ability of Marconi plc to comply with its payment obligations under this revolving credit facility agreement. See ''Item 3—Key Information—Risk Factors—Our liquidity and financial stability could be detrimentally affected if we were unable to access our syndicated credit facilities''.

Under Marconi's 1999 syndicated credit agreement, a group of banks committed a maximum of €2.5 billion (approximately £1.6 billion) as of March 31, 2001 and 2000, on an unsecured, revolving basis until June 2, 2001. Under the terms of this agreement, borrowings bear interest of 0.25% per annum over the London inter-bank offered rate. As of March 31, 2001, there were no borrowings outstanding under this facility. Since March 31, 2001, this facility expired and was not renewed. Subsequent to March 31, 2001, Marconi entered into a new €3.0 billion (approximately £1.8 billion) revolving credit facility with a one year term out option. The facility will bear interest at 0.40% per annum over the London inter-bank offered rate. This facility includes covenants, warranties and events of default, including a clause that it is an event of default if there has been a material adverse change in the financial condition of the Group taken as a whole since the date of the latest annual accounts delivered to the agent under the terms of this revolving credit facility agreement which has had or will have a material adverse effect on the ability of Marconi plc to comply with its payment obligations under this revolving credit facility agreement. See ''Item 3—Key Information—Risk Factors—Our liquidity and financial stability could be detrimentally affected if we were unable to access our syndicated credit facilities''.

At March 31, 2001 and March 31, 2000, drawings under these facilities amounted to £1,014 million and £1,612 million respectively, resulting in unused commitments of £3,343 million and £3,495 million respectively.

The Marconi group completed two yankee bond issues on September 19, 2000. These issues include $900 million of bonds due September 15, 2010 bearing interest at 7.75% per annum, and $900 million of bonds due September 15, 2030 bearing interest at 8.375% per annum. The bonds are listed on the Luxembourg Stock Exchange. They are governed by an indenture entered into with The Bank of New York as trustee for the bondholders. The indenture includes events of default, such as a breach by us of our payment and other obligations under the indenture, defaults under other agreements to which we are a party, and bankruptcy and other insolvency events involving us. The acceleration of our obligation to repay borrowings under either or both of our syndicated credit facilities would trigger an event of default under our yankee bonds if the aggregate amount of such accelerated obligations is equal to or exceeds the greater of (1) €50 million or its equivalent in any other currency or (2) 1.0% of Marconi Corporation plc's consolidated shareholders' equity. See ''Item 3—Key Information—Risk Factors—Our liquidity and financial stability could be detrimentally affected if we were unable to access our syndicated credit facilities''.

Marconi has two eurobonds comprising of €500 million of bonds due March 30, 2005 and €1,000 million of bonds due March 30, 2010. These bonds are listed on the London Stock Exchange and are constituted by trust deeds entered into with The Law Debenture Trust Corporation p.l.c. as trustee for the bondholders. The terms of the bonds include events of default, such as a breach by us of our payment and other obligations under the trust deeds and bankruptcy and other insolvency events involving us. The acceleration of our obligation to repay borrowings under either or both of our syndicated credit facilities would trigger an event of default under these bonds if the aggregate amount of the accelerated obligations is equal to or greater than €50 million or its equivalent in any other currency. See ''Item 3—Key Information—Risk Factors—Our liquidity and financial stability could be detrimentally affected if we were unable to access our syndicated credit facilities''.

We, like our competitors, are facing demand to provide financing to our customers. We have responded by developing financing arrangements that are attractive to our customers while limiting the risk to us. As at March 31, 2001, the group had vendor finance commitments of £170 million of which £135 million had been drawn. The terms facilitate the sale, transfer or disposal of the resultant loans, investments and other obligations to financial institutions and investors.

We plan to continue to explore and consider new sources, arrangements or transactions to refinance existing debt, increase our liquidity or decrease our leverage, including among other things, the future issuance of public or private equity or debt and the negotiation of new or amended credit facilities.

We believe that cash and cash equivalents, internally generated funds, borrowings under existing credit facilities, and future financing sources will be sufficient to meet our liquidity and capital requirements for the next twelve months. Although in the past we have been able to refinance our indebtedness or obtain new financing, we cannot assure you that we will be able to do so in the future or that the terms of such financings would be favorable. S&P and Moody's have downgraded our credit ratings to BB and Ba1, respectively. We may be further downgraded. The downgrading by S&P and Moody's has resulted in non-investment grade status for our debt. In the future, non-investment grade status could increase our financing costs by increasing interest rates at which we would be able to refinance existing debt and incur new debt, and could harm our ability to obtain future finance. See ''Item 3—Key Information—Risk Factors—Standard and Poor's Ratings Services (S&P) and Moody's Investors Services (Moody's) have downgraded our credit ratings. We may be further downgraded. These downgrades could make it more difficult and expensive to finance our operations and our prospects could be detrimentally affected as a result'' and ''Item 4—Information on the Company—History and Development of the Company—Recent developments—Debt ratings downgrades''.

Current financial and trend information

In the light of continued uncertainty regarding levels and timing of service provider spending, Marconi is not in a position to give sales and operating profit guidance for the year ended March 31, 2002. On September 4, 2001, we provided a trading update and announced a wide-reaching set of actions to sharpen our focus on our networks communications business, to restore the operational efficiency and reduce debt and to develop a sustainable business model for future performance improvement. For a discussion of the September 4, 2001 trading update, see ''Item 4—Information on the Company—Business Overview''.

Inflation

We believe that inflation has not had a material impact on our results of operations for the fiscal years ended March 31, 2001, 2000 and 1999.

Recent accounting pronouncements

In June 1999, the Financial Accounting Standards Board (FASB) issued SFAS No. 137: ''Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of SFAS No. 133'', which defers the effective date of SFAS No. 133: ''Accounting for Derivative Instruments and Hedging Activities'' to fiscal years commencing after June 15, 2000. Marconi will adopt SFAS No. 133 effective April 1, 2001. SFAS 133, as amended by SFAS No. 138: ''Accounting for Certain Derivative Instruments and Certain Hedging Activities'', requires that all derivative instruments be recorded on the balance sheet at their fair value.

Derivatives that are not designated as hedges must be adjusted to fair value through income. If the derivative is designated as a hedge, depending on the nature of the hedge, changes in the fair value of derivatives that are considered to be effective, as defined, will either offset the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or will be recorded in other comprehensive income until the hedged item is recorded in earnings. Gains and losses on derivative instruments that will be reported in other comprehensive income will be reclassified to income in the periods in which income affected by the variability in the cash flows of the hedged items. Any portion of a change in a derivative's fair value that is considered to be ineffective, as defined, will have to be immediately recorded in earnings. Any portion of a change in a derivative's fair value that Marconi has elected to exclude from its measurement of effectiveness will be recorded in earnings.

Upon adoption, on April 1, 2001, Marconi will record a cumulative transition adjustment recognizing after tax gains of £0.2 million in earnings and an after tax charge of £1.7 million in Total Other Comprehensive Income. Assets will increase by £15.4 million and liabilities by £17.6 million as a result of recording all derivatives on the balance sheet at fair value.

In March 2000, the FASB issued Financial Interpretation No. 44, ''Accounting for Certain Transactions Involving Stock Compensation—an Interpretation of APB Opinion No. 25.'' FIN 44 clarifies the application of APB No. 25 in certain situations, as defined. The interpretation is effective July 1, 2000, but covers certain events occurring during the period after December 15, 1998 but before the effective date. To the extent that events covered by this interpretation occur during the period after December 15, 1998, but before the effective date the effects of applying this interpretation would be recognized on a prospective basis from the effective date. Accordingly, upon initial application of the final interpretation, (1) no adjustments have been made to the financial statements for periods before the effective date, (2) no expense has been recognized for any additional compensation cost measured that is attributable to periods before the effective date, and (3) no expense has been recognized for any additional compensation cost measured that is attributable to periods before the effective date. The adoption of these provisions did not have a material impact on our financial position or results of operations.

In September 2000, the FASB issued SFAS No. 140, Accounting for the Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, which replaces SFAS No. 125 (of the same title). SFAS 140 revises certain standards in the accounting for securitizations and other transfers of financial assets and collateral, and requires some disclosures relating to securitization transactions and collateral, but it carries over most of the provisions in SFAS 125. The collateral and disclosure provisions of FAS 140 are effective for fiscal years ending after December 15, 2000 and are included in the accompanying financial statements. The other provisions of this Statement are effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. Management does not expect that the adoption of this statement will have a material impact on Marconi.

In June 2001, the FASB issued two new pronouncements: SFAS No. 141, ''Business Combinations'', and SFAS No. 142, ''Goodwill and Other Intangible Assets''. SFAS 141 prohibits the use of the pooling-of-interest method for business combinations initiated after June 30, 2001 and also applies to all business combinations accounted for by the purchase method that are completed after June 30, 2001. There are also transition provisions that apply to business combinations completed before July 1, 2001, that were accounted for by the purchase method. SFAS 142 is effective for fiscal years beginning after December 15, 2001 for all goodwill and other intangible assets recognized in an entity's statement of financial position at that date, regardless of when those assets were initially recognized. SFAS 142 requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill. SFAS 142 also requires Marconi to complete a transitional goodwill impairment test six months from the date of adoption. Marconi is currently assessing, but has not yet determined the impact of SFAS 142 on its financial position and results of operations.

In May 2000, the Emerging Issues Task Force (EITF) issued EITF 00-10, ''Accounting for Shipping and Handling Fees and Costs'', which requires that all amounts billed to customers related to shipping and handling should be classified as revenues. The adoption of this provision did not have a material impact on our financial position or results of operations.

In September 2000, the EITF issued EITF 00-19, ''Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock'', which requires freestanding contracts that are settled in a company's own stock, including common stock options and warrants, to be designated as an equity instrument, asset or a liability, is effective for Marconi at June 30, 2001. Under the provisions of EITF 00-19, a contract designated as an asset or a liability must be carried at fair value, with any changes in fair value recorded in the results of operations. A contract designated as an equity instrument must be included within equity, and no fair value adjustments are required. In accordance with EITF 00-19, Marconi has determined that the cash settlement of such contracts should be designated as temporary equity until June 30, 2001 when they will be classified as liabilities with changes in fair value recorded in results of operations.

On August 16, 2001, the FASB issued SFAS No. 143, ''Accounting for Asset Retirement Obligations'', which requires recording the fair value of a liability for an asset retirement obligation in the period in which it is incurred, and a corresponding increase in the carrying value of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, it is either settled for its recorded amount or a gain or loss upon settlement is recorded. Statement 143 is effective for Marconi's fiscal year ending March 31, 2004. Marconi is currently assessing, but has not yet determined the impact of SFAS 143 on its financial position and results of operations.

Euro

Marconi has subsidiaries in most of the European countries which are converting to the euro, and the major subsidiaries are located in Italy and Germany. To ensure that all eurozone subsidiaries convert in a timely and efficient manner, Marconi has established a Euro Programme Management Office to actively support and coordinate a euro program throughout the Group. The program's objectives are for all Marconi's eurozone subsidiaries to be compliant well before January 1, 2002, the date for the introduction of euro denominated notes and coins and for the Group to be capable of conducting commercial and financial transactions, and account and report in euros, as and when required. As of August 31, 2001, 25 of the 40 affected eurozone entities classified within continuing operations had adopted the euro as their base operating currency, including the major Italian and German subsidiaries, and the remainder are on course for timely conversion. Internal group reporting from companies in the eurozone was switched to the euro on April 1, 2001 and in addition a number of group companies converted to the euro with effect from that date.

Item 6. ***Directors, Senior Management and Employees***

DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth certain information regarding the directors and executive officers of Marconi plc:

Name	Age	Title
Chairman:		
Derek Charles Bonham	58	Chairman
Executive directors:		
Michael William John Parton	47	Chief Executive Officer
Michael John Donovan	48	Chief Operating Officer
Stephen Hare	40	Chief Financial Officer
Robert Ian Meakin	52	Chief Human Resources Officer
Non-executive directors:		
Sir William Martin Castell	54	non-executive director
The Rt. Hon. The Baroness Lydia Selina Dunn, DBE	61	non-executive director
Sir Alan Walter Rudge, CBE	63	non-executive director
Hon. Raymond George Hardenbergh Seitz	60	non-executive director
Nigel John Stapleton	54	non-executive director
Executive officers:		
Geoffrey William Doy	52	Chief Executive Officer, Sales and Marketing
Jeffrey Isaac Gordon	52	Chief Legal Officer
Eric Ronald Green	44	Executive Vice President, Finance
Norman Charles Porter	49	Company Secretary
Damian Hugh Reid	39	Chief Strategy Officer
Neil David Sutcliffe	39	Chief Executive Officer, Marconi Capital

Chairman

Derek Charles Bonham was appointed to the board of directors of Marconi plc in April 2001. Mr. Bonham also serves as Chairman of the remuneration committee and as the senior independent non-executive director of Marconi plc. He is currently non-executive Chairman of Cadbury Schweppes, Fieldens and Imperial Tobacco Group and a director of TXU Corporation. From April 1992, Mr. Bonham was Chief Executive and from November 1993, he was Deputy Chairman of Hanson, in each case until February 1997. He is also a former member of the Financial Accounting Standards Advisory Council (USA) and served on the Accounting Standards Committee (UK). On September 4th, 2001, Mr Bonham was appointed Chairman of Marconi plc.

Executive directors

Michael William John Parton, was appointed to the board of directors of Marconi plc in January 2000. Mr. Parton held a number of finance appointments in ICL from 1977 to 1980 and STC Telecommunications from 1986 to 1991. Mr. Parton joined GEC as Finance Director of GPT, GEC's joint venture with Siemens, in 1991, was appointed Managing Director of GPT's public networks group in 1995, Managing Director of GEC's industrial electronics group in 1997 and Chief Executive Officer of Marconi Communications in July 1998. In April 2001, Mr. Parton was appointed Chief Executive Officer of Marconi Networks. On September 4th, 2001, Mr Parton was appointed Chief Executive Officer of Marconi plc.

Michael John Donovan was appointed to the board of directors of Marconi plc in January 2000. He joined GEC in October 1998 as Chief Executive of GEC's industrial electronics group in the United States (which subsequently became Marconi Systems and our other businesses segment) and was appointed Chief Executive for our systems business segment and our other businesses segment. In April 2001, he was appointed Chief Sales Officer and in August 2001, he was appointed Executive Director, Operations of Marconi plc. Mr. Donovan held a number of executive management positions in the Rover Group from 1976 to 1991 and in Vickers from 1991 to 1994. In 1994, Mr. Donovan joined British Aerospace (now known as BAE Systems) as Chief Executive at Avro International. In April 1996, he was appointed Chief Executive for regional aircraft and in May 1997, he was appointed President of Aero International (regional). On September 4th, 2001, Mr Donovan was appointed Chief Operating Officer of Marconi plc.

Stephen Hare was appointed to the board of directors and as Chief Financial Officer of Marconi plc in April 2001. Mr. Hare is also a director of Marconi Corporation plc. He joined GEC in March 1989 and has held various financial positions in a number of the group's UK-based subsidiaries during the 1990s including seven years with GPT, GEC's joint venture with Siemens, and in April 1995 was appointed Finance Director of GPT. In April 1997, Mr. Hare was appointed Finance Director of the Industrial Division of GEC, in October 1998 he became Chief Operating Officer and in April 1999 he was appointed Chief Financial Officer of Marconi Communications Networks. In June 2000, he joined the corporate office of Marconi plc as Senior Vice President—Finance in charge of group reporting and consolidation. Prior to his time with GEC and the Marconi Group, Mr. Hare held positions with Ernst & Whinney, Norcros plc and a private hotel and catering company.

Robert Ian Meakin was appointed to the board of directors and was appointed Personnel Director of Marconi plc in October 1999 having previously been appointed GEC's Personnel Director in November 1996 and to the GEC board of directors in October 1998. From 1992 to 1996, Mr. Meakin was Director of Personnel at British Aerospace (now known as BAE Systems). Mr. Meakin is on the board of directors of Young Enterprise, is a member of the Steering Board at the Radiocommunications Agency and is Chairman of the Education and Training Export Group of the U.K. Department of Trade and Industry and of the U.K. Department for Education and Employment. In April 2001, Mr. Meakin was appointed Chief Human Resources Officer of Marconi plc.

Non-executive directors

Sir William Martin Castell was appointed to the board of directors of Marconi plc in October 1999 having previously been appointed a director of GEC in October 1997. From 1987 to 1989, Sir William was Commercial Director on the board of directors of Wellcome. Sir William has been Chief Executive of Amersham plc (formerly known as Nycomed Amersham) since 1990. Since 1997, Sir William has been Chairman of The Prince's Trust.

The Rt. Hon. The Baroness Lydia Selina Dunn, DBE was appointed to the board of directors of Marconi plc in October 1999 having previously been appointed a director of GEC in July 1997. From 1988 to 1995, Baroness Dunn was Senior Member of the Hong Kong Executive Council and from 1985 to 1998, she was Senior Member of the Hong Kong Legislative Council. Baroness Dunn is an executive director of John Swire & Sons and is a non-executive deputy chairman of HSBC Holdings.

Sir Alan Walter Rudge, CBE was appointed to the board of directors of Marconi plc in October 1999 having previously been appointed a director of GEC in November 1997. Sir Alan also serves as Chairman of the technology advisory committee. From April 15, 1999 to June 15, 2000, Sir Alan was non-executive Chairman of Metapath Software International. Sir Alan joined British Telecom in 1987 as Director of Research and Technology and joined British Telecom's main board of directors in 1989. In 1995 Sir Alan was appointed Deputy Managing Director and from 1996 to 1997 he was Deputy Chief Executive of British Telecom. In 1994, he was President of the Institution of Electrical Engineers. Sir Alan is Chairman of ERA Technology and is a non-executive director of Great Universal Stores and from March 2001 became CEO of MSI Cellular Investment Holdings. Sir Alan is also a Fellow of the Royal Academy of Engineering and the Royal Society.

Hon. Raymond George Hardenbergh Seitz was appointed to the board of directors of Marconi plc in October 1999 having previously been appointed director of GEC in December 1994. From 1991 to 1994, Mr. Seitz was U.S. Ambassador to the United Kingdom. Mr. Seitz is Vice Chairman of Lehman Brothers International (Europe), a non-executive director of British Airways, Cable and Wireless, Rio Tinto and Telegraph Group, Chairman of Authoriszor and a former trustee of the National Gallery and the Royal Academy.

Nigel John Stapleton was appointed to the board of directors of Marconi plc in October 1999 having previously been appointed a director of GEC in July 1997. Mr. Stapleton also serves as Chairman of the audit committee. From January 1993 to September 1999, Mr. Stapleton held senior management positions in Reed Elsevier, where he was Chairman and Co-Chief Executive from August 1998 to September 1999. From 1968 to 1986, Mr. Stapleton held a number of finance and general management positions with Unilever. Mr. Stapleton is Chairman of Veronis, Suhler International, Uniq plc and a director of AXA UK plc, the London Stock Exchange and The Royal Opera House. Mr. Stapleton is also a member of the U.K. Financial Reporting Review Panel.

Executive officers

Geoffrey William Doy was appointed Chief Executive Officer of Marconi Wireless in April 2001. He held a number of positions in the IT and communications industries with Software Sciences from 1983 to 1988, Artemis International from 1988 to 1993 and Gemini Consulting from 1995 to 1998 before joining Metapath Software International in August 1998. On September 4, 2001, Mr. Doy was appointed Chief Executive Officer, Sales and Marketing of Marconi plc.

Jeffrey Isaac Gordon was appointed Chief Legal Officer of Marconi plc in April 2001 having previously been appointed General Counsel in November 1999. He has held senior positions at the U.S. law firm Mayer, Brown & Platt in Chicago and in London where he was the head of international practice. Mr. Gordon is also a director of Marconi Corporation plc.

Eric Ronald Green was appointed Executive Vice President, Finance of Marconi plc in June 2001 having previously held a number of finance and operational positions within the group since joining GEC in January 1991. Prior to joining GEC, Mr. Green held a number of finance roles in a range of industries.

Norman Charles Porter was appointed Company Secretary of Marconi plc in September 1999 having previously been appointed Company Secretary of GEC in April 1991. He is a member of the Council of the Electrical and Electronics Industries Benevolent Association. Mr. Porter is also a director of Marconi Corporation plc.

Damian Hugh Reid was appointed Chief Strategy Officer of Marconi plc in April 2001 having previously served as Senior Vice President, Corporate Finance of Marconi plc. Mr. Reid is also a director of Marconi Corporation plc. Mr. Reid is a non-executive director of Atlantic Telecom Group PLC.

Neil David Sutcliffe was appointed Chief Executive Officer of Marconi Communications Services in November 1999 having previously been Managing Director of strategic networks, the European services business of GPT, GEC's joint venture with Siemens, from 1998. He was a systems engineer with British Aerospace (now known as BAE Systems) from 1984 to 1988 and a manufacturing consultant with Coopers & Lybrand from 1988 until he joined GPT in 1992. In April 2001, he was appointed Chief Executive Officer of Marconi Enterprise and on September 4, 2001 he was appointed Chief Executive Officer of Marconi Capital.

The executive directors of Marconi plc are also executive officers of Marconi plc.

The following information sets forth certain information regarding the directors of Marconi Corporation plc:

Name	Age	Title
Jeffrey Isaac Gordon	52	Director
Stephen Hare	40	Director
David Paul Loosley	53	Director
Norman Charles Porter	49	Director
Damian Hugh Reid	39	Director

Marconi Corporation plc does not have any non-executive directors or executive officers.

Jeffrey Isaac Gordon was appointed as a director of Marconi Corporation plc in September 2000. Mr. Gordon also serves as an executive officer of Marconi plc, as more fully described above.

Stephen Hare was appointed as a director of Marconi Corporation plc in September 2000. Mr. Hare also serves as an executive director of Marconi plc, as more fully described above.

David Paul Loosley was appointed as a director of Marconi Corporation plc in September 2000. Mr. Loosley joined GEC in May 1998 as director of treasury and risk management and now holds this position in Marconi plc. Prior to joining GEC, Mr. Loosley was Group Treasurer of Lombard North Central plc, and he has held appointments in strategic planning and marketing before moving into finance.

Norman Charles Porter was appointed as a director of Marconi Corporation plc in September 2000. Mr. Porter also serves as an executive officer of Marconi plc, as more fully described above.

Damian Hugh Reid was appointed as a director of Marconi Corporation plc in September 2000. Mr. Reid also serves as an executive officer of Marconi plc as more fully described above.

Recent management changes

Mr. John Mayo, who served as Finance Director of Marconi plc during fiscal 2001 and was appointed Deputy Chief Executive Officer of Marconi plc effective April 1, 2001, resigned from all positions held in the Marconi Group on July 6, 2001, with immediate effect. Sir Roger Hurn, who served as Chairman of Marconi plc during fiscal 2001, and Lord Simpson, who served as Chief Executive Officer of Marconi plc during fiscal 2001, resigned from all positions held in the Marconi Group on September 4, 2001, with immediate effect. Mr. Bonham replaces Sir Roger Hurn as Chairman of Marconi plc until a permanent replacement can be found. Mr. Parton replaces Lord Simpson as Chief Executive Officer of Marconi plc.

Board system

Marconi plc is controlled through a board of directors. Its operating subsidiaries are managed by the Chief Executive Officers for the business segments under which they are organized.

The board is responsible for the strategic direction of the Marconi Group, including approval of business strategy and the annual plans designed to meet the strategy, interim and full year accounts, accounting policies and dividends and the system of governance and internal control.

The board currently consists of 10 members: the Chairman, 5 non-executive directors and 4 executive directors (including the Chief Executive). There is a clear division of responsibility between the Chairman and the Chief Executive. The Chairman is responsible for running the board and ensures 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 coordination of Marconi Group businesses and the development and implementation of strategy. Accordingly, no single individual has unfettered powers of decision.

The board meets at least six times a year and holds additional meetings when circumstances require. Non-executive directors meet with the Chairman and Chief Executive at least twice a year to discuss a wide range of matters affecting the Marconi Group. All directors have access to such information as they require to enable them to participate in consideration of matters to be decided by the board and its committees (discussed below). Directors also receive appropriate training on appointment and then as necessary. Directors attend an induction program which aims to provide an understanding of the Marconi Group, its strategy, structure, geographical spread of operations, financial position, the industries in which it operates, its products and technologies, people and, where appropriate, legal responsibilities as a director. The directors have access to the advice and services of the Company Secretary and there is an approved procedure by which all directors can obtain independent professional advice in furtherance of their duties. This procedure is reviewed by the board periodically.

The nomination committee recommends the appointment of directors and, in accordance with the provisions of the Articles of Association of Marconi plc, the board appoints directors. Directors may also be appointed by ordinary resolution. At every annual general meeting of shareholders, one-third of the directors (or the nearest to one-third if not a multiple of three) are required to retire from office although a director who is willing may be re-appointed as a director. If the vacancy is not filled at the meeting at which a director retires by rotation or otherwise, a director is, if willing to act, deemed to be re-elected. Directors are required to retire from office at the annual general meeting after which he or she reaches 70 years of age, although such director may be re-appointed as a director on an annual basis after reaching 70 years of age. Directors may be removed or suspended from office at any time by an ordinary resolution. A director must resign from office if he or she ceases to be a director by virtue of the U.K. Companies Act 1985, is prohibited by U.K. law from being a director, becomes bankrupt, suffers from a mental disorder, is absent for more than six consecutive months without permission from the board or is requested to resign in writing by not less than three-quarters of the other directors.

The board has delegated certain powers and duties to committees constituted by it, and receives regular reports of their proceedings. The Company Secretary acts as secretary to all board committees. The board committees include an audit committee, a nomination committee, a remuneration committee and an executive committee. In April 2001, Marconi plc announced the formation of a new committee: the technology advisory committee. The audit, nomination and remuneration committees are comprised only of non-executive directors. The executive committee is comprised of both executive directors as well as certain other executive officers but at least two of the three members forming the quorum for meetings must be executive directors. The composition of the technology advisory committee has not yet been finalized. The quorum for meetings for each of these committees is three members in person or by telephonic or electronic communication.

The audit committee meets at least three times a year. Its duties include reviewing the scope and results of any audit. It meets regularly with management, as well as with internal auditors, to review the effectiveness of corporate controls and accounting policies, as well as matters raised in regular reports to it and the full year and interim financial statements prior to their submission to the board. The auditors are able to attend meetings and have the opportunity to raise matters or concerns in the absence of executive directors. The current members of the committee are Messrs. Stapleton, Bonham, Castell, Seitz and Baroness Dunn.

The nomination committee meets as and when required to do so. It reviews the board structure, considers candidates for appointment as directors and makes appropriate recommendations to the board. The current members of the committee are Messrs. Bonham, Castell, Rudge, Seitz, Stapleton and Baroness Dunn.

The remuneration committee meets at least twice a year and makes decisions on behalf of the board on the contracts of service and remuneration packages of executive directors and the Chairman. The remuneration committee also determines the framework within which executive remuneration is more generally determined and, in its review of executive directors' pay, takes account of the remuneration of the other members of the executive committee. The remuneration committee has access to and takes professional advice from inside and outside the Marconi Group. The remuneration committee also takes the advice of the Chairman and Chief Executive, as appropriate, on the performance of the executive directors. All members of the remuneration committee are independent non-executive directors and have no personal financial interest in the matters to be decided by the remuneration committee, no potential conflicts of interests arising from cross-directorships and no day-to-day involvement in the running of the business of the Marconi Group. The current members of the committee are Messrs. Bonham, Castell, Rudge, Seitz, Stapleton and Baroness Dunn.

The executive committee meets bi-monthly and comprises executive directors and certain other executive officers but at least two of the members must be executive directors. It approves the business plan and budget and strategies for the Marconi Group in areas including technology, people, information technology and corporate communications prior to submission to the board for approval. It also approves day-to-day matters of a routine nature. The current members of the committee are Messrs. Parton, Donovan, Doy, Gordon, Hare, Meakin, Reid and Sutcliffe.

The specific duties, procedures and members of the technology advisory committee have not yet been finalized.

The board of directors of Marconi Corporation plc meets as and when required to do so to address substantive issues affecting Marconi Corporation plc and its subsidiaries.

Marconi Corporation plc has one committee: the finance and sealing committee. The committee addresses matters of a routine nature that affect Marconi Corporation plc and its subsidiaries. The finance and sealing committee meets as and when required to do so. Members of this committee are appointed by the board of directors of Marconi Corporation plc, and currently comprise all five directors on the board of directors of Marconi Corporation plc. The term of office for directors and members of the finance and sealing committee is indefinite.

Directors' emoluments

The names of the current directors of Marconi plc and Marconi Corporation plc appear in the table and paragraphs above.

The following table shows emoluments paid or payable to directors of Marconi plc for the period to March 31, 2001.

				Excluding pension contributions		Pension contributions		Gains made on the exercise of share options	
	Salary and fees	Other benefits	Bonus	2001 Total	2000 Total	2001 Total	2000 Total	2001 Total	2000 Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Sir Roger Hurn***	269	26	—	295	266	—	—	—	—
Lord Simpson***	702	300	—	1,002	1,228	425	352	—	—
M.J. Donovan	388	87	—	475	145*	156	21*	—	—
J. C. Mayo**	543	290	—	833	942	408	259	—	—
R. I. Meakin	297	222	—	519	579	314	226	—	—
M.W.J. Parton	394	130	—	524	209*	177	42*	—	—
Sir William Castell	33	—	—	33	25	—	—	—	—
The Rt. Hon. The Baroness Dunn	33	—	—	33	25	—	—	—	—
Sir Alan Rudge	40	—	—	40	26	—	—	—	—
Hon. Raymond G. H. Seitz	33	—	—	33	25	—	—	—	—
N. J. Stapleton	40	—	—	40	28	—	—	—	—

* Represents the period January 1, 2000 to March 31, 2000.
** Mr. Mayo served as Deputy Chief Executive until his resignation in July 2001.
*** Sir Roger Hurn served as Chairman and Lord Simpson served as Chief Executive Officer of Marconi plc until their respective resignations in September 2001.

Mr. Hare was appointed to the board of Marconi plc in April 2001.

The following table shows emoluments paid or payable to all directors and all executive officers of Marconi plc as a group for the period to March 31, 2001.

				Excluding pension contributions		Pension contributions		Gains made on the exercise of share options	
	Salary and fees	Other benefits	Bonus	2001 Total	2000 Total	2001 Total	2000 Total	2001 Total	2000 Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Total for all directors and executive officers	4,228	1,288	—	5,576	5,416	1,641	1,258	64	17

The following table shows emoluments paid or payable to all directors of Marconi Corporation plc as a group for the period to March 31, 2001.

	Salary and fees	Other benefits	Bonus	Excluding pension contributions 2001 Total	Excluding pension contributions 2000 Total	Pension contributions 2001 Total	Pension contributions 2000 Total	Gains made on the exercise of share options 2001 Total	Gains made on the exercise of share options 2000 Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Total for all directors and executive officers	1,153	153	—	1,306	1,646	137	328	64	17

The emoluments for all directors of Marconi plc and Marconi Corporation plc are for the full fiscal years 2001 and 2000. The emoluments for the executive officers of Marconi plc are in respect of full years or, where appropriate, from their dates of appointment.

Executive directors of Marconi plc receive taxable benefits, including an allowance under a company car plan.

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

Short-term incentive bonus

Executive directors of Marconi plc are eligible to participate in a short-term incentive plan. The plan pays bonuses only when an economic value added target (based on profitable growth) is met. In considering the payment of short-term incentive bonuses, the remuneration committee also takes account of personal performance. During the period ending March 31, 2001, no bonuses were awarded to executive directors.

Service contracts

Each of the executive directors of Marconi plc has a letter of appointment or service contract with Marconi Corporation plc. The contracts are subject to termination by either party giving no less than one year's notice or, if not already terminated, on Lord Simpson reaching the age of 60 years and the other executive directors on reaching the age of 62 years. It is intended that each of the executive directors will, in due course, enter into service contracts with Marconi plc in substantially the same form and on substantially the same terms as their existing service contracts with Marconi Corporation plc. Upon entering into a service contract with Marconi plc, an executive director's service contract with Marconi Corporation plc will be terminated.

Pension, retirement and similar benefits

All executive directors of Marconi plc and directors of Marconi Corporation plc are members of a pension plan, the G.E.C. 1972 Plan. Members contribute at the rate of 3% of salary. Contributions made by the Marconi Group during the year ended March 31, 2001 amounted to 6.6% of salary of the members with an individual maximum contribution from the member equivalent to 15% of £91,800 (2000: 6.6% with a maximum of 15% of £90,600).

The Marconi Group also operates funded unapproved retirement benefit plans (FURBS), for certain of the executive directors of Marconi plc and certain directors of Marconi Corporation plc, company contributions to which are taxable as a benefit of the directors concerned. Annual payments to the FURBS are made to meet the obligations under the plan to accumulate capital, equivalent in value to a two-thirds pension at a normal retirement age of 62 for executive directors of Marconi plc (Messrs. Donovan, Mayo, Meakin, Parton and Lord Simpson). The normal retirement age for Lord Simpson is age 60. Pensionable salary for Lord Simpson is restricted to £562,432 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 year. The obligations take into account the capital value of any relevant benefits in payment or otherwise arising from previous employment together with the capital value of benefits from the G.E.C. 1972 Plan that are payable. For directors of Marconi Corporation plc (Messrs. Gordon, Loosley and Reid) the accumulated capital is payable at age 62. In the event of cessation of employment before normal retirement age, or at retirement age, each of the members is entitled to the cash amount held in the FURBS established for him.

The pension benefits earned by the directors of Marconi plc under the G.E.C. 1972 Plan for the period to March 31, 2001 are as follows:

	Length of pensionable Service	Increase in accrued pension during the year	Cost of pension benefits accrued during the year net of member's contributions	Accumulated total accrued pension at March 31, 2001
	(years)	£000	£000	£000
Lord Simpson***	4	1	7	7
M.J. Donovan	2	2	5	4
J. C. Mayo**	3	1	1	5
R. I. Meakin	4	1	9	7
M.W.J. Parton	10	1	1	15

** Mr. Mayo served as Deputy Chief Executive of Marconi plc until his resignation in July 2001.
*** Lord Simpson served as Chief Executive Officer of Marconi plc until his resignation in September 2001.

The pension entitlement shown above is that which would be paid annually at normal retirement age based on service to March 31, 2001. The increase in accrued pension during the year excludes any increase for inflation.

The cost of pension benefits accrued during the year net of member's contributions has been calculated on the basis of independent actuarial advice. 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 Marconi Group's pension arrangements and not a sum paid or due to the directors of Marconi plc.

Members of the G.E.C. 1972 Plan have the option to make contributions to the Selected Benefit Scheme, an additional voluntary contribution plan. Neither the contributions nor the resulting benefits to the selected benefit scheme are included in the above table.

During the fiscal years indicated, the following payments were made to the trustee of the FURBS for individual directors of Marconi plc:

	2001	2000
	£	£
Lord Simpson***	395,000	308,000
M.J. Donovan	63,181	52,846
J.C. Mayo**	374,000	222,300
R.I. Meakin	290,000	205,320
M.W.J. Parton	147,000	98,750

** Mr. Mayo served as Deputy Chief Executive of Marconi plc until his resignation in July 2001.
*** Lord Simpson served as Chief Executive Officer of Marconi plc until his resignation in September 2001.

Contributions paid into FURBS are determined each year based on actuarial advice to be sufficient to meet the obligations and are periodically reviewed by the actuary.

In the event of death in service, a lump sum of four times pensionable salary (two times pensionable salary for Messrs. Hare and Porter), plus additional benefits for a surviving spouse and/or child(ren), inclusive of any death benefits arising from the G.E.C. 1972 Plan will be held on trust for the benefit of dependants of each of Messrs. Donovan, Hare, Mayo, Meakin, Parton, Gordon, Loosley, Porter, Reid and Lord Simpson.

Directors' share options

The table below sets forth the interests of executive directors of Marconi plc in options over ordinary shares in Marconi plc under the GEC and Marconi share option plans for the period April 1, 2000 to March 31, 2001.

	At April 1, 2000		Granted in year		At March 31, 2001		Exercisable	
	No.	Average exercise price pence	No.	Exercise price pence	No.	Average exercise price pence	From	To
Lord Simpson*** ..	1,407,159	311.0	—	—	1,407,159	311.0	Dec 2000	Sep 2003
	1,543,408	801.5*	—	—	1,543,408	801.5*	Nov 2002	Nov 2009
M J Donovan	266,271	338.0	—	—	266,271	338.0	Nov 1999	Oct 2008
	335,681	844.0*	198,048	787*	533,729	823.0*	Nov 2002	Nov 2010
J C Mayo**	1,146,303	331.5	—	—	1,146,303	331.5	Dec 2000	Oct 2007
	1,739,279	730.0*	104,828	787*	1,844,107	733.0*	Jul 2001	Nov 2010
R I Meakin	252,185	331.5	—	—	252,185	331.5	Dec 2000	Oct 2007
	599,110	801.0*	57,274	787*	656,384	800.0*	Jul 2001	Nov 2010
M W J Parton	340,321	328.0	—	—	340,321	328.0	Nov 1999	Oct 2007
	1,036,896	680.0*	79,374	777*	1,116,270	687.0*	Jul 2001	Nov 2010

* Exercise price exceeded market price at March 31, 2001.

** Mr. Mayo served as Deputy Chief Executive of Marconi plc until his resignation in July 2001.

*** Lord Simpson served as Chief Executive Officer of Marconi plc until his resignation in September 2001.

No pre-tax gains were made by the executive directors of Marconi plc in the exercise of share options during the period April 1, 2000 to March 31, 2001. No executive director of Marconi plc had any share options which lapsed during this period. No options were exercised by any of the executive directors of Marconi plc while they held office during the year ended March 31, 2001.

The table below sets forth the interests of directors of Marconi Corporation plc in options over ordinary shares in Marconi plc under the GEC and Marconi share option plans for the period April 1, 2000 to March 31, 2001.

	At April 1, 2000		Granted in year		At March 31, 2001		Exercisable	
	No.	Average exercise price pence	No.	Exercise price pence	No.	Average exercise price pence	From	To
J. I. Gordon	632,382	669.0*	52,097	670*	684,479	669.0*	Nov 2002	Nov 2010
S. Hare	49,416	265.5	—	—	49,416	265.5	Jun 1997	May 2004
	402,036	617.0*	33,582	670*	435,618	621.0*	Oct 2000	Nov 2010
D. P. Loosley......	165,942	591.0*	24,179	670*	190,121	601.0*	Jul 2001	Nov 2010
N. C. Porter	57,303	317.0	—	—	55,381	322.0	Apr 2000	Oct 2007
	63,885	745.5*	17,313	670*	81,198	729.5*	Jul 2000	Nov 2010
D. H. Reid	303,398	638.0*	50,373	670*	353,771	643.0*	Jul 2001	Nov 2010

* Exercise price exceeded market price at March 31, 2001.

Gains totaling £16,980 were made by Mr. Hare in the exercise of share options during the period April 1, 1999 to March 31, 2000 and gains totaling £64,471 were made by Mr. Porter in the exercise of share options during the period April 1, 2000 to March 31, 2001. No options were exercised by any of the other directors of Marconi Corporation plc while they held office during this period and accordingly no gains were made by those directors during this period. No director of Marconi Corporation plc had any share options which lapsed during this period.

The mid-market price of shares of Marconi plc as at March 31, 2001 was 340 pence with a range during the period from April 1, 2000 to March 31, 2001 of 340 pence to 1250 pence per share.

The Marconi Group operates a personal shareholding policy in order to assist further in aligning the interests of executives and shareholders. The policy currently requires senior executives of the Marconi Group to build up, over a period of time, a target shareholding of shares of Marconi plc with a market value equal to two times annual base salary (three times annual base salary for executive directors of Marconi plc).

Employee share plans

The Marconi Group has developed a range of employee share plans which are designed to create incentives for employees and encourage them to become long-term shareholders. Some of these plans are available to all employees, according to their country of residence. Participation in some plans is at the discretion of the remuneration committee of the board of directors of Marconi plc. The main plans are described below.

The Marconi U.K. sharesave plan

All employees of participating UK companies in the Marconi Group including full-time executive directors of Marconi plc and directors of Marconi Corporation plc are eligible to participate in the U.K. sharesave plan. Under this plan, participants are granted options to purchase shares with an exercise price not less than 80% of the market value of an ordinary share of Marconi plc on the trading day immediately before the day invitations to participate are issued. Invitations to participate are normally made during a six-week period after the announcement of the results of operations of the Marconi Group. In order to participate, each eligible participant must enter into a savings contract with a specified financial institution under which they agree to make monthly contributions, which must not exceed £250 per month in aggregate. The savings contracts will typically have three or five year terms. The number of ordinary shares of Marconi plc over which a participant is granted an option will be the number that can be acquired, at the exercise price, with the savings made plus interest on the maturity of the savings contract.

The Marconi international sharesave plan

The international sharesave plan, at the discretion of the board of directors of Marconi plc, permits employees of the Marconi Group who are resident outside the U.K. to participate in a share option plan that is substantially similar to the U.K. sharesave plan. Unlike the U.K. sharesave plan, under the international sharesave plan the savings contracts may not generate the exact amount required to exercise the options because of currency fluctuations and interest rate differences. Additional cash may be required when the options are exercised; however, any excess savings generated cannot be used to purchase additional shares. An Italian appendix to the international sharesave plan has been adopted by the board of directors of Marconi plc.

The Marconi launch share plan

Under this plan, employees of the Marconi Group at November 30, 1999 were, at the discretion of the board of the directors of Marconi plc, granted the right to receive, free of charge, up to 1,000 ordinary shares of Marconi plc, which would be exercisable provided that two conditions are met. The first condition is that the market price of an ordinary share of Marconi plc must have doubled from 801.5 pence to £16.03 during the period between November 30, 1999 and November 30, 2004. The second condition is that a participant must normally remain in employment until November 30, 2002 or, if later, at the time that the first condition is met.

The Marconi long term incentive plan

Under the long term incentive plan, participants may be granted performance-related awards entitling them, at the end of a three-year period, to be granted a right to call for a number of ordinary shares of Marconi plc without payment based on corporate performance of the business in which they work and of the Marconi Group as a whole over that period. Any right so granted will normally become exercisable in three equal tranches. The first tranche will become exercisable immediately, and the second and third tranches will normally become exercisable on the first and second anniversaries of the date of grant. All full-time employees of the Marconi Group, executive directors of Marconi plc and directors of Marconi Corporation plc are eligible to participate in the long-term incentive plan, at the discretion of the remuneration committee of the board of directors of Marconi plc. No new issue shares may be used to satisfy options under this plan.

The Marconi 1999 stock option plan (as amended on July 18, 2001)

All employees of the Marconi Group, and executive directors of Marconi plc and directors of Marconi Corporation plc whose terms of service require them to work at least 25 hours per week, are eligible to be granted options under the option plan at the discretion of the remuneration committee of the board of directors of Marconi plc. Options may normally only be granted within six weeks after the announcement of the results of operations of the Marconi Group for any period, or any day on which the remuneration committee determines that exceptional circumstances justify a grant. In addition options may be granted outside these periods (but not during close periods) to newly recruited employees and employees who have been promoted. No payment is required for the grant of an option. The remuneration committee of the board of directors of Marconi plc has the discretion to impose performance conditions appropriate to the different geographic markets in which Marconi operates. Performance conditions may be imposed either before grant or as a condition of exercise. The remuneration committee of the board of Marconi plc may only grant options if it is satisfied with Marconi plc's performance in terms of key financial indicators, such as Marconi plc's adjusted average earnings per share growth over the three financial years prior to grant, unless the remuneration committee of the board of Marconi plc considers that a grant is essential for recruitment or retention purposes. Options will entitle the option holder to acquire ordinary shares of Marconi plc at a price per share determined by the remuneration committee of the board of directors of Marconi plc, which must not be less than the market value of an ordinary share of Marconi plc on, or on a date shortly before, the date of grant. When granting an option, the remuneration committee of the board of Marconi plc will specify the date or dates on which the option will generally first become exercisable. It is intended that options under the plan will normally become exercisable as to 25% on the first anniversary of grant, with 6.25% becoming exercisable after each subsequent quarter (so that the option is exercisable in full by the fourth anniversary of grant). All options will lapse on the tenth anniversary of grant.

The Marconi associated companies share option plan

The associated companies option plan enables options to be granted to executives of companies in which the Marconi Group has a direct or indirect equity interest of between 20% and 50%. The terms of the associated companies option plan are substantially similar to the Marconi 1999 share option plan with the exception of performance criteria and vesting schedules. Options granted to participants will not normally be exercisable unless earnings per share over a period of at least three financial years has exceeded the growth in the U.K. Retail Price Index by at least an average of 3% per year, and options are normally exercisable between the third and tenth anniversaries of grant subject to satisfaction of the performance condition.

The Marconi phantom option plan

In June 1999, the remuneration committee of the board of GEC adopted the phantom option plan for the purpose of granting incentives relating to any increase in the value of GEC's equity, primarily to executives and employees of Reltec and FORE Systems following the acquisition of those businesses. From November 1999, Marconi plc has operated the phantom option plan and awards have been made by reference to ordinary shares of Marconi plc and previous awards were adjusted so that they related to ordinary shares of Marconi plc on a value-for-value basis. A phantom option is similar to a share option except that it is a cash-based award granted in relation to a stated number of phantom units, each of which has the same economic value as a designated ordinary share. Upon exercise of a phantom option, the holder is entitled to receive a cash payment equal to the difference between the base price of the phantom option (normally corresponding to the market value of a Marconi ordinary share at the time the phantom option is granted) and the market value of an ordinary share of Marconi plc on the date of exercise. Under the rules of the phantom option plan, Marconi plc may give notice to participants that it elects to substitute options to acquire real ordinary shares of Marconi plc for phantom options. If such an election is made, a participant will be required on exercise to pay an amount equal to the base price of the phantom options to Marconi plc and will receive Marconi plc ordinary shares. No new issue shares may be used to satisfy options under this plan.

The Marconi employee share purchase plan for employees in North America

All part-time and full-time employees of the Marconi Group's North American businesses are eligible to participate in the employee share purchase plan. Under this plan, employees are able to acquire ordinary shares with voluntary, after-tax payroll deductions in a manner which qualifies for favorable tax treatment under the provisions of section 423 of the U.S. Internal Revenue Code. The employee share purchase plan enables employees to purchase shares at a price no less than the lower of 85% of the closing price of a share on the offering date and 85% of the closing price of a share on the purchase date. The board of directors of Marconi plc may apply a smaller discount than 15% at its discretion. Purchase rights are granted at the beginning of an offering period which may be a period of up to 27 months, or up to five years if the purchase price is determined solely by reference to the closing price of a share on the purchase date. No employee will be permitted to purchase shares pursuant to the employee share purchase plan at a rate which exceeds $25,000 in any calendar year or a lower limit as Marconi plc may specify.

Marconi restricted share plan

The restricted share plan was introduced to enable Marconi to award share based incentives to employees of companies which the Marconi Group acquires. The remuneration committee of the board of Marconi plc has discretion to make awards of restricted stock which entitle the employee to call for shares at nil cost once the stock has vested. The stock will vest either at certain specified times or subject to the satisfaction of performance conditions. In practice the performance conditions imposed generally relate to specific integration targets or business goals of the acquired company. Once the restrictions have ended or the conditions been met, the restricted share vests and will either be automatically released (in the case of US employees) or can be called for by the employee (in all other jurisdictions). No new issue shares may be used to satisfy awards under this plan.

Marconi special 2001 stock option plan

Under the special 2001 stock option plan, options may in special circumstances be granted to employees of the Marconi Group, and directors of companies in the Marconi Group (excluding directors of Marconi plc) who are required to work at least 25 hours a week, at the discretion of the remuneration committee of the board of Marconi plc. This plan was introduced for the benefit of employees who were to transfer out of the Marconi Group as part of the outsourcing program and as a result lose their existing option entitlements. Options may normally be granted within six weeks after the announcement of results of operations of the Marconi Group for any period, or any day on which the remuneration committee determines that exceptional circumstances justify a grant. Options granted to participants will normally be exercisable between the third and tenth anniversaries of grant or such other period as may be specified by the remuneration committee. We have granted options to approximately 850 employees under this plan. Although we do not currently intend to make future grants under this plan, the rules of the plan permit us to do so before May 17, 2011. The exercise of options will not be subject to the satisfaction of a corporate performance target. Options will entitle the option holder to acquire ordinary shares of Marconi plc at a price per share determined by the remuneration committee of the board of Marconi plc, which must be not less than the market value of an ordinary share of Marconi plc on the date of grant. No new issue shares may be used to satisfy options under this plan.

Other employee share plans

There are additional schemes referred to in Note 15 to consolidated financial statements included in the annual report which relate to the share option plans of companies acquired by the Marconi Group. These plans are closed and no future grants will be made under them. The original plan rules govern the respective share options which will be satisfied with Marconi plc shares upon exercise.

SHARE OWNERSHIP

The directors of Marconi Corporation plc do not own shares of Marconi Corporation plc. All of the shares of Marconi Corporation plc, which amounted to 2,866,250,735 as of September 24, 2001, are owned by Yeslink Limited, a U.K. company that is wholly owned indirectly by Marconi plc.

The table below sets forth as of September 24, 2001, the security ownership in Marconi plc of each of the directors of Marconi plc, and all of the directors and executive officers of Marconi plc as a group and all directors of Marconi Corporation plc as a group. These shares do not have different voting rights.

Name of beneficial owner	Number of shares owned	Percentage of shares owned
D.C. Bonham	106,000	0.0038002
M.J. Donovan	170,866	0.0061257
S. Hare	30,121	0.0010798
R. I. Meakin	45,303	0.0016241
M.W.J. Parton	128,122	0.0045933
Sir William Castell	10,000	0.0003585
The Rt. Hon. The Baroness Dunn	10,000	0.0003585
Sir Alan W. Rudge	20,000	0.0007170
Hon. Raymond G.H. Seitz	11,099	0.0003979
N. J. Stapleton	21,572	0.0007733
All directors and executive officers of Marconi plc as a group	836,556	0.0299913
All directors of Marconi Corporation plc as a group	256,529	0.0091968

For a description of options granted to directors and executive officers of Marconi plc and directors of Marconi Corporation plc, see ''—Directors, Senior Management and Employees—Directors' share options''.

For a description of arrangements involving employees of the Marconi Group in the capital of Marconi plc, see ''—Directors, Senior Management and Employees—Employee share plans''.

EMPLOYEES

The following table shows the total number of full-time employees of the Marconi Group worldwide for the periods indicated (excluding share of employees in joint ventures):

As at March 31,		
1999	2000	2001
(thousands)	(thousands)	(thousands)
32	44	47

The following table shows the average number of full-time employees of the Marconi Group by business and geographic location for the periods indicated (excluding employees in the medical systems business and other discontinued operations):

	Year ended March 31,		
	1999	2000	2001
		(thousands)	
Employees by business			
Communications businesses	17	28	37
Data Systems	2	2	2
*Other	13	14	8
	32	44	47
Employees by location			
United Kingdom	17	17	16
The Americas	3	13	15
Rest of Europe	6	7	12
Africa, Asia and Australasia	6	7	4
	32	44	47

* In line with segment information presented in Note 19 to the consolidated financial statements included in this annual report, which includes employees of commerce systems.

Since March 2001 we have taken a number of steps to reduce our workforce. On April 10, 2001, we announced a global workforce reduction of 3,000 employees which subsequently resulted in 4,000 employees leaving the Marconi Group. On July 4, 2001, we announced another global reduction of 3,000 employees, plus the reduction of 1,000 management positions. On September 4, 2001, we announced our intention to reduce headcount by a further 2,000 employees in addition to the 8,000 employees previously announced. In addition, we have agreed to outsource our manufacturing facilities in the United Kingdom, the United States, Italy and Germany to Jabil Circuit. The transfer of employees in the United Kingdom and Italy and in certain factories in the United States has occurred and further transfers are expected to close in 2002. We expect our outsourcing program to result in a transfer of a total of approximately 2,200 Marconi employees to Jabil Circuit. For a discussion of our restructuring plans, see ''Item 4—Information on the Company—Business Overview—Operational review''.

We require a sufficient number of highly skilled technology specialists. The supply of such employees is highly limited, and competition to hire and retain them is consequently and increasingly intense. Competition raises the cost of hiring and retaining these employees and increases employee turnover as competitors seek to lure away employees with particularly rare or sought-after skills. Where necessary, we seek to recruit skilled high-technology workers and believe that we offer compensation, benefits and opportunities for development and advancement which will attract and retain a sufficient number of such employees.

A number of our employees are collectively represented by and are members of trade unions and works councils. Membership and representation varies from country to country, and we have entered into various collective bargaining agreements. It is our practice to renew or replace our various labor arrangements relating to continuing operations as and when they expire and we are not aware of any material arrangements whose expiry is pending and which is not expected to be satisfactorily renewed or replaced in a timely manner. We have not experienced any material work stoppages or strikes in the past three fiscal years. Although trade unions, from time to time, have publicly expressed dissatisfaction with our plans to reduce our workforce, we believe that relations with our employees are generally good.

Item 7. *Major Shareholders and Related Party Transactions*

MAJOR SHAREHOLDERS

As at September 24, 2001, there were 755 registered holders of ordinary shares of Marconi plc with addresses in the United States. These U.S. ordinary shareholders collectively held 8,004,083 ordinary shares, or approximately 0.28695% of the total issued share capital of Marconi plc as at September 24, 2001.

As at September 24, 2001, there were 252 registered holders of American depositary receipts of Marconi plc. Each ADR issued represents two ordinary shares. Of these registered ADR holders, 252 have addresses in the United States. One of the registered ADR holders is The Depository Trust Company, which represents the total number of ADRs held in book-entry form. The ADR holders collectively held 32,929,659 ADRs, or approximately 2.36111% of the total issued share capital of Marconi plc as at September 24, 2001.

To our knowledge, no person beneficially owns, directly or indirectly, 3% or more of the outstanding voting shares of Marconi plc. Yeslink Limited, an indirect wholly-owned subsidiary of Marconi plc, holds 100% of the outstanding voting shares of Marconi Corporation plc. There are no holders of equity securities of Marconi Corporation plc in the United States. Shareholders of Marconi plc do not have different voting rights.

To our knowledge as of the date of this annual report, neither Marconi plc nor Marconi Corporation plc is owned or controlled, directly or indirectly, by another corporation (in the case of Marconi Corporation plc, other than Marconi plc), by any foreign government or by any other natural or legal person or persons, severally or jointly.

To our knowledge, as of the date of this annual report, there are no arrangements the operation of which may at a subsequent date result in a change in control of Marconi plc or Marconi Corporation plc.

RELATED PARTY TRANSACTIONS

The following is a summary of certain transactions with related parties which were entered into or were in effect from April 1, 2000 up to the date of this annual report.

All the contracts and other arrangements with Atlantic Telecom, Alstom and the joint ventures described below have been on arm's-length terms. We may enter into arrangements with these companies in the future, which will be on arm's-length terms.

Atlantic Telecom

We own 19.7% of the ordinary shares of Atlantic Telecom, a local exchange carrier with networks in Glasgow, Edinburgh, Aberdeen and Dundee. We originally acquired 27% of the ordinary shares of Atlantic Telecom upon the formation of a strategic partnership with them in December 1999 pursuant to which:

- Atlantic Telecom acquired from us, in return for shares in Atlantic Telecom valued at £122 million at the time the strategic partnership was formed, 20-year exclusive rights to use dedicated fiber on a national broadband fiber optics network, along with certain pre-paid contractual commitments from us to provide software, equipment and maintenance necessary for the fiber to carry telecommunications traffic;
- We invested £60 million in Atlantic Telecom; and
- We provided a £50 million vendor facility to Atlantic Telecom to finance purchases of equipment from us over a three-year period.

In June 2000, our 27% interest in Atlantic Telecom was diluted to a 19.7% interest as a result of Atlantic Telecom's acquisition of First Telecom.

Alstom

We owned approximately 24% of Alstom until February 2001, when we disposed of 18% through a public offering of shares. Upon the initial public offering of Alstom in 1998 (prior to which we had a 50% stake in GEC Alsthom, as it was called prior to the initial public offering) we entered into a transitional services agreement providing for the termination of existing group services provided by us to Alstom except that we would continue to provide transitional services in the fields of research and development, real estate management, bulk purchasing, and environmental advice and insurance. These transitional services are now largely completed. From time to time in the ordinary course of business, we supply products or services to Alstom and Alstom supplies products or services to us. In June, 2001, we disposed of our remaining interest in Alstom.

Comstar

In December 2000, we sold our interest in a 50-50 joint venture with MGTS (Moscow's telephone network operator) to Metromedia International Group for approximately $60 million. The joint venture was formed in 1989 under the name Comstar. Our communications networks business has supplied the joint venture with equipment and services since formation to a value of approximately $70 million.

Buzton

We have a joint venture with two Uzbekistan state telecommunications agencies. We have a 50% stake in the joint venture which was formed in 1994 under the name Buzton. Our communications networks business has supplied the joint venture with equipment and services since formation to a value of less than $5 million.

Marconi Medical Financial Group (formerly known as Picker Financial)

Picker Financial is a 50-50 joint venture between our medical systems business and CIT Financial established for the purpose of leasing medical systems' equipment to customers and financing the purchase of equipment by customers. On March 31, 2000, Marconi Medical Systems sold an option to DVI Financial Services, Inc. for $4 million to purchase CIT Financial's interest in the joint venture. We agreed to sell our medical systems business to Philips Electronics in July 2001. The transaction is subject to standard closing conditions, including regulatory approvals, and, subject to these conditions being met and approvals being received, is expected to close in the fourth calendar quarter of 2001.

Sir Alan Rudge

Sir Alan Rudge, a non-executive director of Marconi and formerly a non-executive Chairman of Metapath Software International, Inc. (MSI), held a substantial number of options from MSI. On June 15, 2000, he received from MSI approximately $5.3 million in respect of the cancellation of his options, which amount represented the difference between the offer price in the MSI transaction ($17.50), and the exercise price of such options. See ''Item 4—Information on the Company—History and Development of the Company—Modern history.''

Marconi (Malaysia) SDN BHD

Our communications networks business owns a 30% shareholding in Marconi (Malaysia) SDN BHD, a business that sells and installs telecommunications equipment. During the fiscal year ended March 31, 2001, we supplied communications networks products totaling £33 million to this company at arm's-length prices.

C-Soft

We have a 20% stake in C-Soft, a software development firm, which we acquired in December 2000. Since this investment, we have purchased $2.1 million of software development services at arm's-length prices.

Xcert

On February 12, 2001, we sold our 25% interest in Xcert International, Inc. (Xcert) to RSA Security, Inc. On September 29, 2000 and December 29, 2000, one of our businesses, Marconi SecurTrust, purchased software and related services from Xcert totaling $0.6 million.

Media.Net

We have a 10% ownership interest in Media.Net Communications, Inc. (Media.Net), a business which supplies high speed fiber-optic networks and related products and services to the media and entertainment industry. Our communications networks and communications services businesses supplied Media.Net with equipment and services totaling $0.5 million during the fiscal year ended March 31, 2001.

Ultramast

We formed a joint venture company with Railtrack Telecom Services Limited on April 26, 2001 to support the deployment of next generation broadband wireless networks. Marconi and

Railtrack each have a 50% interest in the joint venture company. Albany Partnership Ltd. (APT), our wholly-owned subsidiary, has a consultancy agreement with Ultramast to provide it with telecommunications consultancy services to design, construct and maintain masts for the next generation networks. Ultramast also has an agreement with ipsaris under which ipsaris is nominated as the preferred supplier for connectivity for the telecommunications network.

Confirmant

Confirmant is a 50-50 joint venture between Marconi Corporation plc and Oxford Glyco Sciences (UK) Limited (OGS), a wholly-owned subsidiary of Oxford Glyco Sciences plc. Confirmant was formed in June 2001 for the purpose of completing and then offering for subscription a proteomic database and for providing managed hosting services to the biotech sector. We have entered into an agreement to provide managed hosting services to the joint venture.

Item 8. *Financial Information*

LEGAL PROCEEDINGS

We are not and have not been engaged in, nor (so far as we are aware) do we have pending or threatened by or against us, any legal or arbitration proceedings which may have or have had in the recent past (including at least the 12 months immediately preceding the date of this annual report) a significant effect on our financial position as a whole, except as set out below:

- Fore Systems is a defendant in a lawsuit filed by Bell Communications Research, Inc. (formerly known as Bellcore, now named Telecordia Technologies) on October 14, 1998 in the United States District Court for the District of Delaware. Telecordia alleges that Fore Systems has infringed and continues to infringe four patents owned by Telecordia, and seeks unspecified damages for past infringement and an injunction against future infringement. Fore Systems has denied infringement and asserted the affirmative defenses of invalidity, unenforceability, laches, equitable estoppel, implied license, misuse and unclean hands. In addition, Fore Systems has counterclaimed for a declaratory judgment on non-infringement, invalidity, unenforceability, laches, equitable estoppel, implied license, misuse and unclean hands and asserted affirmative claims seeking damages for reformation of contract based on fraud, breach of the covenant of good faith and fair dealing, negligent misrepresentation and common law unfair business practices and competition. Discovery in this case has closed. The court conducted a claim construction hearing in late August 2000 and subsequently entered an order construing the claims of the patents in suit. Bellcore, taking the position that it could not, given the court's patent claim construction, prevail on its claims of infringement at trial, moved the court to enter an order finding that Fore Systems had not infringed the patents in suit so that the case would be procedurally postured for appeal. Fore Systems subsequently moved the court to require that Bellcore identify which of the patent claim elements construed by the Court it contends were in error and which preclude Bellcore from proving infringement. That motion has been fully briefed and is pending before the Court.

- Fore Systems is a defendant in a second lawsuit filed by Telecordia on June 8, 1999 in the United States District Court for the District of Delaware. Telecordia's second lawsuit alleges that Fore Systems has infringed two additional Telecordia patents. Fore Systems has denied infringement and asserted the affirmative defenses of invalidity, unenforceability, laches, equitable estoppel, implied license, misuse and unclean hands. In addition, Fore Systems has counterclaimed for a declaratory judgment on the issues of non-infringement, invalidity and unenforceability and has alleged that Telecordia infringed one of Fore Systems' patents. Discovery in this case has closed. The plaintiff has filed summary judgment motions which are pending before the court. The case was scheduled for trial in November 2000; however, all proceedings have been stayed pending the outcome of the proceedings in the first lawsuit described above.

- On October 4, 2000, Alcatel and Alcatel CIT, both French companies, issued a claim in the U.K. against Marconi plc, Marconi Communications Limited and Marconi Communications SpA, alleging infringement of two patents held by Alcatel group companies. In connection with one of these patents, Alcatel issued a claim in Italy against Marconi Communications SpA and Marconi Sud SpA, alleging infringement and seeking an injunction to restrain further infringement. The Italian claim was rejected by the Court of first instance on December 18, 2000, and no appeal was made against this decision. Alcatel has recently discontinued the action in the U.K. in connection with this one patent. The remaining patent in suit relates to the operation of elements of SDH telecommunications transmission equipment. In addition to claims for damages, Alcatel is seeking redress by demanding cessation of production of the allegedly infringing elements of SDH equipment. Alcatel reserves the right to enforce such demand by means of injunction. Marconi has denied liability under the single Alcatel patent in suit.

- Fore Systems, together with six of its former directors and officers, are defendants in a consolidated class action lawsuit filed in the United States District Court for the Western District of Pennsylvania on behalf of a class of persons (other than defendants and their respective affiliates) who purchased Fore Systems securities during the period July 19, 1996 through April 1, 1997, inclusive. Plaintiffs allege that, during this period, Fore Systems misrepresented material facts relating to its results of operations, competitive position and future prospects and concealed its alleged deterioration, declining growth and inability to compete successfully until the April 1, 1997 preliminary release of Fore Systems' projected results of operations for the fiscal year ended March 31, 1997. Plaintiffs also allege that Fore Systems' financial statements for the fiscal quarters ended June 30, September 30 and December 31, 1996 improperly recognized revenues on sales to certain customers. These alleged misrepresentations are said to constitute violations of the anti-fraud provisions of Section 10(b) of the U.S. Securities Exchange Act of 1934 and, as to the individual defendants, of Section 20(a) of the U.S. Securities Exchange Act of 1934. Plaintiffs' consolidated complaint seeks unspecified damages, counsel and expert fees and other costs of suit and other unspecified relief. Defendants have denied all allegations of wrongdoing. Discovery has concluded, and both plaintiffs and defendants have filed their respective pretrial statements. No date has been set for the filing of dispositive motions or for trial.

- Marconi Corporation plc, Fore Systems and 13 persons who were then directors and/or senior executives of Fore Systems are defendants in a consolidated class action lawsuit filed in the United States District Court for the Western District of Pennsylvania on behalf of the public stockholders of Fore Systems (other than defendants and their respective affiliates) relating to Marconi Corporation's tender offer for Fore Systems' shares, Fore Systems' grant of stock options to certain of the individual defendants and the treatment afforded the individual defendants' stock options in that tender offer and in the merger agreement between Marconi Corporation and Fore Systems. Plaintiffs allege that, in violation of the anti-fraud provisions of Sections 14(e) and 10(b) of the U.S. Securities Exchange Act of 1934, Fore Systems' Schedule 14D-9 failed to disclose the material facts concerning the individual defendants' stock options and the Fore Systems' board of directors' determination that the terms of the tender offer and proposed merger were fair to Fore Systems' public stockholders. Plaintiffs further allege that the individual defendants' conduct violated Section 20(a) of the U.S. Securities Exchange Act of 1934 and that those defendants violated their fiduciary duties in connection with the grant of stock options and the negotiation and disclosure of the terms of the merger agreement. Plaintiffs further allege that Marconi Corporation, as part of the tender offer, agreed to cash out options held by the individual defendants and that such agreement constituted (1) additional consideration in violation of SEC Rule 14d-10 and (2) a ''side purchase'' in violation of SEC Rule 10b-13. Defendants have denied all allegations of wrongdoing. Plaintiffs' consolidated complaint seeks unspecified damages, counsel and expert fees and other costs of suit and other unspecified relief. The parties are engaged in the late stages of general discovery. No date has been set for the filing of dispositive motions or for trial.

- Marconi plc and three of its current or former officers are defendants in five substantially identical class actions filed in the United States District Court for the

Western District of Pennsylvania on behalf of a putative class of all persons (other than defendants and their respective affiliates) who purchased American depository receipts of Marconi plc between April 11, 2001 and July 4, 2001, inclusive. Plaintiffs in these actions allege that, during this period, Marconi plc and the individual defendants falsely reassured investors that Marconi's revenues would rise during the year and that its geographic and business mix left it relatively immune to the economic downturn affecting its competitors. Plaintiffs further allege that on July 4, 2001 defendants belatedly disclosed that tougher trading conditions in the quarter ended June 30, 2001 indicated that Marconi plc's sales and operating profits for its fiscal year ended March 31, 2002 would fall significantly from the levels achieved in fiscal 2001. Defendants' alleged misrepresentations are said to violate the anti-fraud provisions of Section 10(b) of the U.S. Securities Exchange Act of 1934 and, as to the individual defendants, Section 20(a) of the U.S. Securities Exchange Act of 1934. Plaintiffs seek class certification, an award of unspecified damages, counsel and expert fees and other costs of suit and other unspecified relief. Plaintiffs have moved for consolidation of these actions and for designation of lead plaintiffs. Following the consolidation of these actions, plaintiffs are expected to file a consolidated amended complaint. Defendants' obligation to respond to these complaints has been deferred.

We intend to defend all claims vigorously. While we believe we have meritorious defenses, the duration and outcome of the litigation are not predictable at this point.

DIVIDEND POLICY

Marconi plc and Marconi Corporation plc are subject to legal restrictions in the United Kingdom on the amount of dividends that they can pay shareholders of Marconi plc and Marconi Corporation plc. In particular, the U.K. Companies Act 1985 provides that a U.K. public company may pay dividends only if:

- the amount of its net assets is not less than the aggregate of its called-up share capital and undistributable reserves; and
- the payment does not reduce the amount of net assets to an amount that is less than the aggregate of its called-up share capital and undistributable reserves.

In addition, Marconi plc and Marconi Corporation plc may only declare a dividend if sufficient distributable profits are available for this purpose. Distributable profits are accumulated realized profits not previously distributed or capitalized less accumulated realized losses not previously written off.

On September 4, 2001, we announced that, in light of Marconi's revised sales and profit expectations and our target to reduce net debt by March 2002, our board of directors decided to halt dividend payments for the current financial year. The board of directors will review future dividend policy at the appropriate time in the light of current trading results for the Group.

For additional discussion of our dividend policy, see ''Item 10—Additional Information—Memorandum and Articles of Association—Dividends''.

SIGNIFICANT CHANGES

Except as disclosed in ''Item 4—Information on the Company—Business Overview'', there has been no significant change in the financial position of Marconi plc since March 31, 2001.

Item 9. ***The Offer and Listing***

STOCK PRICE HISTORY

Since November 30, 1999, the ordinary shares of Marconi plc have been listed on the London Stock Exchange. Since October 17, 2000, the ADRs of Marconi plc have been listed on the NASDAQ National Market. The following table summarizes information regarding prices and trading on the London Stock Exchange and the NASDAQ for the periods indicated:

	London Stock Exchange (Sterling pence)		NASDAQ (U.S. dollars)	
Fiscal year	**High**	**Low**	**High**	**Low**
April 1, 2000 to March 31, 2001	1250.0	340.0	—	—
Fiscal quarter	**High**	**Low**	**High**	**Low**
April 1, 2000 to June 30, 2000	975.0	669.0	—	—
July 1, 2000 to September 30, 2000	1250.0	875.0	—	—
October 1, 2000 to December 31, 2000	950.0	646.0	30.00*	18.00*
January 1, 2001 to March 31, 2001	785.0	340.0	23.50	9.53
April 1, 2001 to June 30, 2001	424.0	237.0	12.84	6.75

* Represents the period October 17, 2000 to December 31, 2000.

Month	High	Low	High	Low
March 2001	516.0	340.0	15.63	9.53
April 2001	409.5	300.0	11.92	8.63
May 2001	424.0	350.5	12.84	10.00
June 2001	375.0	237.0	11.21	6.75
July 2001	263.0	86.0	7.75	2.48
August 2001	101.0	53.0	3.10	1.52

On September 27, 2001, the closing price of ordinary shares of Marconi plc on the London Stock Exchange was 17.0 pence. On September 27, 2001, the closing price of ADRs of Marconi plc on the NASDAQ was $0.53.

We were obliged under the rules of the U.K. Listing Authority (UKLA) to announce on July 4, 2001 the agreement to sell our medical systems business to Philips Electronics. In order to prevent a false market in our shares, we could not permit trading in our shares on the basis of an announcement of a major disposal without also informing the market of our current trading position. On that date, however, our board of directors had not yet completed its review of the Group's trading position or approved the trading announcement. For this reason, on July 4, 2001, we requested a suspension in the trading of our shares before the opening of the market on that day. The suspension of trading took place before the markets opened in London on July 4, 2001. The trading update was issued after the market closed in London on that day, and trading in our shares in London resumed at the beginning of trading on July 5, 2001.

The UKLA has initiated inquiries concerning the events leading up to the suspension of trading in Marconi plc's shares on the London Stock Exchange on July 4, 2001 and Marconi plc's trading updates of July 4, 2001 and September 4, 2001. The UKLA has requested documents and has begun to interview our employees. If the UKLA determines that we have breached its listing rules, it may issue a public censure.

In September 2001 FTSE International Ltd., which calculates and maintains indices to illustrate the performance of various sectors of the UK and European markets, announced that as of the close of business on September 21, 2001 Marconi plc would no longer be included in the FTSE 100 Index. This index includes the 100 largest companies in the United Kingdom based on market capitalization. As a result of the substantial decline in market capitalization, Marconi plc is no longer qualified for inclusion in this index. As of September 24, 2001, Marconi plc is included in the FTSE 250 Index.

MARKETS

The principal trading market for the ordinary shares of Marconi plc is the London Stock Exchange. The ADRs of Marconi plc are traded on the NASDAQ National Market.

Item 10. ***Additional Information***

MEMORANDUM AND ARTICLES OF ASSOCIATION

The rights of the holders of our shares are set out in the Memorandum and Articles of Association of Marconi plc or are provided for by applicable English law. A copy of the Memorandum and Articles of Association of Marconi plc is filed as Exhibit 1.1 to this annual report. A copy of the Memorandum and Articles of Association of Marconi Corporation plc is incorporated to this annual report by reference to the registration statement on Form F-1 filed with the SEC on August 25, 2000. Directions on how to obtain copies of the Memorandum and Articles of Association are provided under ''—Documents on Display''.

The following is a summary of the material terms of the Memorandum and Articles of Association of Marconi plc, of which the Articles of Association were last amended on July 18, 2001, the Memorandum and Articles of Association of Marconi Corporation plc have not been amended since they were filed with the SEC on August 25, 2000, and for this reason it is not summarized below or included as an exhibit to this annual report.

General

We are registered in England and Wales, No. 3846429. Our principal objects are set out in full in Clause 4 of our Memorandum of Association and include carrying on the business of, and performing all the functions of, a holding company.

Directors

Subject to the requirements of English company law, and so long as the director has disclosed to the board of directors the nature and extent of any material interest the director may have:

- a director may be a party to any transaction or arrangement with us;
- a director or the director's firm may act in a professional capacity for us, except as auditor and receive payment for such services;
- a director may also be a director or officer of or party to any transaction or arrangement with any company promoted by us or in which we are interested; and
- a director will not be liable to account for any benefit the director may have received from such a position or transaction or arrangement.

Except as otherwise provided by our Articles of Association, a director must not vote at any board or committee meeting on any resolution of the board of directors concerning a matter in which the director (and any persons connected with him) has a material interest. This prohibition does not apply if the director's interest arises only because the resolution concerns one or more of the following:

- the giving of any guarantee, security or indemnity for money lent, or obligations incurred by the director or any other person at our request or for our benefit;
- the giving of any guarantee, security or indemnity for a debt or obligation of ours or any of our subsidiary undertakings for which the director has assumed responsibility under a guarantee or indemnity or by the giving of security;

- any contract arrangement, transaction or proposal concerning an offer of our or any of our subsidiary undertaking's shares, debentures or other securities in which offer the director might be entitled to participate as a holder of securities;
- any contract arrangement, transaction or proposal concerning any other company in which the director or any person connected with him is interested directly or indirectly and whether as an officer, shareholder, creditor or otherwise so long as the interest held represents less than one per cent of:

  (1) the equity share capital of such company; or

  (2) the voting rights available to shareholders of such company.
- any contract arrangement, transaction or proposal for the benefit of our or any of our subsidiary undertaking's employees which awards the director any privilege or benefit which is not generally awarded to the employees to whom such arrangement relates; and
- any contract arrangement, transaction or proposal concerning the purchase or maintenance of liability insurance for any director or officer.

As described under ''Item 6—Directors, Senior Management and Employees—Board system'', the remuneration committee makes decisions on behalf of the board of directors on the contracts of service and remuneration packages of executive directors and the chairman. The fees of non-executive directors must not exceed in aggregate £500,000 per annum or such larger sum as Marconi plc may determine by ordinary resolution. However, subject to this upper limit, each non-executive director is paid a fee determined by the board. A non-executive director who serves on any committee of the board, and by request of the board goes or resides abroad for any purpose of Marconi plc or who performs extra or special services may be paid such extra remuneration by way of salary, commission or otherwise as the board determines.

The board of directors can appoint any of their number to be directors. The remuneration of executive directors is determined by the board and can take any form.

The board of directors have an unrestricted power to exercise all of the powers of Marconi plc to borrow money, guarantee, indemnify, mortgage or charge its undertaking, property, assets and uncalled capital and issue debentures and other securities for any debt, liability or obligation of ours or of any third party.

At every annual general meeting of shareholders, one-third of the directors (or the nearest to one third if the number of directors is not three or a multiple of three) are required to retire from office although a retiring director may be re-appointed if willing to act. In addition, any director who has been in office for more than three years since his last appointment or reappointment is required to retire. Subject to the provisions of U.K. company law and to the provisions of the Articles of Association, the directors to retire at an annual general meeting are those who have been in office the longest. If a vacancy is not filled at a meeting at which a director retires by rotation or otherwise then, if the retiring director is willing to act, he is deemed to be reappointed as a director unless:

- the meeting resolves not to fill the vacancy; or
- the resolution to reappoint the director concerned is put to the vote and lost.

Directors are required to retire from office at the annual general meeting after which he or she reaches 70 years of age, although such director may be reappointed as a director on an annual basis after reaching 70 years of age.

A director is not required to hold any shares in our capital in order to be qualified as a director of Marconi plc.

We are permitted to send notices of board meetings to directors by means of electronic communication. Resolutions of the directors may be made by means of electronic communication.

Share Capital

Our authorized share capital is £300,000,000. It is divided into 6,000,000,000 ordinary shares of 5 pence each.

The Articles of Association do not contain any restrictions on the rights of non-resident or foreign shareholders to hold or exercise voting rights attaching to any ordinary shares.

We or the board, if authorized by shareholders, may issue new shares with such rights and restrictions as the shareholders or the board consider appropriate. The board may issue up to 5% of our issued share capital for cash without shareholder approval. In addition, the board, if authorized by the shareholders, may issue shares for cash to persons who are not currently shareholders without first offering such shares to existing shareholders.

The board may issue share warrants for any fully paid shares. Any share represented by such a warrant is transferable by delivery of the warrant relating to it. The board may provide for the payment of dividends or other moneys on the shares represented by the warrant by coupons or otherwise. The board may determine and vary:

- the conditions on which the share warrants are issued;
- the conditions on which a new warrant or coupon is issued in place of worn-out, defaced, lost or destroyed warrants or coupons;
- the conditions on which the bearer will be entitled to attend and vote at general meetings; or
- the conditions on which a warrant may be surrendered and the name of the bearer entered in the register in respect of the shares specified in the warrant.

The board may permit shares to be held in uncertificated form. Uncertificated shares are traded using CREST, which is the electronic settlement system in the United Kingdom.

Variation of rights

If the share capital is divided into different classes of shares, the rights of any class of shares may be changed or taken away:

- with the written consent of the holders of three-quarters of the holders of shares of that class; or
- with the approval of an extraordinary resolution passed at a separate meeting of holders of those shares.

The quorum for a meeting to change or take away rights of any class of shares is two persons, present in person or by proxy, holding one-third of the nominal amount of the issued shares of such class. A consent to change or take away any class of shares can be contained in an electronic communication.

Lien and forfeiture

If we were to issue partly paid shares, the board has rights to collect any amounts due for such partly paid shares. We cannot have a lien over fully paid shares.

Transfer of shares

Our shares are freely transferable. A transfer of shares is made by an instrument of transfer. The instrument of transfer must be signed by or on behalf of the transferor and, unless the share is fully paid, by or on behalf of the transferee. The transferor remains the holder of the relevant shares until the name of the transferee is entered in the share register. If any shares are not represented by share certificates, then transfers of such shares may also be made through CREST without a written instrument in accordance with English company law.

The board may refuse to register transfers of shares which are not fully paid up, but only if the refusal does not prevent dealings in the shares from taking place on an open and proper basis.

Subject to the requirements of the London Stock Exchange, the board may also refuse to register a transfer of shares if:

- it is not deposited duly stamped (if stamp duty is payable) at our registered office with the relevant share certificate;
- it is for more than one class of shares; and
- it transfers the shares to more than four transferees.

If the board refuses to register a transfer of shares, it must send the transferee notice of the refusal within two months.

Transmission of shares

If a shareholder dies, his survivor (if he was a joint shareholder) or his personal representatives (if he was a sole shareholder) will become entitled to his shares. Such person may either decide to become the shareholder himself or may nominate someone else to become a shareholder.

Alteration of share capital

Shareholders must approve increases in share capital through an ordinary resolution. In addition, the following changes in share capital must be approved by ordinary resolution of the shareholders:

- share consolidation and share splits;
- subdivisions of shares; and
- cancellations of shares which have not been taken or agreed to be taken by any person.

Reductions in our share capital, capital redemption reserve and any share premium account must be approved by a special resolution of the shareholders and must be confirmed by an order of the court. In addition, U.K. company law sets out conditions and procedures which must be followed when reducing share capital, the capital redemption reserves and any share premium account.

Purchase of own shares

We can purchase any issued shares provided that we comply with English company law.

Meetings of shareholders

English company law allows shareholders to exercise their power to decide on corporate matters at general meetings. We are required to hold a general meeting annually, at intervals of not more than 15 months, to:

- consider the statutory accounts and the reports by the auditors and the directors;
- elect directors; and
- approve the appointment and remuneration of auditors.

Extraordinary general meetings to consider specific matters are held at the discretion of the directors or, if requested in writing, by shareholders representing at least one-tenth of all of the issued shares.

An annual general meeting and an extraordinary general meeting called for the passing of a special resolution are called by giving at least 21 clear days' notice. All other extraordinary general meetings are called by giving at least 14 clear days' notice.

The board may at its discretion serve any notice required to be given by the Articles of Association either by post or by electronic communication. We may send notices or other documents to shareholders by publishing them on a website provided that we and the shareholder have agreed that the shareholder will have access to the website and the shareholder is notified of the publication of the notice of the document on the website and the website address.

Shareholders whose registered address is outside the United Kingdom are entitled, so long as we agree, to receive notices and other documents electronically.

Accidental omission to send notice of a meeting or to send any requisite notification in relation to the publication of a notice of meeting on website, to send a form of proxy to any person entitled to receive one, or the non-receipt of the notice, notification or proxy form shall not invalidate proceedings at the meeting, whether or not we are aware of the omission or the non-receipt.

The board is permitted to issue terms and conditions relating to the use of electronic communications. In the event that the post in the United Kingdom is restricted, the board may give notice by advertisement in two U.K. national newspapers. The board may enable persons to attend general meetings by simultaneous attendance at satellite meetings held anywhere in the world. The shareholders present in person or by proxy at the satellite meetings will be counted in the quorum and will be entitled to vote provided that they can hear and see all persons who speak and can participate in the business of the meeting and be heard and seen by all other persons present in the same way. In addition, the board of directors can make arrangements for persons entitled to attend meetings to attend that meeting at a venue situated anywhere in the world for the purposes of hearing and viewing the proceedings. Such venues are not satellite meetings and those persons attending at such venues are not entitled to vote or be counted in the quorum of the meeting.

Business cannot be transacted at any meeting unless a quorum is present. Generally, a quorum is two persons present in person or by proxy and entitled to vote on the business of the meeting.

A proxy may be appointed by electronic communication if we have specified an address for this purpose and may be executed electronically if the board so approves. The appointment of proxy should be received at the address specified by us not less than 48 hours before the meeting. The written authority under which a proxy appointment is executed must be delivered in physical form to us not less than 48 hours before the time appointed for the meeting. Where two or more proxies are delivered in respect of the same share, the proxy which was executed last will be treated as replacing and revoking the other proxy received as regards that share.

A notice of revocation of a proxy appointment may be sent either by instrument or by means of electronic communication, regardless of how the original proxy appointment was effected.

If, after the notice of general meeting has been sent, there is a change in the place and/or time of a general meeting, a proxy appointment in relation to the meeting may, if contained in an electronic communication, be received at the address specified by or on behalf of us for the purpose of receipt of electronic communications, at any time not less than 48 hours before the postponed time for the meeting.

Dividends

Subject to the provisions of U.K. law, the board has the discretion to determine whether to pay an interim dividend and the amount of any such dividend, but must consider our financial position when doing so. An interim dividend does not need to be approved by shareholders. However, a final dividend may only be paid if recommended by the board and approved by shareholders. The shareholders do not have the power to approve a dividend in excess of the amount recommended by the board.

The board also determines the date on which we pay dividends. We pay dividends to shareholders on the register on the record date that the directors determine, in proportion to the amounts paid up on the shares. There are no fixed dates on which entitlements to dividends arise. Interest is not payable on dividends or other amounts payable in respect of shares.

The board may, if it has shareholder approval, offer shareholders the right to elect to receive shares instead of cash dividends. The aggregate value of additional shares which a shareholder may receive under such an election is as nearly as possible equal to but not greater than the cash amount which the shareholder would have received.

The board may also, if it has shareholder approval, direct that a dividend is to be satisfied wholly or partly by the distribution of assets including paid up shares or debentures of any other company. The board may fix the value of assets which a shareholder may receive under such distribution and, upon fixing such value, may determine that cash payments should also be made to shareholders receiving such assets. The board may also vest any specific assets in trustees.

A dividend which is unclaimed for 12 years can be forfeited if the board directs and will cease to be due to the shareholder. We may pay any unclaimed dividend or other monies payable in respect of shares into a separate account of which we will not be a trustee. We are entitled to stop sending dividend warrants and checks to a shareholder whose dividend payments have not been cashed or have been returned to us on at least two consecutive occasions, or following one such occasion where reasonable enquiries have failed to establish the shareholder's new address.

Dividends and other monies payable in respect of shares may be paid in cash or by check or by such other means as the board may approve and the shareholder may agree.

Return of capital on winding up

If we are wound up, the liquidator may, with the approval of an extraordinary resolution and any other sanction required by the U.K. Insolvency Act 1986:

- divide our assets among the shareholders;
- value and determine the means of division of such property;
- vest all or part only of the assets in trustees for the benefit of shareholders; and
- determine the terms of any trusts.

No shareholder will be compelled to accept any assets on which there is a liability.

Voting

Voting at any meeting of shareholders is by a show of hands unless a poll is demanded. On a show of hands, each person present in person or by a corporate representative has one vote. Proxies are not allowed to vote on a show of hands. On a poll, each shareholder who is present in person or by a corporate representative or by proxy has one vote for every share held. The chairman of the meeting has a casting vote on a show of hands and on a poll.

Only the holders of shares on which all sums payable have been paid are entitled to attend meetings and vote. If more than one joint holder votes, only the vote of the shareholder whose name appears first in the register is counted. Any shareholder who is entitled to attend and vote at a meeting is entitled to appoint one or more proxies to attend and vote at the meeting on his or her behalf.

A resolution put to the vote at a meeting is decided by a show of hands unless a poll is demanded by:

- the chairman;
- at least five shareholders present in person or by proxy having the right to vote at the meeting;
- any shareholder or shareholders present in person or by proxy who together hold at least one-tenth of the votes held by shareholders who have the right to vote at the meeting; or
- any shareholder or shareholders present in person or by proxy who together hold shares conferring a right to vote at the meeting on which an aggregate sum has been paid up equal to one-tenth of the total sum paid up on all the shares carrying the right to vote.

Resolutions generally require the approval of a majority of the shareholders. Such resolutions, referred to as ordinary resolutions, require:

- on a show of hands, a majority in number of the shareholders present and voting in person or through an authorized representative to vote in favor; or
- on a poll, more than 50% of the votes to be in favor.

However, certain resolutions, referred to as special resolutions (such as a resolution to amend the Articles of Association) or extraordinary resolutions, require a higher majority. Such resolutions require:

- on a show of hands, at least three-quarters of the shareholders present and voting in person or through an authorized representative to vote in favor; or
- on a poll, more than 75% of the votes to be in favor.

Disclosure of interests in shares

Under English law, we may give written notice to any person who we know or have reason to believe owns an interest in our shares to request information about such person's beneficial interest in shares. If such person does not provide the information or if the board believes that the information provided is false or inadequate, we may restrict such person's voting rights. In addition, if the number of shares held by such person exceeds 0.25% of the issued shares, then we may also restrict the dividend and transfer rights attaching to those shares.

MATERIAL CONTRACTS

The following is a summary of material contracts in which we or any member of the Marconi Group is a party and which were entered into in the past two years. The exhibit list in ''Item 19—Exhibits'' indicates which of these contracts are filed with this annual report and which of these contracts have already been filed and are incorporated by reference. Directions on how to obtain copies of these contracts are provided under ''—Documents on Display.''

Reconstruction and merger with British Aerospace (now known as BAE Systems)

- **The Transactions Agreement dated April 27, 1999 between The General Electric Company, p.l.c. (now Marconi Corporation plc) and British Aerospace Public Limited Company (now BAE Systems plc), as amended by a letter agreement sent by The General Electric Company, p.l.c. to British Aerospace Public Limited Company on September 6, 1999 and by a supplemental agreement dated October 7, 1999.** The Transactions Agreement sets out the framework for implementing the reconstruction of the Marconi Group and the separation of the international aerospace, naval shipbuilding, defense electronics and defense systems business (collectively referred to herein as the defense electronics and defense systems business) and subsequent merger of that business with BAE Systems.
- **Tax Deed dated November 29, 1999 between British Aerospace Public Limited Company and Marconi plc (entered into pursuant to the Transactions Agreement).** The Tax Deed provides for the allocation of tax costs arising out of the implementation of the Transactions Agreement and other administrative arrangements, including the submission of tax returns for the defense electronics and defense systems business, the control of disputes with taxation authorities, group relief arrangements and the making of U.S. tax elections.
- **The EASAMS Agreement dated November 29, 1999 between British Aerospace Public Limited Company and Marconi plc (entered into pursuant to the Transactions Agreement).** The EASAMS Agreement provides for the continuation of the arrangements for EASAMS Limited to supply computer-related products and services to members of the defense electronics and defense systems business following completion of the Transactions Agreement. The EASAMS Agreement provides that the arrangements will continue for a period of six months following execution of the EASAMS Agreement, after which time either party may terminate the arrangements on six months written notice.
- **Machined Component Supply Agreement dated November 29, 1999 between EEV Limited (subsequently renamed Marconi Applied Technologies Limited) and British Aerospace Public Limited Company (entered into pursuant to the Transactions Agreement).** The EEV Agreement formalizes the transfer pricing arrangements made in October 1998 at the time of transfer of machine shop facilities from EEV to the defense electronics and defense systems business. After completion of the Transactions Agreement, BAE Systems must ensure that relevant members of the defense electronics and defense systems business supply to the EEV Group products at agreed transfer prices. If the EEV Group orders a greater number of products after the completion of the Transactions Agreement compared to before the completion of the Transactions Agreement, members of the defense electronics and defense systems business will not be required to supply the greater number if it is an unreasonable quantity of products (determined according to the manufacturing capabilities of the defense electronics and defense systems business). The initial term of the EEV Agreement is two years, after which time it may be terminated by either party on 12 months written notice.

- **General Deed of Covenant dated November 29, 1999 between Marconi plc and British Aerospace Public Limited Company (entered into pursuant to the Transactions Agreement).** The General Deed provides for the recognition of compensation amounts in favor of a subsidiary of BAE Systems in the amount of losses, if any, incurred by the BAE Systems Group in connection with liabilities of the businesses retained by Marconi plc. The General Deed also provides for the recognition of compensation amounts in favor of a subsidiary of Marconi plc in the amount of losses, if any, incurred by the Marconi Group in connection with the liabilities of the defense electronics and defense systems business.

- **Services Agreement dated November 29, 1999 between Marconi plc and British Aerospace Public Limited Company (entered into pursuant to the Transactions Agreement).** The Services Agreement provides for the continuation of administrative services (including employee secondments), bulk purchasing arrangements and product supply arrangements between the Marconi Group and BAE Systems following the completion of the Transactions Agreement. The recipient of the services may terminate them upon 14 days written notice.

- **Technology Access Agreement dated November 29, 1999 between British Aerospace Public Limited Company and Marconi plc (entered into pursuant to the Transactions Agreement).** The Technology Access Agreement provides that each of the defense electronics and defense systems businesses and the Marconi Group is entitled to existing intellectual property which wholly and predominately concerns its activities. Intellectual property legally owned by the Marconi Group that wholly or predominately concerns the defense electronics and defense systems business will be transferred to BAE Systems, and intellectual property legally owned by the defense electronics and defense systems business that wholly or predominately concerns the Marconi Group will be transferred to the Marconi Group. For areas of technological overlap, the Technology Access Agreement provides for appropriate cross-licensing arrangements. Marconi Group members generally have a royalty-free, irrevocable, non-exclusive worldwide license to use the intellectual property of the defense electronics and defense systems group and BAE Systems group members generally have a royalty-free, irrevocable, non-exclusive worldwide license to use the intellectual property of the Marconi Group, in each case in the course of any business operations if the business operations were carried out at the time of the completion of the Transactions Agreement. The Technology Access Agreement also establishes a joint committee to identify opportunities in the future to collaborate and make use of each other's technology.

- **Payment Deed dated April 27, 1999 between British Aerospace Public Limited Company and The General Electric Company, p.l.c. (entered into pursuant to the Transactions Agreement).** The Payment Deed governs the treatment of compensation amounts under the Transactions Agreement and other documents. The Payment Deed provides that, on each anniversary of the completion of the Transactions Agreement, compensation amounts recognized during the preceding 12 months in favor of a subsidiary of BAE Systems are added together, and compensation amounts recognized during the preceding 12 months in favor of a subsidiary of Marconi plc are added together. The BAE Systems compensation total is then compared to the Marconi plc compensation total and the excess of one total over the other becomes payable by the appropriate party. In addition, the Payment Deed deals with the grossing up (on account of tax) of payments made as compensation payments and other payments made under other agreements. Broadly, if the party making a payment benefits from a tax deduction in respect of the payment, that party must gross it up completely to compensate for the tax suffered on receipt by the recipient of the payment. If the party making a payment does not get a deduction, that party must only gross the payment up to compensate the recipient of the payment for half the tax suffered on receipt. If the payment is neither as described in this paragraph nor another payment made under the other agreements, there is no obligation to gross it up.

Acquisitions

- **Exchange Agreement dated April 17, 2000 between Marconi plc and certain shareholders in Metapath Software International, Inc. (MSI), and an Agreement and Plan of Merger dated April 17, 2000 between Marconi plc and Metapath Software International, Inc. (together, the MSI Agreements).** Under the MSI Agreements, Marconi plc agreed to acquire all of the issued and outstanding shares of common stock of MSI held by certain MSI shareholders. Marconi plc acquired the MSI common stock for a total consideration of $618 million. This was accomplished by issuing 21,960,808 ordinary shares of 5 pence each to MSI shareholders and by paying $309 million in cash as consideration. In addition, under the MSI Agreement and Plan of Merger, compensation may be due in relation to warrants and share option packages although the value of this compensation is not material in view of the recent reduction in Marconi plc's share price. All of the transactions contemplated by the MSI Agreement and Plan of Merger were completed by June 2000, following which MSI became a wholly-owned subsidiary of Marconi plc.

- **Merger Agreement dated June 26, 2001 between Marconi Corporation plc and Easynet Group plc relating to the merger of ipsaris Limited with Easynet Group plc.** Under the Easynet Merger Agreement Marconi Corporation plc transferred 5,441,859 ipsaris ordinary shares to Easynet in consideration for which Easynet issued 77,508,177 shares. This shareholding in Easynet is represented by 28,954,516 voting ordinary shares and 48,553,661 convertible non-voting ordinary shares. At the time of the merger Railtrack Telecom Services Limited partially exercised its put option over ipsaris shares resulting in Marconi Corporation plc acquiring a further 1,986,081 Easynet voting ordinary shares bringing Marconi Corporation plc's holding of Easynet voting ordinary shares to 30,940,597. Marconi Corporation plc's shareholding in Easynet represents in aggregate 71.9% of the issued share capital of Easynet and 49.9% of Easynet voting ordinary shares. The merger was completed on July 26, 2001 at which time the Easynet consideration shares issued to Marconi Corporation plc were admitted to the official list of the London Stock Exchange.

- **Relationship Agreement dated June 26, 2001 between Marconi Corporation plc and Easynet Group plc.** The Relationship Agreement provides that Marconi Corporation plc will exercise its powers of control to ensure Easynet is capable of carrying on its business independently of Marconi Corporation plc and that all transactions and future relationships between the companies are at arm's length and on a normal commercial basis. The Relationship Agreement also includes provisions regarding the composition of the Easynet board of directors, restrictions on the acquisition of Easynet shares by Marconi Corporation plc, the conversion of Easynet convertible ordinary shares into ordinary shares, non-competion between Marconi Corporation plc and Easynet and confidentiality.

- **Implementation Agreement dated June 26, 2001 between Marconi Corporation plc, Railtrack Telecom Services Limited (RTSL) and ipsaris Limited.** Under the Implementation Agreement RTSL agreed to sell its existing ipsaris shares to Easynet in return for Easynet voting ordinary shares in the same ratio used for Marconi Corporation plc under the Easynet Merger Agreement. At completion of the merger of ipsaris and Easynet, RTSL exercised its right under the terms of the Implementation Agreement to put 1,986,081 Easynet shares to Marconi Corporation plc for £30 million. Under the terms of Implementation Agreement, Marconi Corporation plc and RTSL have a call and put option over the remaining 1,324,054 shares in Easynet that RTSL may exercise from February 1, 2002 to December 31, 2003 for a fixed consideration of £20 million.

- **Marconi Lock up Undertaking dated June 26, 2001 from Marconi Corporation plc to Easynet Group plc and ABN Amro.** Subject to certain exceptions, under the Lock up Agreement Marconi Corporation plc undertook that it will not dispose of any Easynet ordinary shares or convertible non-ordinary shares before the announcement of Easynet's preliminary results for the year ending December 31, 2001.

- **Merger Agreement dated September 20, 2000 between Marconi plc, Marconi Acquisition Sub, Inc. and Mariposa Technology, Inc.** Under the Mariposa Merger Agreement, on September 20, 2000 Marconi plc agreed to acquire the fully diluted share capital of Mariposa for approximately $268 million. Marconi plc acquired the Mariposa common stock for a total consideration of $7,203,120 and the Mariposa preferred stock by the issue of 17,668,650 Marconi ordinary shares of 5 pence each. The transaction closed on October 18, 2000.

Dispositions

- **Stock Purchase Agreement among Marconi Corporation plc, Marconi Systems Holdings Inc. and Koninkljke Philips Electronics N.V. dated as of July 3, 2001.** On July 3, 2001, subsidiaries of Marconi plc entered into a Stock Purchase Agreement with Koninklijke Philips Electronics N.V. pursuant to which such subsidiaries will sell to Philips Electronics their interests in Marconi Medical Systems, Inc. and certain affiliates for a purchase price of approximately £780 million ($1.1 billion), subject to adjustment. The subsidiaries being sold conduct Marconi plc's medical imaging equipment business and its radiological supplies distribution business. The transaction is subject to standard closing conditions, including regulatory approvals, and is expected to close in the fourth calendar quarter of 2001. Marconi plc provided a guarantee for the performance of the obligations of its subsidiaries under the Stock Purchase Agreement.
- **Communications Solutions Agreement between Koninklijke Philips Electronics N.V. dated July 3, 2001.** In connection with the Stock Purchase Agreement, Marconi Corporation plc entered into a Communications Solutions Agreement with Philips Electronics, pursuant to which Philips agreed to purchase products and services from Marconi Corporation plc and its affiliates in an aggregate amount of $30,000,000 per year during the five years following the closing under the Stock Purchase Agreement. To the extent Philips Electronics fails to purchase the minimum amount over the course of the contract, Philips Electronics is required to pay Marconi Corporation plc one-third of the shortfall.

Financings

- **1998 Credit Facility Agreement dated March 25, 1998 between The General Electric Company, p.l.c. (now known as Marconi Corporation plc), HSBC Investment Bank plc, as the Agent, Marine Midland Bank, as the U.S. Swingline Agent, the banks which have participated in providing the credit facility, and other financial institutions, as the Joint Lead Arrangers, as amended by a Supplemental Agreement dated January 27, 2000 among The General Electric Company, p.l.c. (now known as Marconi Corporation plc), Marconi plc and HSBC Investment Bank plc, as Agent, and as further amended by a Second Supplemental Agreement dated April 18, 2000 among Marconi Corporation plc, Marconi plc and HSBC Investment Bank plc, as Agent, and as extended to March 22, 2001 by a letter dated March 17, 2000 by HSBC Investment Bank plc.** The 1998 Credit Facility Agreement provides for the banks to make available to Marconi plc and certain of its subsidiaries a committed multicurrency 364-day revolving credit facility up to the amount of €1,500,000,000 and a 5-year committed multicurrency revolving credit facility up to the amount of €4,500,000,000. Marconi plc guarantees this facility. The purpose of the revolving facilities is:

  - in the case of the 364-day facility, to finance the bridging and liquidity requirements of Marconi plc and its subsidiaries; and

  - in the case of the 5-year facility, to finance the general corporate purposes of Marconi plc and its subsidiaries.

  Any borrowings under these facilities are unsecured and repayable (with a right to reborrow) on the last day of each borrowing period. The 364-day facility has expired on March 22, 2001, and the 5-year facility will terminate on March 25, 2003 (subject to an extension, at the banks' discretion, for any period up to March 25, 2005). Borrowings bear interest at a rate equal to the aggregate of the London inter-bank offered rate plus 0.175% per annum. Borrowings may be made in euro, pounds sterling, U.S. dollars or in any other currency which is readily available and freely transferable in the London foreign exchange market in sufficient amounts to fund any credit advance.

  The 1998 Credit Facility Agreement includes covenants and warranties and events of default. The 1998 Credit Facility Agreement does not contain any financial covenants, although it provides that it is an event of default if there has been a material adverse change in the financial condition of the Group taken as a whole since the date of the latest annual accounts delivered to the agent which has had or will have a material adverse effect on the ability of Marconi plc to comply with its payment obligations under this facility. This is an objective test and requires that the requisite material adverse effect has occurred or will occur. Although we have not received any correspondence from any of the banks or the agent under this facility suggesting that the banks believe that the material adverse change event of default has been triggered, under the 1998 Credit Facility Agreement we would be unable to draw down new money if there has been an event of default or a potential event of default. Also, under the 1998 Credit Facility Agreement, the occurrence of an event of default entitles the agent or the majority of banks, among other things, to accelerate and declare immediately due and payable all outstanding amounts under this facility. The acceleration of our obligation to repay borrowings under this facility would trigger an event of default under our yankee bonds if the aggregate amount of such accelerated obligations is equal to or exceeds the greater of (1) €50 million or its equivalent in any other currency or (2) 1.0% of Marconi Corporation plc's consolidated shareholders' equity. The acceleration of our obligation to repay borrowings under this facility would trigger an event of default under our eurobonds if the aggregate amount of the accelerated obligations is equal to or greater than €50 million or its equivalent in any other currency. Marconi plc is liable to pay commitment fees at the rate of 0.035% per annum under the 364-day facility and 0.075% per annum under the 5-year facility and a utilization fee on amounts outstanding under the 5-year facility in excess of €2,500,000,000.

- **2001 Credit Facility Agreement dated May 30, 2001 between Marconi plc as guarantor, Marconi Corporation plc as original borrower, certain banks and financial institutions as mandated lead arrangers, certain banks and financial institutions as lenders and HSBC Investment Bank plc as agent.** The 2001 Credit Facility Agreement provides for the banks to make available to Marconi Corporation plc a committed multicurrency 364 day revolving credit facility up to the amount of €3,000,000,000. The facility contains a one year term-out option. The facility provides for cash advances in euro, pounds sterling, US dollars or any other currency which is readily available and freely transferable in the London foreign exchange market in sufficient amounts to fund any cash advance and for pounds sterling bill acceptance. The rate of interest for each advance is equal to the aggregate of the London inter-bank offered rate (or the euro inter-bank offered rate in the case of euro cash advances) plus 0.40% per annum. The purpose of the revolving facility is to finance the general corporate purposes of Marconi plc and its subsidiaries. The 2001 Credit Facility Agreement includes covenants and warranties and events of default. The 2001 Credit Facility Agreement does not contain any financial covenants, although it provides that it is an event of default if there has been a material adverse change in the financial condition of the Group taken as a whole since the date of the latest annual accounts delivered to the agent which has had or will have a material adverse effect on the ability of Marconi plc to comply with its payment obligations under this facility. This is an objective test and requires that the requisite material adverse effect has occurred or will occur. Although we have not received any correspondence from any of the banks or the agent under this facility suggesting that the banks believe that the material adverse change event of default has been triggered, under the 2001 Credit Facility Agreement we would be unable to draw down new money if there has been an event of default or a potential event of default. Also, under the 2001 Credit Facility Agreement, the occurrence of an event of default entitles the agent or the majority of banks, among other things, to accelerate and declare immediately due and payable all outstanding amounts under this facility. The acceleration of our obligation to repay borrowings under this facility would trigger an event of default under our yankee bonds if the aggregate amount of such accelerated obligations is equal to or exceeds the greater of (1) €50 million or its equivalent in any other currency or (2) 1.0% of Marconi Corporation plc's consolidated shareholders' equity. The acceleration of our obligation to repay borrowings under this facility would trigger an event of default under our eurobonds if the aggregate amount of the accelerated obligations is equal to or greater than €50 million or its equivalent in any other currency. Marconi Corporation plc is liable to pay commitment fees at the rate of 0.125% per annum on the undrawn amount of this facility, a utilization fee on amounts outstanding in excess of €1,500,000,000 and a flat term-out fee on any termed-out advances.

Debt offerings

- **Trust Deed dated March 30, 2000 relating to €500,000,000 5.625% Bonds due 2005 between Marconi Corporation plc, Marconi plc and The Law Debenture Trust Corporation p.l.c., and Trust Deed dated March 30, 2000 relating to €1,000,000,000 6.375% Bonds due 2010 between Marconi Corporation plc, Marconi plc and The Law Debenture Trust Corporation p.l.c.** Marconi Corporation plc issued the eurobonds and Marconi plc guarantees the eurobonds. The guarantee will terminate in certain circumstances which may occur at any time. The eurobonds are listed on the London Stock Exchange. The eurobonds bear interest at a fixed rate per annum on their outstanding principal amount from and including March 30, 2000, payable annually in arrears on March 30, the interest payment date. The first interest payment date is March 30, 2001. Marconi Corporation plc or any of its subsidiaries may purchase the eurobonds in any manner and at any time. The trust deeds governing the eurobonds provide for events of default, including:

- bankruptcy or insolvency of Marconi Corporation plc or Marconi plc;
- failure by Marconi Corporation plc to pay interest when due on the eurobonds if not cured within a period of 14 days;
- failure of Marconi Corporation plc or Marconi plc to perform or observe its obligations under the trust deeds governing the eurobonds (if not cured within a period of 30 days);
- an event of default under existing agreements for borrowed money causes amounts due under those agreements to become due prematurely, or Marconi Corporation plc or Marconi plc fails to make payment of such amounts within five business days of the due date for payment, or, if longer, within any applicable grace period; and
- Marconi plc's guarantee of the eurobonds is not, or is claimed by Marconi plc not to be, in full force and effect (other than following its termination in accordance with its terms).

The acceleration of our obligation to repay borrowings under either or both of the 1998 or 2001 syndicated facilities would trigger an event of default under our eurobonds if the aggregate amount of the accelerated obligations is equal to or greater than €50 million or its equivalent in any other currency.

For so long as the eurobonds remain outstanding, Marconi Corporation plc has agreed that it will not, without taking actions which satisfy the eurobond trustee or 75% of the holders of the eurobonds, create or have outstanding any mortgage, charge, pledge, lien or other security interest on any of its present or future assets or revenues to secure debt securities. Except for the guarantee of the eurobonds by Marconi plc, Marconi Corporation plc has agreed that it will not, without taking actions which satisfy the eurobond trustee or 75% of the holders of the eurobonds, permit to exist any other guarantee of or indemnity or any arrangement having similar effect from Marconi plc relating to debt securities of Marconi Corporation plc.

- **Indenture dated September 19, 2000 relating to US$900,000,000 7¾% bonds due 2010 (the 2010 bonds) and US$900,000,000 8⅜% bonds due 2030 (the 2030 bonds) between Marconi Corporation plc, Marconi plc and The Bank of New York.** Marconi Corporation plc is the issuer of the bonds and Marconi plc guarantees the bonds. The guarantee will terminate in certain circumstances which may occur at any time. The bonds are listed on the Luxembourg Stock Exchange and are governed by New York law.

  The 2010 bonds will mature on September 15, 2010 and the 2030 bonds will mature on September 15, 2030. Interest is payable on the bonds on March 15 and September 15 of each year, beginning on March 15, 2001. The bonds may be redeemed in whole or in part at any time at a redemption price determined in accordance with the terms of the indenture plus accrued interest to the date of redemption. The indenture includes the following provisions:

  - limitations on the ability of Marconi Corporation plc to merge or consolidate with another company, or to transfer or sell all or substantially all of our assets;

- limitations on the ability of Marconi Corporation plc or any material subsidiary to incur any debt secured by an encumbrance on the property or equity interests of Marconi Corporation plc or any material subsidiary unless the bonds are equally secured, subject to certain exceptions;
- limitations on the ability of Marconi plc to guarantee any debt securities of Marconi Corporation plc without providing a similar guarantee in respect of the bonds, subject to certain exceptions; and
- limitations on the ability of Marconi Corporation plc or any material subsidiary to enter into sale and leaseback transactions, subject to certain exceptions.

The indenture for the bonds contains events of default, including:

- bankruptcy or insolvency of Marconi Corporation plc or Marconi plc;
- failure by Marconi Corporation plc to pay interest when due on the bonds if not cured within a period of 14 days;
- failure of Marconi Corporation plc or Marconi plc to perform or observe its obligations under the bonds or the indenture (if not cured within 30 days);
- an event of default under existing agreements for borrowed money causes amounts due under those agreements to become due prematurely, or Marconi Corporation plc or Marconi plc fails to make payment of such amounts within five business days of the due date for payment or, if longer, within any applicable grace period; and
- Marconi plc's guarantee of the bonds is not, or is claimed by Marconi plc not to be, in full force and effect (other than following its termination in accordance with its terms).

The acceleration of our obligation to repay borrowings under either or both of the 1998 or 2001 syndicated credit facilities would trigger an event of default under our yankee bonds if the aggregate amount of such accelerated obligations is equal to or exceeds the greater of (1) €50 million or its equivalent in any other currency or (2) 1.0% of Marconi Corporation plc's consolidated shareholders' equity.

The bonds rank at least equal to all other existing and future senior unsecured debt of Marconi Corporation plc.

The bonds are represented by a global security deposited with The Bank of New York as depository for The Depository Trust Company or its successor or nominee.

Equity offerings

- **Underwriting Agreement dated February 8, 2001 between Credit Suisse First Boston (Europe) Limited, Société Générale and Merrill Lynch International as underwriters, Alcatel, Marconi Corporation plc and Alstom.** Under the Underwriting Agreement, Marconi Corporation plc and Alcatel sold to Credit Suisse First Boston (Europe) Limited, Société Générale, Merrill Lynch International and other underwriters an equal number of shares of Alstom in connection with a global offering of 63,970,074 shares. In addition, Credit Suisse First Boston (Europe) Limited, Société Générale, Merrill Lynch International and other underwriters agreed to purchase from Alcatel and Marconi Corporation plc such of 7,107,786 Alstom shares (if any) as were not sold in a French retail offering. The underwriters were also granted an option to purchase further Alstom shares in order to cover overallotments in relation to the offering. Each of the underwriters received an underwriting commission in respect of its underwriting commitment. Marconi Corporation plc sold approximately 76% of its approximate 24% ownership in Alstom for cash proceeds of £631 million. The Underwriting Agreement contained customary warranties, undertakings and indemnities from Alstom, Marconi Corporation plc and Alcatel.

- **Purchase and Sale Agreement dated June 19, 2001 between Credit Suisse First Boston (Europe) Limited and Marconi Corporation plc.** The Purchase and Sale Agreement was entered into by Marconi Corporation plc in order to sell 12,200,640 shares it held in Alstom to Credit Suisse First Boston (Europe) Limited and its affiliates. The net purchase price was €31.75 per share, for an aggregate purchase price of €387,370,320. The sale of shares to Credit Suisse First Boston (Europe) Limited took place outside of the United States pursuant to Regulation D of the U.S. Securities Act of 1933. The Purchase and Sale Agreement contained customary representations and warranties and covenants including an undertaking by Credit Suisse First Boston (Europe) Limited and its affiliates and persons acting on their behalf not to sell the shares in the United States except as set forth in the Annex to the Purchase and Sale Agreement, not to engage in any general advertising or general solicitation within the meaning of Regulation D of the U.S. Securities Act of 1933 or in any manner involving a public offering within the meaning of Section 4(2) of the U.S. Securities Act of 1933 and not to engage in any directed selling efforts or conditioning of the market for shares in the United States or to United States persons, except as permitted under U.S. federal and state securities laws. Settlement of the aggregate purchase price was made on June 25, 2001.

EXCHANGE CONTROLS

There are currently no decrees or regulations under the laws of the United Kingdom restricting the import or export of capital or affecting the remittance of dividends or other payments to holders of Marconi ordinary shares or American Depositary Shares (ADSs) who are non-residents of the United Kingdom.

There are no limitations relating only to non-residents of the United Kingdom under U.K. law or Marconi's Memorandum and Articles of Association or on the right to be a holder of, and to vote, Marconi ordinary shares.

Marconi plc and its subsidiaries are not permitted under the laws of the United Kingdom to hold ordinary shares in the capital of Marconi plc. While Marconi plc is presently authorized to repurchase up to an aggregate of 417,000,000 of its issued ordinary shares, any repurchased shares must be cancelled.

We are subject to legal restrictions on the amount of dividends we can pay our shareholders. In particular, the U.K. Companies Act 1985 provides that a U.K. public company may pay dividends only if:

- the amount of its net assets is not less than the aggregate of its called-up share capital and undistributable reserves; and
- the payment does not reduce the amount of net assets to an amount that is less than the aggregate of its called-up share capital and undistributable reserves.

In addition, we may only declare a dividend if we have sufficient distributable profits available for this purpose. Distributable profits are accumulated realized profits not previously distributed or capitalized less accumulated realized losses not previously written off.

Holders of ADSs on the relevant record date will be entitled to receive any dividends payable on the ordinary shares underlying the ADSs, subject to the terms of the deposit agreement under which the ADSs are issued. Subject to exceptions provided in the deposit agreement, cash dividends paid in pounds sterling will be converted by the depositary to U.S. dollars and paid by the depositary to holders of ADSs, net of conversion expenses of the depositary, and in accordance with the deposit agreement. The rights of holders of ADSs to any dividends or other distributions on the ordinary shares underlying the ADSs will be governed by the deposit agreement and may be different from the rights of holders of ordinary shares.

TAXATION

The statements below are based on the laws in force in the United Kingdom and the United States at the date of this annual report. They are subject to any subsequent changes in law. Changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to acquire, hold or dispose of shares, ADSs or bonds. It does not purport to deal with the tax consequences applicable to all categories of investors. Some investors may be subject to special rules. We are not making any representations with respect to the tax consequences to any particular holder. You should consult your own tax advisors concerning the overall tax consequences of your ownership of shares, ADSs or bonds.

ADSs

You generally will be entitled to the benefits of the tax treaty between the United States and the United Kingdom and, therefore, will be a U.S. shareholder if you are:

- the beneficial owner of the shares or ADSs and of the dividends paid with respect to the shares or ADSs;
- an individual resident of the United States, a U.S. corporation, or a partnership, estate or trust to the extent your income is subject to taxation in the United States in your hands or in the hands of your partners or beneficiaries; and
- not also a resident of the United Kingdom for U.K. tax purposes or carrying on a business in the United Kingdom through a permanent establishment.

United Kingdom

The following generally applies to U.S. shareholders.

Taxation of dividends

Under current U.K. taxation legislation, no tax is required to be withheld at source from cash dividends paid on shares.

Under the terms of the tax treaty between the United States and the United Kingdom, U.S. shareholders may be, in principle, entitled to receive a payment equal to the amount of the tax credit which is usually available to U.K. residents, less a withholding tax levied on that payment. The tax credit is one-ninth of the amount of the dividend, that is, 10% of the aggregate of the dividend and the tax credit. However, in practice, U.S. shareholders will not receive any payment from the U.K. Inland Revenue in respect of the tax credit because the tax treaty provides for a U.K. withholding tax greater than the amount of the U.K. tax credit. The withholding tax, however, is treated as fully satisfied by the amount withheld from the tax credit.

In July 2001 the UK Chancellor of the Exchequer and the US Treasury Secretary signed a new UK/USA Double Taxation Convention. If the new UK/USA Double Taxation Convention enters into force in the form signed and has effect in respect of a US shareholder, that shareholder will no longer, in principle, be entitled to any payment in respect of any tax credit as mentioned above.

Taxation of capital gains

A U.S. shareholder who is not resident, and in the case of an individual also not ordinarily resident, in the U.K. for United Kingdom tax purposes will not be liable for U.K. taxation on capital gains realized on the disposal of his or her shares or ADSs unless at the time of the disposal:

- the U.S. shareholder carries on a trade, profession or vocation in the United Kingdom through a branch or agency; and
- the shares or ADSs are or have been used, held or acquired for the purposes of the trade, profession, vocation, branch or agency.

A U.S. shareholder who is an individual and who has ceased to be resident or ordinarily resident for tax purposes in the United Kingdom on or after March 17, 1998 and continues not to be resident or ordinarily resident in the United Kingdom for a period of less than five years of assessment and who disposes of his shares or ADSs during that period will also be liable on his return to the United Kingdom to U.K. tax on capital gains, subject to any available exemption or relief, even though he or she is not resident or ordinarily resident in the United Kingdom at the time of the disposal.

It is expected that the position of US shareholders in respect of taxation of capital gains, as outlined above, will remain broadly unchanged if the new UK/USA Double Taxation Convention comes into force in the form signed in July 2001.

U.K. stamp duty and stamp duty reserve tax

U.K. stamp duty or stamp duty reserve tax is payable upon the transfer or issue of shares to, or to a nominee or agent of, a person whose business is or includes issuing depositary receipts or providing clearance services. For this purpose, the current rate of stamp duty and stamp duty reserve tax is 1.5%, rounded up, in the case of stamp duty, to the nearest £5. The rate is applied, in each case, to the amount or value of the consideration or, in some circumstances, to the value of the shares.

Provided that the instrument of transfer is not executed in the United Kingdom and remains at all subsequent times outside the United Kingdom, no U.K. stamp duty will be payable on the transfer of ADSs. An agreement to transfer ADSs will not give rise to a liability to stamp duty reserve tax.

The purchase of shares, as opposed to ADSs, may give rise to a charge to U.K. stamp duty or stamp duty reserve tax at the rate of 0.5%, rounded up, in the case of stamp duty, to the nearest £5. The rate is applied to the price payable for the shares at the time of the transfer or agreement to transfer. Stamp duty reserve tax is generally the liability of the purchaser and U.K. stamp duty is usually paid by the purchaser.

United States

Introduction

The following summarizes the principal U.S. federal income tax consequences of acquiring, holding and disposing of shares or ADSs. The following does not consider:

- other U.S. federal taxes (such as the estate tax) or state, local or foreign tax aspects of acquiring, holding, or disposing of shares or ADSs;
- specific facts and circumstances that may be relevant to particular holders in light of their personal investment circumstances or status;
- special tax rules that may apply to holders, including, without limitation, tax-exempt organizations, certain financial institutions, insurance companies and dealers in securities or foreign currencies;

- special tax rules that may apply to holders that hold shares or ADSs as part of straddles, hedging transactions, constructive sales or conversion transactions; or
- holders that hold shares or ADSs other than as capital assets within the meaning of Internal Revenue Code Section 1221.

United States federal income tax consequences to U.S. shareholders

The following applies to U.S. shareholders that are fully eligible for the benefits of the tax treaty between the United States and the United Kingdom.

For U.S. federal income tax purposes, U.S. shareholders of ADSs will be treated as the owners of the shares represented by those ADSs.

Distributions on shares or ADSs

In general, you will be required to include distributions made by us with respect to shares or ADSs in your gross income. Under new procedures announced by the Internal Revenue Service on January 19, 2000, to claim credits for U.K. withholding tax, you must file an election on IRS Form 8833 with your income tax return for the relevant year. If you make the election, you will be subject to U.S. taxation on the sum of the cash dividend and the associated U.K. tax credit. In general, it is no longer necessary to provide information to the U.K. Inland Revenue to establish your entitlement to tax treaty benefits in respect of dividends.

Dividends paid by us will not be eligible for the dividends received deduction available to certain U.S. corporate shareholders under Internal Revenue Code Sections 243 and 245.

The amount of any cash distribution paid in pounds sterling will equal the U.S. dollar value of the distribution, calculated by reference to the exchange rate in effect at the time the dividends are received. You should not recognize any foreign currency gain or loss if such foreign currency is converted into U.S. dollars on the date received. If the pounds sterling are not converted into U.S. dollars on the date of receipt, however, gain or loss may be recognized upon a subsequent sale or other disposition of the pounds sterling. Foreign currency gain or loss, if any, will be U.S. source ordinary income or loss for U.S. federal income tax purposes.

If you make the election discussed above, you will be treated as paying U.K. withholding tax equal to the associated U.K. tax credit that, subject to certain limitations, you may credit against your U.S. federal tax liability or take as a deduction against your federal taxable income. Dividends received with respect to the shares or ADSs will be treated as foreign source income, which may be relevant in calculating your foreign tax credit limitation. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends paid with respect to the shares or ADSs generally will constitute ''passive income'' or, in the case of certain shareholders, ''financial services income.''

The United States and the United Kingdom have negotiated a new tax treaty that, if ratified, will render the above discussion of the tax election inapplicable. You should consult your own tax advisor concerning the potential effects of the new tax treaty.

Sale or exchange of shares or ADSs

You will generally recognize capital gain or loss upon the sale or exchange of the shares or ADSs measured by the difference between the amount you receive and your tax basis in the shares or ADSs. Your gain or loss will be long-term capital gain or loss if you have held the shares or ADSs for more than one year. In the case of non-corporate U.S. shareholders, the maximum tax rate on capital gains arising on the disposition of assets held for more than one year is 20%. In general, any capital gain or loss recognized upon the sale or exchange of ADSs will be treated as U.S. source income or loss, as the case may be, for U.S. foreign tax purposes. Your ability to deduct capital losses is subject to limitations.

Information reporting and backup withholding requirements with respect to U.S. shareholders

United States information reporting requirements may apply with respect to distributions on shares or ADSs. No backup withholding is required for distributions by us to corporate U.S. shareholders. Non-corporate U.S. shareholders may be subject to backup withholding at a rate of up to 31% with respect to such distributions when a non-corporate U.S. shareholder:

- fails to furnish or certify a correct taxpayer identification number to the payor or its agent in the manner required;
- is notified by the IRS that it has failed to report payments of interest or dividends properly; or
- fails, under certain circumstances, to certify that it has not been notified by the IRS that it is subject to backup withholding for failure to report interest and dividend payments.

United States federal income tax consequences to non-U.S. shareholders

The following summarizes the U.S. federal income tax consequences of acquiring, holding and disposing of shares or ADSs by a shareholder that is not a U.S. person (a foreign shareholder).

Distributions on shares or ADSs and sale or exchange of shares or ADSs

Subject to the discussion below with respect to U.S. backup withholding, a foreign shareholder generally will not be subject to U.S. federal income tax on distributions on shares or ADSs or gain from the sale or exchange of shares or ADSs unless:

- the income is effectively connected with the conduct by the foreign shareholder of a U.S. trade or business or, in the case of a resident of a country which has a treaty with the United States, the income is attributable to a permanent establishment (or in the case of an individual, a fixed place of business) in the United States, in which case the foreign shareholder will be taxed on the income like a U.S. shareholder; or
- with respect to any gain from the sale or exchange of shares or ADSs, the foreign shareholder is present in the United States for 183 days or more in the taxable year of the sale and meets certain other conditions, in which case the foreign shareholder generally will be taxed on such gain like a U.S. shareholder.

If you are a corporate foreign shareholder, effectively connected income may, under certain circumstances, be subject to an additional branch profits tax at a 30% rate or at a lower rate if you are eligible for the benefits of an income tax treaty that provides for a lower rate.

Information reporting and backup withholding requirements with respect to foreign shareholders

Information reporting for U.S. federal income tax purposes will apply to payments made on the shares or ADSs within the U.S. unless you are an ''exempt recipient'' and you comply with applicable certification requirements. Generally, individuals are not exempt recipients while corporations are. Payments made outside the U.S. will be subject to information reporting in limited circumstances. Backup withholding of U.S. federal income tax at a rate of up to 31% may apply to payments made in the U.S. on the shares or ADSs. Backup withholding will not apply to payments made to a holder who is an ''exempt recipient'' and who complies with applicable certification requirements. Any amounts withheld under the backup withholding rules from a payment to a foreign shareholder will be allowed as a refund or credit against the foreign shareholder's U.S. federal income tax, provided that the required information is furnished to the IRS.

Bonds

United Kingdom

Introduction

The following describes certain U.K. tax consequences of the ownership of bonds as of the date of this annual report, assuming that the interest paid on bonds will not exceed a reasonable commercial return. Except where noted, it relates only to the position of persons who are the absolute beneficial owners of their bonds and may not apply to special situations, such as those of dealers in securities.

Payments on the bonds

No withholding or deduction on account of U.K. income tax will be required from payments of principal.

For so long as bonds (whether bearer bonds or definitive bonds in registered form) are listed on the Luxembourg Stock Exchange or some other stock exchange recognized by the U.K. Inland Revenue, no withholding or other deduction on account of U.K. income tax will be required from payments of interest.

In all other cases, interest will, subject to what we say below about entitlement to pay gross to bondholders within the charge to U.K. corporation tax, be paid after deduction of income tax at the lower rate, currently 20%, subject to any direction to the contrary by the U.K. Inland Revenue under an applicable double taxation treaty.

Pursuant to sections 349A-349D of the Income and Corporation Taxes Act 1988, interest paid on or after April 1, 2001 by a company which reasonably believes that the person beneficially entitled to the interest is a U.K. resident company (or a partnership of companies so resident) or a non-U.K. resident company trading in the U.K. through a branch or agency which will bring the payment into account in computing its profits chargeable to U.K. corporation tax may be paid without withholding. There is currently little guidance on what constitutes reasonable belief of a recipient company's status. Further, the U.K. Inland Revenue can direct that withholding should be made in respect of specified payments.

Interest on the bonds constitutes U.K. source income for tax purposes and, as such, may be subject to income tax by direct assessment even where paid without withholding. However, except for any income tax deducted as described above, a holder who is not resident for tax purposes in the United Kingdom will not be liable for U.K. tax on interest on the bonds unless that holder is chargeable to income tax or corporation tax on a branch or agency in the United Kingdom through which it carries on a trade, profession or vocation and in connection with which the interest is received or to which the bonds are attributable. There are exemptions for interest received by specified categories of agent (such as some brokers and investment managers).

The provisions relating to additional payments referred to on pages 110 to 111 of the prospectus for the bonds would not apply if the UK Inland Revenue sought to assess the person entitled to the relevant interest or (where applicable) profit on any bond directly to U.K. income tax. However, exemption from or reduction of such U.K. tax liability might be available under an applicable double taxation treaty.

Any paying agent or other person through whom interest is paid to, or by whom interest is received on behalf of, an individual (whether resident in the U.K. or elsewhere) may be required to provide information in relation to the payment and the individual concerned to the U.K. Inland Revenue. The U.K. Inland Revenue may communicate this information to the tax authorities of other jurisdictions.

The European Union is currently considering proposals for a new directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that Member States will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to or for the benefit of an individual resident in that other Member State, subject to the right of certain Member States to opt instead for a withholding tax system for a transitional period in relation to such payments and subject to proposals not being required to be applied to bonds issued before March 1, 2001.

U.K. corporation taxpayers

In general, bondholders which are within the charge to U.K. corporation tax (other than authorized unit trusts) will be charged to tax as income on all returns on and fluctuations in the value of the bonds broadly in accordance with their statutory accounting treatment. Bondholders will also generally be charged to tax in each accounting period by reference to interest accrued in that period.

Other U.K. taxpayers—taxation of chargeable gains

Except as described below in relation to connected persons, the bonds will not constitute qualifying corporate bonds within the meaning of section 117 in the Taxation of Chargeable Gains Act 1992. Therefore a disposal (including a redemption) of a bond by a bondholder who is not subject to U.K. corporation tax in respect of the bond may give rise to a chargeable gain or an allowable loss for the purposes of U.K. taxation of chargeable gains.

The bonds will, however, be treated as relevant discounted securities where they are acquired by a person who is connected with Marconi Corporation plc or held by a person who becomes connected with Marconi Corporation plc for so long as they are held by the person. In determining whether a person is connected with Marconi Corporation plc for these purposes, the test in section 839 in the Income and Corporation Taxes Act 1988 is to be used, except that no account will be taken of his rights under the bonds.

If the bonds are treated as relevant discounted securities, the bonds will represent qualifying corporate bonds. In this case, a disposal by a bondholder would not give rise to a chargeable gain or an allowable loss for the purposes of the U.K. taxation of chargeable gains.

Other U.K. taxpayers—accrued income scheme

On a disposal of bonds by a bondholder, any interest which has accrued since the last interest payment date may be chargeable to tax as income if that bondholder is resident or ordinarily resident in the United Kingdom or carries on a trade in the United Kingdom through a branch or agency to which the bonds are attributable.

The accrued income scheme will not apply to the bonds if they are treated as relevant discounted securities.

Stamp duty and stamp duty reserve tax

No U.K. stamp duty or stamp duty reserve tax is payable on the issue or the transfer of the global bond.

Payment by Marconi plc as guarantor

As a matter of U.K. tax law, it is possible that payments made by Marconi plc as guarantor would be subject to withholding on account of U.K. tax. This withholding would be subject to any claim which would be made under any applicable double tax treaty.

United States

Introduction

The following summarizes the principal U.S. federal income tax consequences of acquiring, holding and disposing of bonds. The discussion is based on currently existing provisions of the U.S. Internal Revenue Code of 1986, as amended, existing and proposed U.S. Treasury regulations, and current administrative rulings and court decisions, all of which are subject to change, potentially with retroactive effect. The following does not consider:

- other U.S. federal taxes (such as the estate tax) or state, local or foreign tax aspects of acquiring, holding, or disposing of bonds;
- specific facts and circumstances that may be relevant to particular holders in light of their personal investment circumstances or status;
- special tax rules that may apply to holders, including, without limitation, tax-exempt organizations, financial institutions, insurance companies and dealers in securities or foreign currencies;
- special tax rules that may apply to holders that hold bonds as part of straddles, hedging transactions, constructive sales or conversion transactions; or
- holders that did not purchase bonds as part of the initial distribution or that hold bonds other than as capital assets within the meaning of Internal Revenue Code Section 1221.

United States federal income tax consequences to U.S. bondholders

The following applies to U.S. bondholders. A U.S. bondholder is a beneficial owner of bonds who for U.S. federal income tax purposes is:

- a citizen or resident of the United States;
- a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any political subdivision of the United States;
- an estate whose income is subject to U.S. federal income tax regardless of its source; or
- a trust if a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions of the trust.

Payments of interest on bonds

Interest paid on bonds generally may be included in a U.S. bondholder's gross income as ordinary interest income at the time payments are accrued or are received (in accordance with the U.S. bondholder's usual method of tax accounting). Under the U.K. tax treaty, interest paid on bonds should not be subject to withholding tax. Should any U.K. tax nevertheless be withheld, those amounts (including additional amounts) will be included in the U.S. bondholder's gross income.

Subject to certain limitations, you may credit against your U.S. federal tax liability or take as a deduction against your federal taxable income the amount of any U.K. tax withheld under U.K. law or the U.K. tax treaty. Interest paid on a bond will be treated as foreign source income, which may be relevant in calculating your foreign tax credit limitation. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, interest paid on a bond generally will constitute ''passive income'' or, in the case of certain holders, ''financial services income.''

Sale, exchange, redemption or retirement of bonds

Upon the sale, exchange, redemption or retirement of a bond, any gain or loss realized by a U.S. bondholder generally will be capital gain or loss and will be long-term capital gain or loss in the case of bonds held for more than one year. In the case of non-corporate U.S. bondholders, the maximum tax rate on capital gains arising on the disposition of assets held for more than one year is 20%. Gain on the sale, exchange, redemption or retirement of bonds by a U.S. bondholder generally will be U.S. source income. Your ability to deduct capital losses is subject to limitations.

Information reporting and backup withholding requirements with respect to U.S. bondholders

U.S. information reporting requirements may apply with respect to the payment of interest on bonds. No backup withholding is required for interest payments by Marconi Corporation plc to corporate U.S. bondholders. Non-corporate U.S. bondholders may be subject to backup withholding at a rate of up to 31% with respect to interest when a non-corporate U.S. bondholder:

- fails to furnish or certify a correct taxpayer identification number to the payor or its agent in the manner required;
- is notified by the Internal Revenue Service that it has failed to report payments of interest or dividends properly; or
- fails, under certain circumstances, to certify that it has not been notified by the IRS that it is subject to backup withholding for failure to report interest and dividend payments.

United States federal income tax consequences to non-U.S. bondholders

The following discussion summarizes the U.S. federal income tax consequences of acquiring, holding and disposing of bonds by a foreign bondholder, that is, a holder that is not a U.S. person.

Payments of interest on and sale, exchange, redemption or retirement of bonds

Subject to the discussion below for U.S. backup withholding, a foreign bondholder generally will not be subject to U.S. federal income tax on payments of interest on bonds, or gain from the sale, exchange, redemption or retirement of bonds unless:

- the income is effectively connected with the conduct by the foreign bondholder of a U.S. trade or business or, in the case of a resident of a country which has a treaty with the United States, the income is attributable to a permanent establishment (or in the case of an individual, a fixed place of business) in the United States, in which case the foreign bondholder will be taxed on the income like a U.S. bondholder; or

- for any gain on the sale, exchange, redemption or retirement of bonds, the foreign bondholder is present in the United States for 183 days or more in the taxable year of the sale and meets certain other conditions, in which case the foreign bondholder generally will be taxed on the gain like a U.S. bondholder.

If you are a corporate foreign bondholder, effectively connected income may, under certain circumstances, be subject to an additional branch profits tax at a 30% rate or at a lower rate if you are eligible for the benefits of an income tax treaty that provides for a lower rate.

Information reporting and backup withholding requirements with respect to foreign bondholders

Information reporting for U.S. federal income tax purposes will apply to payments made on the bonds within the U.S. unless you are an ''exempt recipient'' and you comply with applicable certification requirements. Generally, individuals are not exempt recipients while corporations are. Payments made outside the U.S. will be subject to information reporting in limited circumstances. Backup withholding of U.S. federal income tax at a rate of up to 31% may apply to payments made in the U.S. on the bonds. Backup withholding will not apply to payments made to a holder who is an ''exempt recipient'' and who complies with applicable certification requirements. Any amounts withheld under the backup withholding rules from a payment to a foreign bondholder will be allowed as a refund or credit against the foreign bondholder's U.S. federal income tax, provided that the required information is furnished to the IRS.

DOCUMENTS ON DISPLAY

Each of Marconi plc and Marconi Corporation plc is subject to the informational requirements of the Securities Exchange Act of 1934 and files reports and other information with the SEC. You may read and copy all or any portion of the reports and their exhibits at the public reference facilities maintained by the SEC, 450 Fifth Street, N.W., Judiciary Plaza, Room 1024, Washington, D.C. 20549, and at its regional offices at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. You may request copies of all or any portion of these documents, upon payment of a duplication fee, by writing to the public reference section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain more information about the public reference room by calling the SEC at 1-800-SEC-0330. We do not file electronically with the SEC and, consequently, the reports and information we file with the SEC are not available on the website maintained by it.

SUBSIDIARY INFORMATION

The following table shows the principal subsidiaries and other associated companies of Marconi plc, being those which are considered by Marconi plc to be likely to have a significant impact on the assessment of the assets and liabilities, the financial position and/or the profits and losses of the Marconi Group to March 31, 2001. Except where stated otherwise, each of these companies is wholly-owned by a member of the Marconi Group and the share capital is fully paid. Each of the subsidiaries listed below, except for Marconi Corporation plc, are also principal subsidiaries of Marconi Corporation plc.

Effective September 4, 2001, we reorganized our businesses into two divisions: communications and capital. Our communications subsidiaries are included in the communications division and all other subsidiaries, investments and associated companies are included in the capital division. For a more detailed discussion of our reorganization, see ''Item 4—Information on the Company—Business Overview'' and ''Item 4—Information on the Company—Organizational Structure''. Lists of the significant subsidiaries of Marconi plc and Marconi Corporation plc are also included as Exhibits 8.1 and 8.2 to this annual report.

Name	Registered Office
Marconi Corporation plc	One Bruton Street, London W1J 6AQ, England
Communications	
Marconi Communications Ltd	New Century Park, PO Box 53, Coventry CV3 1HJ, England
Marconi Mobile S.p.A.	Via A. Negrone 1/A, 16153 Genoa, Italy
Marconi Communications S.p.A.	Via Ludovico Calda 5, 16153 Genoa, Italy
Marconi Communications, Inc.	c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, USA
Systems	
Marconi Medical Systems, Inc.*	c/o CT Corporation System, 1633 Broadway, New York, New York 10019, USA
Marconi Data Systems, Inc.	c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, USA
Other	
Marconi Commerce Systems Inc.**	c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, USA
Marconi Applied Technologies Limited	One Bruton Street, London W1J 6AQ, England
Marconi Software Solutions Limited	One Bruton Street, London W1J 6AQ, England
ipsaris Limited***	One Bruton Street, London W1J 6AQ, England
General Domestic Appliances Limited (50%)	Morley Way, Peterborough, PE2 9JB, England

Other associated companies

Global Air Movement Holdings Limited (42%)	4 Grosvenor Place, London SW1X 7HJ, England
Plessey Holdings Limited (50%)	One Bruton Street, London W1J 6AQ, England

* On July 4, 2001, we agreed to sell Marconi Medical Systems to Philips Electronics. The transaction is subject to standard closing conditions, including regulatory approvals, and subject to these conditions being met and approvals being received, is expected to close in the fourth calendar quarter of 2001.

** Effective in September 2000, the retail automation systems and service station equipment businesses of Marconi Commerce Systems were accounted for as separate businesses in capital division. These two businesses were reunited under the name Commerce Systems and will be reported as a single business in the capital group for fiscal 2002.

*** Effective July 26, 2001, we merged our 92% interest in ipsaris Limited into EasyNet Group Plc, acquiring 71.9% of the issued share capital of EasyNet and control of 49.9% of EasyNet's issued voting capital. EasyNet's registered office is located at 44-46 Whitfield Street, London KT16 8DF, England.

Item 11. ***Quantitative and Qualitative Disclosures about Market Risk***

Our treasury activities are co-ordinated by our treasury which operates in accordance with policies approved by our board. It does not operate as a profit center. 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 which are managed by those operating units as described below.

Interest rate risk

Our policy is to maintain at least 50% of debt at fixed rates of interest. At March 31, 2001, 74% of our interest-bearing borrowings were at fixed rates after taking account of interest rate swaps. Of this total, 55% were at fixed dollar rates of interest and 18% were at fixed euro rates of interest.

The term structure of interest rates is managed in observance of this policy using derivative financial instruments such as interest rate swaps and non-leveraged cancellable swaps.

Due to the high proportion of fixed rate debt, our interest expense is only exposed to interest rate movements in its floating rate debt, cash and investments. We are principally exposed to changes in short term interest rates in pounds sterling, euro and U.S. dollars due to this floating rate exposure. A one percentage point increase in market interest rates would have increased interest income by £8 million (2000: £13 million) and increased interest expense by £12 million (2000: £10 million) which, combined, would have decreased profit from continuing operations before income taxes in fiscal 2001 by approximately £4 million (2000: reduced loss by £3 million).

Foreign exchange risk

We are a global communications and information technology company, and as such we conduct a significant portion of our business activities outside the United Kingdom in currencies other than sterling. Our principal exchange rate exposures relate to U.S. dollar/pounds sterling and euro/pounds sterling exchange rates for both transactional and translation related exposures. We enter into foreign currency forward exchange contracts in the ordinary course of business to protect ourselves from adverse currency rate fluctuations on firm contracts where cash receipts or payments are in a foreign currency different from that of the Marconi business which is contracting with customers or suppliers. These contracts are executed with creditworthy banks.

Our policy permits the use of derivative instruments in respect of certain longer-term commercial contracts, denominated in foreign currency, in order to protect the period from tender to contract effectiveness. These transactions are carried out by specialist treasury personnel. We had no contracts of this type in place at March 31, 2001, and no material positions existed during the year then ended.

The impact on earnings of changes in exchange rates related to transactional exchange rate exposures are eliminated through the use of forward foreign exchange contracts as soon as a firm commitment arises.

We also have overseas subsidiaries that earn profits in foreign currencies. It is our policy not to use derivatives to hedge exposures arising from the translation of these overseas profits into pounds sterling. However, 96% of gross borrowings were denominated in foreign currencies in order to form a hedge for our investments in currencies other than sterling. Of these, 59%, denominated in U.S. dollars, formed a hedge for our investment in the United States, and 34%, denominated in euro, formed a hedge for our investment in the eurozone.

Under U.K. tax regulations, we are exposed to tax on changes in the translations into sterling of its foreign currency borrowings. Marconi has entered into derivative contracts with certain of its banks to eliminate the cash flow exposure resulting from these tax payments.

If the pound had strengthened such that the average exchange rates used in the translation of our overseas earnings changed by 10%, our reported income from continuing operations would have been reduced by 10.1%, in the year ended March 31, 2001 (2000: 6.7%).

Share price risk

We have issued share options to our employees under a number of different option plans. Options may be satisfied by way of a transfer of existing Marconi ordinary shares acquired in the market by an employee trust or other vehicle, or by an issue of new Marconi shares. It is intended, as a matter of general policy, to use existing shares to satisfy options under the plans. In order to hedge part of the potential cost of the plans, the Marconi Employee Trust has entered into contracts to purchase shares in the future at prices which were fixed at the date of contract. During the course of the fiscal year ended March 31, 2001, the share price ranged between a high of 1250p and a low of 340p. For every 10% movement in the share price, the fair value of these contracts would change by £13.6 million. We may use new shares, where appropriate, to satisfy options under the plans. The contracts require the Marconi Employee Trust to deposit collateral with banks if the share price falls to certain levels stipulated in the contracts. Marconi plc funds the provisions of this collateral. At March 31, 2001, £81 million of collateral was paid, with a further £51 million due. At September 24, 2001, Marconi plc had funded a total of £210 million of collateral, with no further collateral due at that date.

Item 12. ***Description of Securities Other than Equity Securities***

Not applicable.

PART II

Item 13. *Defaults, Dividend Arrearages and Delinquencies*

There has been no material default in the payment of principal, interest, a sinking or purchase fund installment or any other material default relating to any indebtedness of Marconi plc, Marconi Corporation plc or any significant subsidiary of Marconi plc or Marconi Corporation plc.

The payment of dividends by Marconi plc is not in arrears and there has not been any other material delinquency relating to any class of preferred stock of Marconi plc, Marconi Corporation plc or any significant subsidiary of Marconi plc or Marconi Corporation plc.

Item 14. *Material Modifications to the Rights of Security Holders and Use of Proceeds*

Neither Marconi plc nor Marconi Corporation plc nor any other person has modified materially the instruments defining the rights of holders of any class of registered securities of Marconi plc or Marconi Corporation plc.

Neither Marconi plc nor Marconi Corporation plc nor any other person has modified materially or qualified the rights evidenced by any class of registered securities by issuing or modifying any other class of securities of Marconi plc or Marconi Corporation plc.

Neither Marconi plc nor Marconi Corporation plc nor any other person has withdrawn or substituted a material amount of assets securing any class of registered securities of Marconi plc or Marconi Corporation plc.

The trustees and paying agents for the registered securities of Marconi plc and Marconi Corporation plc have not changed during the fiscal year ended March 31, 2001.

On September 15, 2000, Marconi Corporation plc commenced an offering of $900,000,000 7¾% Bonds due 2010 and $900,000,000 8⅜% Bonds due 2030 under a Registration Statement on Form F-1 (Registration No. 333-12430), which became effective at 10:00 am on September 15, 2000. The Bonds are guaranteed by Marconi plc. The managing underwriters for the offering of Bonds were Morgan Stanley & Co. Incorporated, Credit Suisse First Boston Corporation, J.P. Morgan Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Salomon Smith Barney Inc. and UBS Warburg LLC. The offering was successfully completed and all Bonds were sold on September 19, 2000. The 7⅜% Bonds due 2010 were sold to the public at a price of 99.264% and accrued interest, if any, for a total price of $893,376,000, and the 8⅜% Bonds due 2030 were sold to the public at a price of 99.178% and accrued interest, if any, for a total price of $892,602,000.

From September 15, 2000 to March 31, 2001, the amount of expenses that Marconi Corporation plc and Marconi plc have incurred in connection with the issuance and distribution of the Bonds for underwriting discounts and commissions, finders' fees, expenses paid to or for the underwriters, other expenses and total expenses are reasonably estimated to be approximately $24,985,527. No payments were made, directly or indirectly, to directors, officers, general partners or their associates of Marconi Corporation plc or Marconi plc, or to any persons owning 10% or more of any class of equity securities of Marconi Corporation plc or Marconi plc, or to any affiliates of Marconi Corporation plc or Marconi plc. No payments were made, directly or indirectly, to others. After deducting total expenses of approximately $24,985,527, the net proceeds from the offering of the Bonds was approximately $1,760,992,473.

From September 15, 2000 to March 31, 2001, the amount of net proceeds was used to reduce the amounts outstanding under Marconi Corporation plc's 1998 credit facility. No proceeds were used, directly or indirectly, for directors, officers, general partners or their associates of Marconi Corporation plc or Marconi plc, or for any persons owning 10% or more of any class of securities of Marconi Corporation plc or Marconi plc, or to any affiliates of Marconi Corporation plc or Marconi plc. No proceeds were used, directly or indirectly, for others. The use of proceeds does not represent a material change in the use of proceeds described in the prospectus for the Bonds.

Item 15. ***Reserved***

Item 16. ***Reserved***

PART III

Item 17. *Financial Statements*

Financial statements are being furnished pursuant to the instructions of Item 18 of Form 20-F.

Item 18. *Financial Statements*

Marconi plc is furnishing consolidated financial statements beginning at page F-1.

Separate financial statements or other financial disclosures regarding Marconi Corporation plc have not been presented. Marconi Corporation plc is a wholly-owned subsidiary of Marconi plc. The only difference between the consolidated assets, liabilities and results of operations of Marconi plc and the consolidated assets, liabilities and results of operations of Marconi Corporation plc at March 31, 2001 and 2000, respectively, relates to non-interest bearing intercompany loans totaling £167 million and £304 million, respectively, payable by Marconi Corporation plc group companies to other companies in the Marconi plc group which are not subsidiaries of Marconi Corporation plc and cash balances held in Marconi plc of £141 million and £nil, respectively. During the year ending March 31, 2001, Marconi Corporation plc issued debt in the U.S. public debt market. Marconi plc fully and unconditionally guaranteed this issuance. This guarantee will terminate in certain circumstances which may occur at any time.

Item 19. *Exhibits*

Exhibit No.	Description of Document
1.1*	Memorandum and Articles of Association of Marconi plc
1.2†	Memorandum and Articles of Association of Marconi Corporation plc
2.1††	Specimen ordinary share certificate of Marconi plc
2.2††	Form of Deposit Agreement dated as of September 6, 2000 between Marconi plc and The Bank of New York, as depositary, and owners and beneficial holders of American Depositary Receipts.
2.3††	Form of American Depositary Receipt of Marconi plc (included in Exhibit 2.2)
2.4†	Form of Underwriting Agreement dated as of September 14, 2000 between Marconi Corporation plc and Marconi plc and Morgan Stanley & Co. Incorporated as representative of the several underwriters named therein.
2.5†	Form of Indenture dated September 19, 2000 relating to US$900,000,000 7¾% bonds due 2010 and 8⅜% bonds due 2030 between Marconi Corporation plc, Marconi plc and The Bank of New York.
2.6	Unregistered long term debt instruments representing less than 10% of total assets: each of Marconi plc and Marconi Corporation plc undertakes to provide the Securities and Exchange Commission with copies upon request
4.1†	The Transactions Agreement dated April 27, 1999 between The General Electric Company, p.l.c. (now Marconi Corporation plc) and British Aerospace Public Limited Company (now BAE Systems plc), as amended by a letter agreement sent by The General Electric Company, p.l.c. to British Aerospace Public Limited Company on September 6, 1999 and by a supplemental agreement dated October 7, 1999. The agreements set forth below as exhibit numbers 4.2 to 4.8 were entered into pursuant to the Transactions Agreement

Exhibit No.	Description of Document
4.2†	Tax Deed dated November 29, 1999 between British Aerospace Public Limited Company and Marconi plc
4.3†	The EASAMS Agreement dated November 29, 1999 between British Aerospace Public Limited Company and Marconi plc
4.4†	Machined Component Supply Agreement dated November 29, 1999 between EEV Limited (subsequently renamed Marconi Applied Technologies Limited) and British Aerospace Public Limited Company
4.5†	General Deed of Covenant dated November 29, 1999 between Marconi plc and British Aerospace Public Limited Company
4.6†	Services Agreement dated November 29, 1999 between Marconi plc and British Aerospace Public Limited Company
4.7†	Technology Access Agreement dated November 29, 1999 between British Aerospace Public Limited Company and Marconi plc
4.8†	Payment Deed dated April 27, 1999 between British Aerospace Public Limited Company and The General Electric Company, p.l.c.
4.9†	1998 Credit Facility Agreement dated March 25, 1998 between The General Electric Company, p.l.c., HSBC Investment Bank plc, as the Agent, Marine Midland Bank, as the U.S. Swingline Agent, and certain financial institutions which have participated in providing the credit facility and certain other financial institutions as the Joint Lead Arrangers, as amended by a Supplemental Agreement dated January 27, 2000 among The General Electric Company, p.l.c., Marconi plc and HSBC Investment Bank plc, as Agent, and as further amended by a Second Supplemental Agreement dated April 18, 2000 among Marconi Corporation plc, Marconi plc and HSBC Investment Bank plc, as Agent, and as extended to March 22, 2001 by a letter dated March 17, 2000 by HSBC Investment Bank plc
4.10†	Trust Deed dated March 30, 2000 relating to €500,000,000 5.625 per cent. Bonds due 2005 between Marconi Corporation plc, Marconi plc and The Law Debenture Trust Corporation p.l.c.
4.11†	Trust Deed dated March 30, 2000 relating to €1,000,000,000 6.375 per cent. Bonds due 2010 between Marconi Corporation plc, Marconi plc and The Law Debenture Trust Corporation p.l.c.
4.12†	Exchange Agreement dated April 17, 2000 between Marconi plc and certain shareholders in Metapath Software International, Inc.
4.13†	An Agreement and Plan of Merger dated April 17, 2000 between Marconi plc and Metapath Software International, Inc.
4.14*	Underwriting Agreement dated February 8, 2001 between Credit Suisse First Boston (Europe) Limited, Société Générale and Merrill Lynch International as underwriters, Alcatel, Marconi Corporation plc and Alstom
4.15*	Purchase and Sale Agreement dated June 19, 2001 between Credit Suisse First Boston (Europe) Limited and Marconi Corporation plc.
4.16*	2001 Credit Facility Agreement dated May 30, 2001 between Marconi plc as guarantor, Marconi Corporation plc as original borrower, certain banks and financial institutions as mandated lead arrangers, certain banks and financial institutions as lenders and HSBC Investment Bank plc as agent

Exhibit No.	Description of Document
4.17*	Stock Purchase Agreement among Marconi Corporation plc, Marconi Systems Holdings Inc. and Koninklijke Philips Electronics N.V. dated as of July 3, 2001
4.18*	Communications Solutions Agreement between Koninklijke Philips Electronics N.V. and Marconi Corporation plc dated July 3, 2001
4.19*	Merger Agreement dated June 26, 2001 between Marconi Corporation plc and EasyNet Group Plc relating to the merger of ipsaris Limited with EasyNet Group Plc
4.20*	Relationship Agreement dated June 26, 2001 between Marconi Corporation plc and EasyNet Group Plc
4.21*	Railtrack Implementation Agreement dated June 26, 2001 between Marconi Corporation plc, Railtrack Telecom Services Limited (RTSL) and ipsaris Limited
4.22*	Marconi Lock up Undertaking dated June 26, 2001 from Marconi Corporation plc to EasyNet Group Plc and ABN Amro
4.23*	Merger Agreement dated September 20, 2000 between Marconi plc, Marconi Acquisition Sub, Inc. and Mariposa Technology, Inc.
6.1	Computation of Earnings Per Share of Marconi plc (incorporated by reference to Note 16 of the Notes to the Consolidated Financial Statements included in this annual report)
8.1*	List of principal subsidiaries and other associated companies of Marconi plc
8.2*	List of principal subsidiaries and other associated companies of Marconi Corporation plc

* Filed with this annual report.

† Incorporated by reference to the Registration Statement on Form F-1 (File No. 333-12430) filed with the SEC on August 25, 2000.

†† Incorporated by reference to the Registration Statement on Form 20-F (File No. 0-30924) filed with the SEC on September 5, 2000.

SIGNATURES

Each of the registrants hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign on its behalf.

MARCONI plc

By: /s/ JEFFREY ISAAC GORDON

Name: Jeffrey Isaac Gordon
Title: Chief Legal Officer

MARCONI CORPORATION plc

By: /s/ JEFFREY ISAAC GORDON

Name: Jeffrey Isaac Gordon
Title: Director

Date: September 28, 2001

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Marconi plc and subsidiaries

Consolidated financial statements as of March 31, 2001 and 2000 and for the three years ended March 31, 2001

INDEPENDENT AUDITORS' REPORT

To the board of directors and shareholders of Marconi plc

We have audited the accompanying consolidated balance sheets of Marconi plc and subsidiaries (''Marconi'') as of March 31, 2001 and 2000 and the related consolidated statements of income, cash flows, other comprehensive income and shareholders' equity for each of the three fiscal years in the period ended March 31, 2001. These consolidated financial statements are the responsibility of Marconi's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements referred to above present fairly, in all material respects, the financial position of Marconi as of March 31, 2001 and 2000, and the consolidated results of its operations and its cash flows for each of the three fiscal years in the period ended March 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

Our audits also comprehended the translation of certain amounts into U.S. Dollars and, in our opinion, such translation has been made in conformity with the basis described in Note 2. Such U.S. Dollar amounts are presented solely for the convenience of readers in the United States of America.

London, England
May 16, 2001 (September 4, 2001 as to Note 22)

Marconi plc and subsidiaries

CONSOLIDATED BALANCE SHEETS

(In millions, except share data)	March 31, 2000 £	March 31, 2001 £	March 31, 2001 U.S.$
ASSETS			
Current assets			
Cash and cash equivalents	544	373	530
Restricted cash	—	132	188
Marketable securities	178	469	666
Accounts receivable, net of allowance for doubtful accounts	1,483	1,799	2,555
Inventories	815	1,582	2,246
Prepaid expenses and other current assets	236	240	341
Deferred income taxes	133	239	339
Net assets of discontinued operations	408	490	695
Total current assets	3,797	5,324	7,560
Property, plant and equipment, net	681	1,052	1,494
Marketable securities	14	6	9
Investments in affiliates	569	120	170
Goodwill and other intangibles, net	4,699	5,449	7,737
Other non-current assets	95	159	226
TOTAL ASSETS	9,855	12,110	17,196
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term borrowings	1,821	1,408	1,999
Current maturities of long-term debt	9	47	67
Accounts payable	742	875	1,243
Accrued expenses and other current liabilities	1,477	1,599	2,271
Deferred income taxes	45	146	207
Total current liabilities	4,094	4,075	5,787
Long-term debt	938	2,269	3,222
Deferred income taxes	619	594	843
Other liabilities	149	170	242
Commitments and contingencies (Note 21)			
Equity forward contracts	—	215	305
Minority interests	16	15	21
Shareholders' equity			
Treasury stock	—	(8)	(11)
Ordinary shares, £0.05 par value; Authorized: 6,000,000,000 shares in 2001 and 2000; Issued and outstanding: 2,785,189,896 shares in 2001 and 2,723,996,450 shares in 2000	136	139	197
Additional paid-in capital	486	815	1,157
Retained earnings	3,577	3,611	5,128
Accumulated other comprehensive (loss)/income	(160)	215	305
Total shareholders' equity	4,039	4,772	6,776
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	9,855	12,110	17,196

See notes to consolidated financial statements.

Marconi plc and subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

(In millions, except share data)	Fiscal year ended March 31, 1999 £	2000 £	2001 £	2001 U.S.$
Revenues	2,891	4,427	5,491	7,797
Direct costs	1,825	2,750	3,366	4,780
Gross profit	1,066	1,677	2,125	3,017
Operating expenses				
Selling, general and administrative	454	890	919	1,305
Research and development	183	341	566	804
Amortization of goodwill and other intangibles	89	487	660	937
Purchased in-process research and development	—	277	32	45
Gain on sale of businesses	—	—	(45)	(64)
Total operating expenses	726	1,995	2,132	3,027
Operating income/(loss)	340	(318)	(7)	(10)
Other income/(expense)				
Gain on sale of investments	850	4	461	655
Equity in net income/(loss) of affiliates	87	83	(137)	(194)
Interest income	93	102	46	65
Interest expense	(53)	(210)	(199)	(283)
Income/(loss) from continuing operations before income taxes and minority interests	1,317	(339)	164	233
Income tax provision	(448)	(70)	(44)	(62)
Minority interests	(12)	(3)	(5)	(7)
Income/(loss) from continuing operations	857	(412)	115	164
Discontinued operations				
Income from discontinued operations, net of income tax	272	22	45	64
Gain on discontinued operations, net of income tax	—	675	20	28
Net income	1,129	285	180	256
Earnings per share—basic				
Income/(loss) from continuing operations	£ 0.31	£ (0.15)	£ 0.05	$ 0.06
Income from discontinued operations	0.10	0.01	0.01	0.02
Gain on discontinued operations	—	0.25	0.01	0.02
Net income	£ 0.41	£ 0.11	£ 0.07	$ 0.10
Earnings per share—diluted				
Income/(loss) from continuing operations	£ 0.31	£ (0.15)	£ 0.04	$ 0.05
Income from discontinued operations	0.10	0.01	0.01	0.02
Gain on discontinued operations	—	0.24	0.01	0.02
Net income	£ 0.41	£ 0.10	£ 0.06	$ 0.09

See notes to consolidated financial statements.

Marconi plc and subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended March 31,			
	1999	2000	2001	2001
(In millions)	£	£	£	U.S.$
Cash flows from operating activities:				
Net income	1,129	285	180	256
Adjustments to reconcile net income to net cash (used for)/provided by operating activities of continuing operations:				
Income from discontinued operations	(272)	(22)	(45)	(64)
Charge arising on sale of accounts receivable	—	—	3	4
Stock compensation	—	47	7	10
Depreciation and amortization	187	630	858	1,218
Purchased in-process research and development	—	277	32	45
Provision for doubtful accounts	10	28	50	71
Profit on disposal of property, plant and equipment	(2)	—	22	31
Change in deferred income taxes	143	(109)	(180)	(256)
Equity in net (loss)/income of affiliates	(87)	(83)	137	195
Change in minority interests	(12)	3	5	7
Gain on operations sold	—	(675)	(65)	(92)
Loss on/write down of marketable securities	—	—	96	136
Gain on sale of investments in affiliates	(850)	—	(557)	(791)
Changes in operating assets and liabilities, net of the effect of acquisitions:				
Accounts receivable	(136)	(239)	(416)	(590)
Proceeds from sale of accounts receivable	—	—	170	241
Inventories	(16)	(124)	(770)	(1,093)
Prepaid expenses and other assets	7	(24)	(69)	(98)
Accounts payable	8	(286)	16	23
Accrued expenses and other liabilities	(291)	695	(15)	(21)
Net cash (used for)/provided by operating activities of continuing operations	(182)	403	(541)	(768)
Cash flows from investing activities:				
Maturities of marketable securities	147	147	39	55
Purchases of marketable securities	(3)	(5)	(131)	(186)
Dividends received from affiliates	426	68	80	114
Proceeds from the sale of investments in affiliates	1,049	—	646	917
Purchases of property, plant and equipment	(141)	(285)	(559)	(794)
Proceeds from the sale of property, plant and equipment	9	30	15	21
Net proceeds from the separation of discontinued operations	—	1,179	—	—
Change in other non-current assets	11	(1)	(5)	(7)
Net cash paid for investments in affiliates	—	(132)	—	(538)
Cash received from disposals	—	—	185	263
Net cash paid for acquisitions	(779)	(3,974)	(379)	—
Net cash provided by/(used for) investing activities	719	(2,973)	(109)	(155)
Cash flow from financing activities:				
Short-term borrowings/(repayments), net	680	1,223	(599)	(851)
Term loan (repayments)/borrowings), net	(5)	657	1,221	1,734
Dividends paid	(218)	(397)	(146)	(207)
Issuance of common stock	27	161	36	51
Repurchases of common stock	(310)	—	—	
Collateralization of equity forward contracts	—	—	(81)	(115)
Net cash provided by financing activities	174	1,644	431	612
Cash (used in)/provided by discontinued operations	(300)	221	17	24
Effects of exchange rate changes on cash	(15)	(157)	31	45
Net increase/(decrease) in cash and cash equivalents	396	(862)	(171)	(242)
Cash and cash equivalents, beginning of year	1,010	1,406	544	772
Cash and cash equivalents, end of year	1,406	544	373	530
Supplemental disclosure of cash flow activity:				
Cash payments for interest	55	144	155	220
Cash payments for income taxes	300	113	131	187
Acquisitions:				
Tangible assets acquired	209	543	64	91
Liabilities assumed	(265)	(796)	(115)	(164)
Intangible assets generated	846	4,364	1,015	1,441
Less non-cash consideration:				
Notes issued for acquisitions	—	—	(101)	(143)
Shares and options issued for acquisitions	—	—	(484)	(687)
Total cash paid for acquisitions	790	4,111	379	538

See notes to consolidated financial statements.

Marconi plc and subsidiaries

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

	Year ended March 31,			
	1999	2000	2001	2001
(In millions)	£	£	£	U.S.$
Net income	1,129	285	180	256
Other comprehensive income				
Accumulated translation adjustments	24	43	258	366
Unrealized holding gains arising during the year, net of income tax of £7 in 1999, £27 in 2000 and £50 in 2001, respectively	32	101	117	166
Other comprehensive income	1,185	429	555	788

See notes to consolidated financial statements.

Marconi plc and subsidiaries

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In millions, except share data)	Ordinary shares		Treasury Shares	Additional paid-in capital	Retained earnings	Accumulated Other Comprehensive income/(loss)	Total
	Shares	Amount					
As of March 31, 1998	2,721,204,288	136		251	4,927	(360)	4,954
Net income					1,129		1,129
Dividends paid (£0.12 per share)					(330)		(330)
Issuance of ordinary shares under share option plans	10,429,438	1		26			27
Ordinary shares repurchased and cancelled	(54,328,160)	(3)		3	(310)		(310)
Unrealized holding gains on Investments, net of tax						32	32
Translation adjustments						24	24
As of March 31, 1999	2,677,305,566	134		280	5,416	(304)	5,526
Net income					285		285
Dividends paid (£0.11 per share)					(285)		(285)
Distribution of net assets of discontinued operations					(1,839)		(1,839)
Issuance of ordinary shares under share option plans	46,690,884	2		159			161
Deferred compensation				47			47
Unrealized holding gains on Investments, net of tax						101	101
Translation adjustments						43	43
As of March 31, 2000	2,723,996,450	136		486	3,577	(160)	4,039
Net income					180		180
Equity forward contracts				(215)			(215)
Dividends paid (£0.05 per share)					(146)		(146)
Issuance of ordinary shares under share option plans	11,580,041	1		35			36
Issuance of ordinary shares for acquisitions	49,613,405	2		484			486
Treasury shares acquired			(8)				(8)
Deferred compensation				25			25
Unrealized holding gains on Investments, net of tax						117	117
Translation adjustments						258	258
As of March 31, 2001	2,785,189,896	139	(8)	815	3,611	215	4,772

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Background and basis of presentation

Nature of operations

Marconi plc was incorporated on September 17, 1999 as the new holding company for certain businesses of The General Electric Company, p.l.c. (''GEC'') group that remained after the separation of GEC's international aerospace, naval shipbuilding, defense electronics and defense systems business from GEC and the merger of that business with BAE Systems. This transaction, and the accounting treatment, is set out in greater detail in footnote 18.

Separate financial statements or other financial disclosures regarding Marconi Corporation plc have not been presented. Marconi Corporation plc is a wholly-owned subsidiary of Marconi plc. The only difference between the consolidated assets, liabilities and results of operations of Marconi plc and the consolidated assets, liabilities and results of operations of Marconi Corporation plc at March 31, 2001 and 2000 respectively, relates to non-interest bearing intercompany loans totaling £167 million and £304 million payable by Marconi Corporation plc group companies to other companies in the Marconi plc group which are not subsidiaries of Marconi Corporation plc and cash balances held in Marconi plc of £141 million and £nil. During the year ended March 31, 2001, Marconi Corporation plc issued debt in the U.S. public debt market. Marconi plc fully and unconditionally guaranteed this issuance. This guarantee may terminate at any time.

2. Summary of significant accounting policies

Basis of consolidation

The consolidated financial statements include the accounts of Marconi plc and its subsidiaries that are more than 50% owned and controlled. All intercompany balances and transactions have been eliminated upon consolidation.

Use of estimates

The preparation of the consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America (''U.S. GAAP'') requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for, but not limited to, the accounting for doubtful accounts, inventory reserves, depreciation and amortization, sales returns, warranty costs, taxes, certain accruals, payables, long-term contract profit estimates, long-lived asset impairment calculations and contingencies. Actual results could differ from these estimates.

Cash and cash equivalents

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents.

Restricted cash

Cash balances pledged or advanced as collateral are considered to be restricted cash.

Marketable securities

Investments are classified as held to maturity, when management has both the intent and ability to hold these securities to maturity, and are recorded at amortized cost. Income relating to these securities is reported as interest income. All other marketable securities are classified as available for sale and recorded at fair value. Net unrealized holding gains and losses, net of tax, are reported as a separate component of shareholders' equity, except where holding losses are determined to be ''other than temporary'', whereby the losses are reported in gains and losses on sales of investments in the income statement. During the year ended March 31, 2001, writedowns and other than temporary holding losses of £96 million were charged to the income statement. Realized gains and losses on the sale of securities available for sale are determined using the specific-identification method.

Inventories

Inventories are stated at the lower of cost, determined on a weighted-average basis, or market value.

Property, plant and equipment

Property, plant and equipment is stated at cost. Cost of significant assets includes capitalized interest incurred during the construction and development period. Depreciation expense is computed using the straight-line method over the estimated useful lives of the depreciable assets. The estimated useful lives for buildings and improvements are between 25 and 50 years and the estimated useful lives for machinery and equipment are between 3 and 10 years. Significant improvements which substantially extend the useful lives of assets are capitalized. Maintenance and repairs are charged to expense as incurred. Upon disposal of an asset, its accumulated depreciation is deducted from the original cost and any gain or loss is reflected in current earnings.

Long-lived assets

Marconi evaluates the carrying value of long-lived assets, whenever events or changes in circumstances indicate that the carrying value of the asset may be impaired. An impairment loss is recognized when estimated future cash flows, on an undiscounted basis, expected to result from the use of the asset, including disposition, is less than the carrying value of the asset. Based on these evaluations, no adjustments were made to the carrying value of goodwill or other long-lived assets in 1999, 2000 or 2001.

Goodwill and other intangible assets

Goodwill, which represents the excess of cost over the fair value of net assets acquired, is amortized using the straight-line method over periods ranging from 7 to 20 years. Other intangible assets are carried at cost and are amortized using the straight-line method over the estimated periods to be benefited, ranging from 4 to 15 years. Amortization expense for the fiscal years ended March 31, 1999, 2000 and 2001, was £89 million, £487 million and £660 million, respectively.

Marconi periodically evaluates the recoverability of goodwill and other intangible assets by comparing the net book value of such assets to expected future cash flows, on an undiscounted basis, over the remaining amortization period of the asset. Marconi measures impairment for enterprise level goodwill and identifiable intangible assets and goodwill associated with long-lived assets based on a discounted cashflow analysis. Based on these evaluations, there were no adjustments to the carrying value of goodwill and other intangible assets in 1999, 2000 or 2001.

Investments in affiliates

Investments in affiliates and joint ventures over which Marconi has the ability to exercise significant influence, but not a controlling interest (generally a 20%-50% ownership interest), are accounted for using the equity method. Under this method, the investment is carried at cost of acquisition plus Marconi's equity in undistributed earnings or losses since the date of acquisition.

Income taxes

Marconi recognizes deferred tax assets and liabilities using enacted tax rates to calculate temporary differences between the tax basis of assets and liabilities and the financial statement carrying amounts.

Foreign currency translation

For operations outside the United Kingdom that prepare financial statements in currencies other than pounds sterling, results of operations and cash flows are translated at the weighted average exchange rates during the period and assets and liabilities are translated at the end-of-period exchange rates. Translation adjustments are included as a separate component of shareholder's equity. Key exchange rates used are as follows:

	Average rates			Year-end rates	
	Fiscal Year Ended March 31,			As of March 31,	
	1999	**2000**	**2001**	**2000**	**2001**
U.S. Dollar	1.66	1.62	1.48	1.60	1.42
Italian Lira	2,861	3,015	3,153	3,228	3,114
Euro	1.47	1.56	1.63	1.67	1.61

Convenience translation

The consolidated financial statements are presented in millions of U.K. pounds sterling. In addition, the consolidated financial statements as of and for the fiscal year ended March 31, 2001 are also presented in U.S. dollars. These U.S. dollar amounts are unaudited and are presented solely for the convenience of the reader at the rate of £1.00 = $1.42, the noon buying rate of the U.S. Federal Reserve Bank as of March 31, 2001. No representation is made that the amounts shown could have been or could be converted into U.S. dollars at that or any other rate.

Concentrations of credit risk

Credit risk relates to the risk of loss that Marconi would incur as a result of non-performance by counterparties. Principally this relates to trade accounts receivable, and is limited due to the large number of customers and their geographic dispersion. In addition, Marconi maintains credit policies with regard to its counterparties that enable management to manage overall credit risk. Marconi generally does not obtain collateral to support the agreements but establishes credit limits, monitors the financial viability of counterparties and seeks guarantees where appropriate. Marconi believes that it has established adequate reserves in regard to the risk of non-performance by counterparties. At March 31, 2001, one customer accounted for 11% of trade receivables.

Derivative instruments

Marconi uses foreign currency exchange contracts and interest rate swaps agreements to manage and reduce risk to Marconi by generating cash flows, which offset the foreign currency or interest rate cash flows of certain transactions of underlying financial instruments in relation to their amount and timing. Marconi's derivative financial instruments are for purposes other than trading and are not entered into for speculative purposes. Marconi's non-derivative financial instruments include letters of credit, commitments to extend credit and guarantees of debt.

Derivative financial instruments are used by Marconi to manage its interest rate and foreign currency exposures. Marconi does not enter into financial instruments for trading or speculative purposes. Instruments used for hedging purposes include interest rate swaps, tax equalization swaps and forward foreign exchange contracts. In the event that it is determined that a hedge is ineffective, including when the hedged transaction no longer exists, Marconi recognizes in income the change in market value of the instrument from when it was no longer an effective hedge. Gains and losses on hedges realized before the settlement date of the related hedged transaction are deferred and recognized in income in the same period as the hedged transaction.

Payments and receipts under interest rate swap agreements specifically designated for hedging purposes are recorded under interest income and interest expense on an accrual basis. Tax equalization swaps, which qualify as hedges of foreign currency exposures, are recognized through accumulated other comprehensive income (in accordance with the underlying transaction and the tax thereon) with any forward premium or discount recognized over the life of the contract in net interest income. Gains and losses on foreign currency denominated debt, which is designated and effective as an economic hedge of net investments in foreign subsidiaries, are recognized through other comprehensive income.

Forward foreign exchange contracts generally exhibit a high correlation to the hedged items and are designated and considered effective as hedges of the underlying assets, liabilities and firm commitments. Gains and losses on forward foreign exchange contracts which are designated as hedges of assets, liabilities and firm commitments of the group, and which are denominated in foreign currencies relative to the functional currency of the transacting Marconi subsidiary, are recognized in income or as adjustments to carrying amounts when the hedged transactions occur.

Fair values of exchange contracts are determined using published rates. Hedges which cease to be effective or are terminated prior to maturity are measured at fair value and any profit or loss is recognized through interest income or expense.

Equity forward contracts

At March 31, 2001, the Marconi Employee Trust had entered into various agreements to purchase shares of Marconi's common stock from various counterparties in order to satisfy market purchase share option obligations. The repurchase price is the weighted average price per share payable at the inception date, plus commissions and interest, less dividends. The contracts are recorded in temporary equity at an amount equivalent to the net cash settlement of the shares outstanding under the contracts at March 31, 2001.

Sale of accounts receivable

Periodically, Marconi enters into transactions to sell certain of its trade accounts receivable and retains a servicing obligation but does not incur a measurable asset or liability. Losses on the sale of receivables are based on the carrying value of the assets sold less cash received. Expenses and losses associated with such sales are recognized as a component of interest expense and related financing costs.

During March 2001, the company entered into agreements to sell a pool of its trade accounts receivable with a carrying value of £173 million. Proceeds of approximately £170 million were received as of March 31, 2001 from the sale of such receivables and the company has recorded a corresponding charge of £3 million in interest expense.

Revenue recognition

Revenue from product sales of hardware and software is recognized at time of delivery and acceptance by the customer. Terms of acceptance are dependent upon the specific contractual arrangement agreed with the customer. These terms vary by contract, and include delivery and acceptance as of:

- shipment date;
- delivery to a customer site of operations: or
- shipment to a customer site of operations and installation/testing.

In addition, revenue is recognized only when collectibility is probable.

Revenue from multiple element contracts is allocated based on prices charged for each individual element when sold separately.

Revenue from services is recognized at time of performance.

Revenues and estimated profits on long-term contracts are recognized under the percentage-of-completion method of accounting using a cost-to-cost methodology. Profit estimates are revised periodically based on changes in facts of the underlying contract of project. When estimates of total contract revenues and costs indicate a loss, a provision for the entire amount of the contract loss is recognized in the period in which the loss becomes evident.

Research and development costs

Research and development costs are expensed as incurred unless specifically billable to and recoverable from customers under agreed contract terms of underlying agreements.

Stock based compensation

Statement of Financial Accounting Standards No. 123, ''Accounting for Stock Based Compensation,'' encourages, but does not require, companies to record compensation cost for stock based employee compensation plans at fair value. Marconi has chosen to continue to account for stock based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, ''Accounting for Stock Issued to Employees,'' and related Interpretations. Accordingly, compensation cost of stock options is measured as the excess, if any, of the quoted market price of Marconi's stock at the date of the grant over the option exercise price and is charged to operations over the vesting period. Marconi has presented the additional pro forma disclosures required by SFAS 123, in Note 15.

Earnings per share

Earnings per share (EPS) are computed in accordance with Statement of Financial Accounting Standards (''SFAS'') No. 128, ''Earnings per Share.'' Basic EPS is computed by dividing consolidated net income by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is computed by dividing consolidated net income by the sum of the weighted average number of shares outstanding and the weighted average number of potentially dilutive common shares, based on the assumed exercise of dilutive share options under Marconi's stock option plans.

Other comprehensive income

Marconi has adopted the provisions of SFAS No. 130, ''Reporting Comprehensive Income'' which establishes standards for reporting other comprehensive income and its components in the general-purpose financial statements. The primary differences between Marconi's net income and its total other comprehensive income for fiscal years 1999, 2000 and 2001 include unrealized gains and losses on available-for-sale marketable securities and the accumulated translation adjustment.

Recently issued accounting pronouncements

In June 1999, the Financial Accounting Standards Board (''FASB'') issued SFAS No. 137: ''Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of SFAS No. 133'', which defers the effective date of SFAS No. 133: ''Accounting for Derivative Instruments and Hedging Activities'' to fiscal years commencing after June 15, 2000. Marconi will adopt SFAS No.133 effective April 1, 2001. SFAS 133 as amended by SFAS No. 138, ''Accounting for Certain Derivative Instruments and Certain Hedging Activities'', requires that all derivative instruments be recorded on the balance sheet at their fair value.

Derivatives that are not designated as hedges must be adjusted to fair value through income. If the derivative is designated as a hedge, depending on the nature of the hedge, changes in the fair value of derivatives that are considered to be effective, as defined, will either offset the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or will be recorded in other comprehensive income until the hedged item is recorded in earnings. Gains and losses on derivative instruments that will be reported in other comprehensive income will be reclassified to income in the periods in which income is affected by the variability in the cash flows of the hedged items. Any portion of a change in a derivative's fair value that is considered to be ineffective, as defined, will have to be immediately recorded in earnings. Any portion of a change in a derivative's fair value that the Company has elected to exclude from its measurement of effectiveness will be recorded in earnings.

Upon adoption on April 1, 2001, Marconi will record a cumulative transition adjustment recognizing after tax gains of £0.2 million in earnings and an after tax charge of £1.7 million in Total Other Comprehensive Income. Assets will increase by £15.4 million and liabilities by £17.6 million as a result of recording all derivatives on the balance sheet at fair value.

In March 2000, the FASB issued Financial Interpretation No. 44 (''FIN 44''), ''Accounting for Certain Transactions Involving Stock Compensation—an Interpretation of APB Opinion No. 25.'' FIN 44 clarifies the application of APB No. 25 in certain situations, as defined. The interpretation is effective July 1, 2000, but covers certain events occurring during the period after December 15, 1998 but before the effective date. To the extent that events covered by this interpretation occur during the period after December 15, 1998, but before the effective date the effects of applying this interpretation would be recognized on a prospective basis from the effective date. Accordingly, upon initial application of the final interpretation, (a) no adjustments have been made to the financial statements for periods before the effective date, (b) no expense has been recognized for any additional compensation cost measured that is attributable to periods before the effective date, and (c) no expense has been recognized for any additional compensation cost measured that is attributable to periods before the effective date. The adoption of these provisions did not have a material impact on our financial position or results of operations.

In September 2000, the FASB issued SFAS No. 140 (''FAS 140''), Accounting for the Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, which replaces SFAS No. 125 (of the same title). SFAS 140 revises certain standards in the accounting for securitizations and other transfers of financial assets and collateral, and requires some disclosures relating to securitization transactions and collateral, but it carries over most of the provisions in SFAS 125. The collateral and disclosure provisions of FAS 140 are effective for fiscal years ending after December 15, 2000 and are included in the accompanying financial statements. The other provisions of this Statement are effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. Management does not expect that the adoption of this statement will have a material impact on Marconi.

In June 2001, the FASB issued two new pronouncements: SFAS No. 141, ''Business Combinations'', and SFAS No. 142, ''Goodwill and Other Intangible Assets''. SFAS 141 prohibits the use of the pooling-of-interest method for business combinations initiated after June 30, 2001 and also applies to all business combinations accounted for by the purchase method that are completed after June 30, 2001. There are also transition provisions that apply to business combinations completed before July 1, 2001, that were accounted for by the purchase method. SFAS 142 is effective for fiscal years beginning after December 15, 2001 for all goodwill and other intangible assets recognized in an entity's statement of financial position at that date, regardless of when those assets were initially recognized. SFAS 142 requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill. SFAS 142 also requires the Company to complete a transitional goodwill impairment test six months from the date of adoption. Marconi is currently assessing, but has not yet determined the impact of SFAS 142 on its financial position and results of operations.

In May 2000, the Emerging Issues Task Force (EITF) issued EITF 00-10, ''Accounting for Shipping and Handling Fees and Costs'', which requires that all amounts billed to customers related to shipping and handling should be classified as revenues. The adoption of this provision did not have a material impact on our financial position or results of operations.

In September 2000, the EITF issued EITF 00-19, ''Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock'', which requires freestanding contracts that are settled in a company's own stock, including common stock options and warrants, to be designated as an equity instrument, asset or a liability, is effective for Marconi at June 30, 2001. Under the provisions of EITF 00-19, a contract designated as an asset or a liability must be carried at fair value, with any changes in fair value recorded in the results of operations. A contract designated as an equity instrument must be included within equity, and no fair value adjustments are required. In accordance with EITF 00-19, Marconi has determined that the cash settlement of such contracts should be designated as temporary equity until June 30, 2001 when they will be classified as liabilities with changes in fair value recorded in results of operations.

On August 16, 2001, the FASB issued SFAS No. 143, ''Accounting for Asset Retirement Obligations'', which requires recording the fair value of a liability for an asset retirement obligation in the period in which it is incurred, and a corresponding increase in the carrying value of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, it is either settled for its recorded amount or a gain or loss upon settlement is recorded. Statement 143 is effective for Marconi's fiscal year ending March 31, 2004. Marconi is currently assessing, but has not yet determined the impact of SFAS 143 on its financial position and results of operations.

Financial statement reclassifications

Certain reclassifications have been made to 2000 and 1999 balances in order to conform to the 2001 presentation.

3. Business combinations

Marconi's acquisitions have all been accounted for under the purchase method of accounting. Accordingly, for financial reporting purposes, an allocation of the purchase price has been made using estimated fair values of the assets acquired and liabilities assumed as of the acquisition dates in accordance with Accounting Principles Board Opinion No. 16, ''Business Combinations''. The results of operations from these acquisitions have been included in the accompanying consolidated financial statements since their respective dates of acquisition.

During the year ended March 31, 2001, Marconi completed a number of acquisitions for an aggregate consideration of approximately £1.0 billion (£379 million of which was paid in cash). These consisted of Metapath Software International (''MSI'') for approximately £500 million, Mariposa Technology for approximately £200 million, and others totaling approximately £300 million. The excess of consideration over the fair value of net assets acquired with these acquisitions has been recorded as goodwill of approximately £800 million and intangible assets of approximately £200 million. The total purchased in-process research and development which was associated with two of these acquisitions amounted to £32 million (see below). The aggregate impact of the acquisitions in fiscal 2001 were not material to net sales, net income, or basic earnings per share.

In connection with the acquisitions of MSI and Mariposa Technology during the fiscal year ended March 31, 2001 £28 million of the purchase price for MSI and £4 million for Mariposa Technology have been identified as purchased in-process research and development costs (as discussed below). Subsequent to the acquisition dates, these amounts were expensed immediately. Marconi used fair market appraisals to determine the amount of purchased in-process research and development and believes that the write-off of these amounts is appropriate, as these research and development projects had not yet achieved technological feasibility and did not have any alternative use as of the acquisition dates. The aggregate impact of the acquisitions during the fiscal year ended March 31, 2001 was not material to revenues, net income, net assets or basic earnings per share.

For the two years ended March 31, 2000, the acquisitions consisted of Reltec Corporation for approximately £1.0 billion, Fore Systems for £2.9 billion, GPT for approximately £700 million and others totaling approximately £500 million. The excess of consideration given over the fair value of net assets acquired with these acquisitions has been recorded as goodwill of £2.6 billion and intangible assets of £1.4 billion. The total purchased in-process research and development was associated with two of these acquisitions and amounted to £277 million (see below).

In connection with the acquisitions of Fore Systems and Reltec (as discussed below) during the fiscal year ended March 31, 2000 £174 million of the purchase price for Fore Systems and £103 million for Reltec have been identified as purchased in-process research and development costs. Subsequent to the acquisition dates, these amounts were expensed immediately. Marconi used fair market appraisals to determine the amount of purchased in-process research and development and believes that the write-off of these amounts is appropriate, as these research and development projects had not yet achieved technological feasibility and did not have any alternative use as of the acquisition dates.

The following unaudited pro forma summary presents information as if Reltec, Fore Systems and the GPT minority had been acquired as of the beginning of Marconi's fiscal year 1999. As the purchase of Reltec and Fore Systems were near the beginning of fiscal year 2000 and the GPT minority was acquired in August 1998, no pro forma information will be provided for fiscal year 2000 as pro forma amounts would not be materially different. The fiscal year 1999 pro forma amounts include certain adjustments, primarily to recognize depreciation, in process technology written off and amortization based on the allocated purchase price of Reltec, Fore Systems and

GPT assets, and interest expense (net of tax), and do not reflect any benefits from economies which might be achieved from combining operations. The pro forma information does not necessarily reflect the actual results that would have occurred nor is it necessarily indicative of future results of operations of the combined companies:

	1999
(In millions, except share data)	**£**
Revenues	4,812
Operating loss	(498)
Net income	300
Basic earnings per share	£0.11
Diluted earnings per share	£0.11

Purchase price allocations

Mariposa Technology

In June 2000, Marconi acquired substantially all of the outstanding shares of Mariposa Technology for approximately £200 million. Mariposa is a leading provider of integrated access devices (''IADs'') for carrier-managed services, virtual private networks and private enterprise networks.

The fair market appraisal of acquired assets and liabilities resulted in £179 million being assigned to goodwill and intangible assets, as set forth below (in millions):

	Estimated useful life	Valuation
	(Years)	£
Core developed technology	5	10
In-process research and development	—	4
Assembled work force	5	2
Customer base	10	2
Total		18
Goodwill	7	161

Metapath Software International

In June 2000, Marconi acquired substantially all of the outstanding shares of Metapath Software International for approximately £500 million. MSI is a leading global provider of business and operational support systems, or OSS, software used by the wireless telecommunications industry to launch and support mobile voice and data services. The fair market appraisal of acquired assets and liabilities resulted in £469 million being assigned to goodwill and intangible assets, as set forth below (in millions):

	Estimated useful life	Valuation
	(Years)	£
Core developed technology	4	21
In-process research and development	—	28
Customer base	10	6
Assembled work force	5	4
Royalty asset	7	10
Total		69
Goodwill	7	400

Other Acquisitions in the year ended March 31, 2001

The fair market appraisal of other acquired assets and liabilities resulted in £367 million being assigned to goodwill and intangible assets, as set forth below (in millions):

	Estimated useful life	Valuation
	(Years)	£
Core developed technology	7	64
Customer base	7	26
Assembled work force	7	5
Royalty asset	7	4
Total		99
Goodwill	7	268

Fore Systems

In June 1999, Marconi acquired substantially all of the outstanding shares of Fore Systems for approximately £2.9 billion. Fore Systems is a global supplier of upgradeable, resilient and high-capacity switching products and services for businesses in both the enterprise and carrier markets.

The fair market appraisal of acquired assets and liabilities resulted in £2,927 million being assigned to goodwill and intangible assets, as set forth below (in millions):

	Estimated useful life	Valuation
	(Years)	£
Core developed technology	6	602
In-process research and development	—	174
Customer base	6	121
Assembled work force	5	28
Royalty asset	8.5	23
Total		948
Goodwill	10	1,979

Reltec

In April 1999, Marconi acquired Reltec for a total purchase price of approximately £1.0 billion, excluding assumed debt of approximately £0.2 billion. Reltec is a supplier of a broad range of telecommunications systems, based on local loop access products.

The fair market appraisal of acquired assets and liabilities resulted in £1,344 million being assigned to goodwill and other identified intangible assets, as set forth below (in millions);

	Estimated useful life	Valuation
	(Years)	£
Core developed technology	10	312
In-process research and development	—	103
Customer base	15	275
Trademarks and trade names	15	35
Patents	9	3
Assembled work force	5	41
Total		769
Goodwill	15	575

GPT

In August 1998, the 40% minority stake in GPT held by Siemens was acquired for a cost of £700 million.

The GPT business produces Synchronious Digital Hierarchy technology and is based in Coventry, England.

The fair market appraisal of acquired assets and liabilities resulted in £594 million being assigned to goodwill, and other identified intangible assets, as set forth below:

	Estimated useful life	Valuation
	(Years)	£
Customer base	5	5
Core developed technology	7	288
Total		293
Goodwill	15	301

Purchased in-process research and development

Included in the purchase price allocation for the above acquisitions was purchased in-process research and development. For each acquisition, a fair market appraisal was performed to assess and allocate a value to purchased in-process research and development. The value allocated to purchased in-process research and development represents the estimated fair value based on risk-adjusted future cash flows generated from the products that would result from each of the in-process projects. Estimated future after-tax cash flows of each project, on a product by product basis, were based on management's estimates of revenue less operating expenses, cash flow adjustments, income taxes and charges for the use of contributory assets. Future cash flows were also adjusted for the value contributed by any core technology and development efforts that were completed post acquisition.

Revenues were estimated based on relevant market size and growth factors, expected industry trends, individual product sale cycles, the estimated life of each product's underlying technology and historical pricing. Estimated operating expenses include cost of goods sold, selling, general and administrative expenses and research and development expenses. The estimated research and development expenses include costs to maintain the products once they have been introduced into the market and are generating revenues and costs to complete the purchased in-process research and development. Operating expense estimates were consistent with historical margins and expense levels for similar products.

The discount rates used to discount the projected net returns were based on a weighted-average cost of capital relative to each acquisition and the telecommunications industry, as well as the product-specific risk associated with the purchased in-process research and development products. Product-specific risk includes the stage of completion of each project, the complexity of the development work completed to date, the likelihood of achieving technological feasibility and market acceptance.

Mariposa Technology

During the 12 months ended March 31, 2001, Marconi recorded a charge of £4 million for purchased in-process research and development acquired in connection with the Mariposa transaction.

A brief description of Mariposa's purchased in-process research and development project, the Sierra Product Line, is set forth below including an estimated percentage of completion at the acquisition date. Marconi has allocated the entire £4 million of purchased in-process research and development to this project.

As of the acquisition date, management's estimations of the overall progress towards completion of this project was based on completion in terms of time, expenditure and work complexity. No acquirer specific synergies were explicitly employed in the analysis of the purchased in-process research and development. The discount factor used in management's estimation of the overall fair value for this project was 22%.

The Sierra Product Line represents a low-end Integrated Access Device (IAD) solution, which will meet small and medium size enterprise customer needs as well as carrier requirements in the growing 'x' Digital Subscriber Loop (xDSL) new market segment. The Sierra Product Line will address customer needs by providing a cost effective voice and data convergence solution using the xDSL technologies; Symmetric Digital Subscriber Loop (SDSL), Symmetric Highspeed Digital Subscriber Loop (G.SHDSL), and Highspeed Digital Subscriber Loop Version 2 (HDSL2). Depending on the type of DSL, this technology can be used to deliver services to both residential and business users. Since a total replacement of the standard T1/E1 high speed line offered by service providers is not possible, Sierra will also support T1/E1.

The Sierra Product Line incorporates toll-quality compressed and uncompressed analog voice, Frame relay and Ethernet data services through a single Asynchronous Transfer Mode (ATM) user-to-network interface, which can be either T1/E1 or SDSL/G.SHDSL/HDSL2.

As of the acquisition date, management's estimation of the overall progress was 40% related to the development percentage completion of this project. As of March 31, 2001 management expected the Sierra products to be generating revenue by June 2001.

Metapath Software International

During the 12 months ended March 31, 2001, Marconi recorded a charge of £28 million for purchased in-process research and development acquired in connection with the MSI transaction.

A brief description of purchased in-process research and development projects is set forth below including an estimated percentage of completion of products within each project at the acquisition date.

As of the acquisition date, management's estimations of the overall progress towards completion of projects is based on completion in terms of time, expenditure and work complexity. No acquirer specific synergies were explicitly employed in the analysis of the purchased in-process research and development. The discount factors used in management's estimation of the overall fair value for the projects ranged from 18% to 25%.

Planet Software (£16 million of purchased in-process research and development is allocated to this project)

Planet is an integrated planning application tool that allows operators to design, plan and operate wireless networks.

Version 2.2 was in development at the time of Marconi's acquisition. This will be the first version running under Windows 2000, and will provide:

- Code Division Multiple Access (''CDMA'') functionality;
- Global System for Mobile communications functionality (''GSM'') functionality;
- Time Division Multiple Access (''TDMA'') functionality; and
- Wideband (''W'')-CDMA functionality.

Version 3.1 was also in development at the time of Marconi's acquisition. This will incorporate a ''Multi-service Traffic Tool'', a new module which will provide traffic dimensioning and analysis for both General Packet Radio Service (''GPRS'') and High Speed Circuit Switch Data (''HSCSD'') networks, as defined in the GSM standards.

As of the acquisition date, management's estimation of the overall progress was 66% related to the development percentage completion of this project. The discount factor used in management's estimation of the overall fair value for this project was 21%. As of March 31, 2001 management expected both version 2.2 and version 3.1 to be generating revenue by June 2001.

Ceos software (£6 million of purchased in-process research and development is allocated to this project)

Ceos is a multi-functional software product that provides operators with an operating system that organizes and simplifies complex networks. Version 5.0 was fully developed at the time of Marconi's acquisition, and incorporates GSM functionality.

Version 6.0 was in development at the time of Marconi's acquisition. This version will represent a full Internet Protocol (''IP'') mediation solution, and will introduce third-generation functionality and scalability. IP data will be mediated from AAA servers, content providers and network probes.

As of the acquisition date, management's estimation of the overall progress was 33% related to the development percentage completion of Version 6.0. The discount factor used in management's estimation of the overall fair value for this project was 21%. As of March 31, 2001 management expected Ceos version 6.0 to be generating revenue by June 2001. The actual results to date have been consistent, in all material respects, with our assumptions at the time of acquisition.

Ceer Software (£4 million of purchased in-process research and development is allocated to this project)

Ceer Customer Relationship Manager (CRM) is a software solution for carriers that integrates near real-time customer usage data with demographic and lifestyle information, which supports the implementation of closed-loop architecture and information management with greater precision, flexibility and effectiveness.

Ceer was in development at the time of Marconi's acquisition. This product will provide the following functionality:

- allows operators to substantially increase the number of subscribers and Call Detail Records (''CDRs'') processed per day;
- increases the efficiency of transaction data processing using flow control and load balancing; and
- enables operators to access and process both Non-Assigned Call Notification (''NACN'') and GSM CDR data.

As of the acquisition date, management's estimation of the overall progress was 66% related to the development percentage completion of Ceer. The discount factor used in management's estimation of the overall fair value for this project was 21%. As of March 31, 2001 management expected Ceer to be generating revenue by June 2001. The actual results to date have been consistent, in all material respects, with our assumptions at the time of acquisition.

Orca Software (£2 million of purchased in-process research and development is allocated to this project)

Orca software is a software product that will address the evolution of Service Quality Management and Review of the Business issues associated with the implementation of SQM for third generation mobile networks.

Orca was in development as a specific project within the rollout of the Ceer roadmap. It will incorporate Customer Relationship Management (CRM) usage data with Network Data to provide a view of the customer experience from a network perspective.

As of the acquisition date, management's estimation of the overall progress was 50% related to the development percentage completion of Orca. The discount factor used in management's estimation of the overall fair value for this project was 23%. As of March 31, 2001 management expected Ceer to be generating revenue by December 2001. The actual results to date have been consistent, in all material respects, with our assumptions at the time of acquisition.

Fore Systems

During the 12 months ended March 31, 2000, Fore Systems recorded a charge of £174 million for purchased in-process research and development acquired in connection with the Fore Systems transaction.

A brief description of purchased in-process research and development projects is set forth below including an estimated percentage of completion of products within each project at the acquisition date.

As of the acquisition date, management's estimations of the overall progress towards completion of projects was based on completion in terms of time, expenditure and work complexity. No acquirer specific synergies were explicitly employed in the analysis of the purchased in-process research and development. The discount factors used in management's estimation of the overall fair value for the projects ranged from 20% to 25%.

ASX 1000 and ASX 4000 (£77 million of purchased in-process research and development is attached to these closely related projects)

The ASX 1000 is a ten Gbps ATM switch providing access at the small enterprise core or larger enterprise and service provider edge markets. Interfaces included a large number of ATM ports as well as inter-working interfaces, as set forth below:

- circuit emulation;
- frame relay; and
- inverse multiplexing ATM.

The ASX 1000 has been used as a platform for the development of the ASX 4000; a 40 Gbps Simplex or 20 Gbps fully redundant ATM switch targeted at the service provider market and enterprise core market. The ASX 4000 allows the incremental expansion of available bandwidth. As of acquisition the original ASX 4000 unit was being shipped to customers and available for purchase; the management estimations below represent the likely expenditure on upgrading and enhancing functionality of inserts to match technological progress and market demands. Interfaces included OC-3, OC-12, OC-48, and OC-48*4 configured to drive OC-192 WDM interfaces.

As of the acquisition date, management's estimation of the overall progress was 40% related to the development percentage completion of this project. The discount factor used in management's estimation of the overall fair value for this project was 20%. As of March 31, 2000 management expected the OC-3, OC-12 and OC-48 interfaces to be generating revenues by August 2000 and that revenues from the OC48*4 should commence by April 2001. The actual results to date have been consistent, in all material respects, with our assumptions at the time of acquisition.

BFS (£85 million of purchased in-process research and development is allocated to this project)

BFS is the next generation ATM/packet switch aimed at the service provider core and edge market. It is intended that the BFS will switch at 240 Gbps scalable to 480 Gbps in simplex or redundant modes. It is intended that the BFS will operate at almost zero data loss on any component failure. As at the acquisition date BFS was in the early design phase. Remaining development efforts include the development of hardware and software components together with successful completion of field trials. As of March 31, 2000 management believed technical feasibility would be completed by the middle of 2001 and the project as a whole was expected to be complete in late 2001.

As of the acquisition date, management's estimation of the overall progress is 25% related to the development percentage completion of this project. The discount factor used in management's estimation of the overall fair value for this project was 20%. The actual results to date have been consistent, in all material respects, with our assumptions at the time of acquisition.

An aggregate total of £12 million of purchased in-process research and development is attributed to the following small projects.

Multi-protocol label switching.

Multi-protocol label switching (''MPLS'') is a hardware—software technology which brings the advantages of connection-based networks to legacy frame based networks. It allows for greater utilization of network resources while reducing the dependency on large frame based routers. The MPLS hardware and software represent augmentations to the ASX 4000 which provides increased productivity of existing networks when these are interfaced with the ASX 4000. The MPLS software was due for deployment in December 2000.

As of the acquisition date, management's estimation of the overall progress was 40% related to the development percentage completion of this project. The discount factor used in management's estimation of the overall fair value for this project was 20%. The actual results to date have been consistent, in all material respects, with our assumptions at the time of acquisition.

ESX 2400 and ESX 4800 (Berkeley Networks)

The ESX 2400 and ESX 4800 are frame switches designed for the medium to large enterprise network market. They represent the most significant of a portfolio of small projects in progress within Berkeley Networks. Development of the base units were complete as of the acquisition of Fore Systems by Marconi and the management estimations below represent the likely effort and expenditure on upgrading and enhancing functionality of inserts to match technological progress and market demands.

The Berkeley Networks business was acquired by Fore Systems in Fall 1998. We do not have access to project data prior to this date; the information below therefore only relates to the period after this point.

As of the acquisition date, management's estimation of the overall progress was 85% related to the development percentage completion of this project. The discount factor used in management estimation of the overall fair value for this project was 25%. The development of these products is now complete.

IAD

The K1.5 is an integrated access device that will be sold as either customer located equipment or customer premises equipment that will provide connections between enterprises' internal network and the new public data network. At the point of acquisition the K1.5 design phase was well advanced. The development of this product is now complete. However, this product was replaced in December 2000 by a similar product produced by Mariposa Technology, which Marconi acquired in October, 2000.

As of the acquisition date, management's estimation of the overall progress was 50% related to the development percentage completion of this project. The discount factor used in management estimation of the overall fair value for this project was 25%.

As of March 31, 2000 the remaining costs to develop the in-process research and develop projects into commercially viable products were £33 million in total.

Reltec

During the 12 months ended March 31, 2000, Reltec recorded a charge of £103 million for purchased in-process research and development acquired in connection with the Reltec transaction.

A brief description of purchased in-process research and development projects is set forth below including an estimated percentage of completion of products within each project at the acquisition date.

As of the acquisition date, management's estimations of the overall progress towards completion of projects were based on completion in terms of time, expenditure and work complexity. No acquirer-specific synergies were explicitly employed in the analysis of the purchased in-process research and development. The discount factor used in management's estimation of the overall fair value for the projects ranged from 20% to 35%.

MX platform (£63 million of purchased in-process research and development is attributed to this project)

The MX platform is a second-generation deep fiber broadband platform enabling services providers to maximize the use of fiber optics in their network, and market integrated voice, video and data services to subscribers.

At the time of the acquisition, this project was in the design, prototyping and testing stage. Marconi estimated that the project was 65% complete and required approximately £5.2 million to successfully complete the project. This estimate was based on completion in terms of time, expenditure and work complexity. This project was a staged platform development with enhancements occurring over a multi-year timeframe. As of March 31, 2000 management believed that the project would be completed and benefits in the form of product revenues would commence by September 2000. The actual results to date have been consistent, in all material respects, with our assumptions at the time of acquisition.

Deep fiber HFC product (£14 million of purchased in-process research and development is attributed to this project)

The deep fiber hybrid fiber/coax (HFC)—fiber in the loop (FITL) capability enhances the DISC*S FITL platform to support advanced cable television services including cable modems.

At the time of the acquisition, this project was in the design stage. Remaining development efforts included design, prototyping and testing activities. Marconi estimated that the project was 72% complete and required approximately £0.8 million to successfully complete the project. This estimate was based on completion in terms of time, expenditure and work complexity. As of March 31, 2000 the project was complete. The actual results to date have been consistent, in all material respects, with our assumptions at the time of acquisition.

An aggregate total of £26 million of purchased in-process research and development is attributed to the following small projects.

*Next generation SONET interface on DISC*S NGDLC platform*

This project adds a sophisticated Marconi multiplexor to the existing DISC*S system providing a SONET interface into the telecommunications network.

As of the acquisition date, project planning and specification activities were complete and the project was in the design and implementation stage. Remaining development efforts included design, prototyping and testing activities. Marconi estimated that the project was 25% complete and required approximately £1.3 million to successfully complete the project. As of March 31, 2000 the project was complete and ready for deployment by September 2000. The actual results to date have been consistent, in all material respects, with our assumptions at the time of acquisition.

*DISC*S high density channel shelf*

This project provides a high-density configuration for the DISC*S next generation NGDLC able to provide 2016 line interfaces per bay.

As of the acquisition date, project planning and specification activities were complete and the project was in the design and implementation stage. Remaining development efforts included design, prototyping and testing activities. Marconi estimated that the project was 38% complete and required approximately £1 million to successfully complete the project. As of March 31, 2000 the project was complete and ready for deployment. The actual results to date have been consistent, in all material respects, with our assumptions at the time of acquisition.

*ADSL port card for DISC*S NGDLC*

This program is designed to provide asymmetric digital subscriber line (ADSL) data service as an enhancement to the DISC*S NGDLC product.

At the time of the acquisition, this project was in the planning and specification stage. Remaining development efforts included design, prototyping and testing activities. Marconi estimated that the project was 28% complete and required approximately £1.4 million to successfully complete the project. This estimate was based on completion in terms of time, expenditure and work complexity. As of March 31, 2000 management anticipated that the project would be completed by September 2000 and that benefits in the form of product revenues would begin by the end of calendar year 2000. The actual results to date have been consistent, in all material respects, with our assumptions at the time of acquisition.

Electrical network unit—ENU

The DISC*S MX ENU provides a curbside neighborhood distribution point for pair-gain relief in saturated copper networks.

At the time of the acquisition, this project was in the design stage. Remaining development efforts included design, prototyping and testing activities. Marconi estimated that the project was 53% complete and required approximately £0.8 million to successfully complete the project. This estimate was based on completion in terms of time, expenditure and work complexity. As of March 31, 2000 the project was complete and ready for deployment. The actual results to date have been consistent, in all material respects, with our assumptions at the time of acquisition.

Enhanced OSIRIS multiplexors

The enhanced OSIRIS multiplexors project includes a number of elements that enable OSIRIS access multiplexor technology to enter larger service provider accounts. This is done by offering a feature set that allows OSIRIS multiplexors to inter-operate with larger network backbones, enables new data services and thus improves competitiveness.

The research and development effort is aimed toward achieving the following features: multi-vendor management level interoperability, cost effective IP and ATM data transport over SONET and SDH, and STM4 SDH capability for selected access network applications outside North America.

As of the acquisition date, management's estimation of the overall progress was 74% related to the development percentage completion of this project and would require approximately £1.2 million to successfully complete the project. As of March 31, 2000 management believed that the project was complete and ready for deployment in June 2000. The actual results to date have been consistent, in all material respects, with our assumptions at the time of acquisition.

OC48/packet path OSIRIS

The OC48/packet path OSIRIS project is intended to support higher 2.4Gbps speeds in the optical access ring and to improve bandwidth utilization in the ring by using service concentration, statistical multiplexing and over-subscription techniques for IP/ATM and data services.

As of the acquisition date, management's estimation of the overall progress was 30% related to the development percentage completion of this project and required approximately £1.9 million to successfully complete the project. As of March 31, 2000 management believed that the project will be complete and benefits in the form of product revenues would commence November 2000. The actual results to date have been consistent, in all material respects, with our assumptions at the time of acquisition.

OC48 ONX COT

OC48 ONX COT is a new product platform designed to attain higher speed applications that are required for metropolitan area networks and high capacity access ring termination at the central office. This new multiplexor configuration will serve as the central office high density OC48 ring gateway, and will possess the ability to terminate multiple rings of various speeds.

As of the acquisition date, management's estimation of the overall progress was 18% related to the development percentage completion of this project and required approximately £5.6 million to successfully complete the project. As of March 31, 2000 management believed that the project would be complete and benefits in the form of product revenues would commence from June 2000 (first release) with further upgraded releases from October 2000 to March 2001. The actual results to date have been consistent, in all material respects, with our assumptions at the time of acquisition.

4. Marketable securities

Marketable securities

Marketable securities intended to be held to maturity are carried at amortized cost. All other marketable securities are classified as available for sale and recorded at current market value. Net unrealized holding gains and losses are reported as a separate component of shareholders' equity, except where holding losses are determined to be ''other than temporary'', whereby the losses are charged to the income statement. During the year ended March 31, 2001, writedowns and other than temporary holding losses of £96 million were charged to the income statement. Realized gains and losses on the sale of securities available for sale are determined using the specific-identification method.

A summary of marketable securities classified as available for sale and held to maturity securities as of March 31, 2001 and 2000 is set forth below:

March 31, 2001:

(In millions)	Basis £	Gross unrealized gains £	Gross unrealized losses £	Estimated fair value £
Available for sale:				
Equity securities	270	296	(116)	450
Total available for sale	270	296	(116)	450
Held to maturity:				
Eurobonds	6	1	—	7
Semiannual floating rate note	16	—	—	16
Annual tax bonds	3	—	—	3
Total held to maturity	25	1	—	26
Total	295	297	(116)	476

March 31, 2000:

(In millions)	Basis £	Gross unrealized gains £	Gross unrealized losses £	Estimated fair value £
Available for sale:				
Equity securities	25	99	—	124
Total available for sale	25	99	—	124
Held to maturity:				
Eurobonds	40	1	(1)	40
Semiannual floating rate note	25	1	—	26
Annual tax bonds	3	—	—	3
Total held to maturity	68	2	(1)	69
Total	93	101	(1)	193

All available-for-sale marketable securities are classified as current assets. Scheduled maturities of securities held to maturity at March 31, 2001 were as follows (in millions):

	Amortized cost	Fair value
	£	£
Less than 1 year	19	20
Due in 1-2 years	1	1
Due in 2-5 years	3	3
Due after 5 years	2	2
	25	26

Annual fluctuations between cost and market value of £167 million (less deferred taxes of £50 million) and £127 million (less deferred taxes of £27 million) for available-for-sale securities have been recorded to a separate component of shareholders' equity (net unrealized holding gains on investments) during the years ended March 31, 2001 and 2000, respectively.

5. Investments in affiliates

At March 31, 2001, Marconi had an investment of 50% in GDA, which it accounted for using the equity method. At March 31, 2001, there was no difference between the carrying amount and the underlying equity in net assets of GDA. As GDA does not have a quoted market price, no market value can be provided. At March 31, 2000, Marconi had five investments which it accounted for using the equity method: Alstom, Atlantic, GDA, Xcert and Comstar. Marconi had a 24%, 27%, 50%, 25% and 50% interest in the outstanding common stock of Alstom, Atlantic Telecom, GDA, Xcert and Comstar respectively.

In June 2000, Atlantic Telecom issued shares to acquire First Telecom, and Marconi's shareholding in Atlantic was diluted to 19%. As a result, Marconi ceased to have the right to appoint more than 20% of the board of Atlantic, or exert significant influence. At March 31, 2001, the investment has been treated as an available for sale investment, with changes in market value shown in unrealized gains and losses, net of tax, within shareholders' equity. See note 4—marketable securities.

In December 2000, Marconi sold its 50% interest in Comstar for proceeds of £43 million, recognising a profit on disposal of £19 million.

In February 2001 Marconi sold its 25% interest in Xcert International for proceeds of £15 million, recognising a loss on disposal of £6 million.

In February 2001, Marconi sold approximately 76% of its approximate 24% ownership in Alstom, a publicly traded company which specializes in the contracting of infrastructure construction projects for power generation, power transmission and distribution and railway transportation, in a private placement for proceeds of £631 million. As a result, the investment ceased to be accounted for under the equity method. The carrying value at the time of the sale was £95 million based on the most recently available U.S. GAAP financials for Alstom at September 30, 2000 and related foreign exchange adjustments, resulting in a gain on sale of £536 million. At March 31, 2001, the investment has been treated as an available for sale investment, with changes in market value shown in unrealized gains and losses within shareholders' equity. See note 4—marketable securities. Marconi has subsequently sold its remaining interest in Alstom.

Dividends received from equity investments for fiscal year 2000 and 2001 were £68 million and £80 million, respectively.

In June 1998, Alstom became the holding company following a legal reorganization resulting in the transfer of subsidiaries and investments previously held by GEC Alsthom, a joint venture between GEC and Alcatel. In June 1998 GEC and Alcatel sold a proportion of their shares to reduce their shareholding, following an additional issue of new shares by Alstom, from 50% to 24% each. As a result of this share disposal, cash consideration of £952 million was received by Marconi. Taking into account the investment in Alstom represented by the 26% disposition, a gain of £841 million resulted. Of this gain £44 million was a gain arising from the additional issue of new shares by Alstom.

Summarized financial information for Alstom for March 31, 2000 and September 30, 2000 is as follows:

	March 31, 2000	September 30, 2000
(In millions)	£	£
Balance sheet data		
Short-term investments and cash equivalents	1,450	2,243
Receivables, net	4,627	7,194
Inventories and contracts in progress, net	1,953	2,986
Goodwill and fixed assets	5,314	5,476
Total assets	13,344	17,899
Provisions for risks and charges	2,327	4,024
Accrued pension and retirement benefits	417	598
Financial debt	3,995	3,190
Other liabilities	5,476	9,560
Total liabilities	12,215	17,372
Minority interest	25	29
Shareholders' equity	1,104	498
Total liabilities and shareholders' equity	13,344	17,899
Income statement data		
Revenues	9,571	6,516
Operating income	281	(499)
Net income	135	(609)

Alstom's major infrastructure contracting activities are generally performed under fixed-price contracts. The length of such contracts varies, but is typically between 1 and 5 years. Under U.S. GAAP, a non-classified balance sheet would be shown because the contract-related items in the balance sheet have realization and liquidation periods extending beyond 1 year.

Summarized financial information for our investment in affiliates for March 31, 2000 and 2001 is as follows:

	March 31,	
	2000	2001
(In millions)	£	£
Balance sheet data		
Current assets	772	209
Non-current assets	504	89
Total assets	1,276	298
Current liabilities	603	151
Non-current liabilities	38	5
Total liabilities	641	156
Income statement data		
Revenues	1,031	270
Operating income	53	16
Net income	15	10

6. Inventories

Inventories consist of the following:

	March 31,	
	2000	2001
(In millions)	£	£
Finished goods	357	508
Work-in-process	185	453
Raw materials	273	621
Total	815	1,582

7. Property, plant and equipment

Property, plant and equipment consists of the following:

	March 31,	
	2000	2001
(In millions)	£	£
Land	171	234
Building and improvements	50	61
Machinery and equipment	1,037	1,339
Construction in progress	78	193
Total	1,336	1,827
Less: accumulated depreciation	(655)	(775)
Property, plant and equipment, net	681	1,052

Depreciation expense for the years ended March 31, 1999, 2000 and 2001 was £98 million, £143 million and £198 million, respectively. During the year ended March 31, 2001, Marconi capitalized £9 million in interest expense related to construction in process.

8. Goodwill and other intangible assets

Goodwill and other intangible assets consist of the following:

	March 31,	
	2000	2001
(In millions)	£	£
Goodwill	3,936	4,949
Less: accumulated amortization	740	1,043
Goodwill, net	3,196	3,905
Other intangible assets	1,804	2,146
Less: accumulated amortization	301	602
Other intangible assets, net	1,503	1,544

Intangible assets at March 31, 2001 include core developed technology of £1,483 million (2000: £1,273 million) with accumulated amortization of £469 million (2000: £248 million). Customer base acquired in acquisitions amounted to £479 million (2000: £396 million) with accumulated amortization of £85 million (2000: £35 million) at March 31, 2001. The workforce acquired through these acquisitions was valued at £93 million (2000: £69 million) with accumulated amortization of £33 million (2000: £13 million) at March 31, 2001. Trademarks and patents of £60 million (2000: £38 million) were acquired in these transactions with £7 million (2000: £2 million) of accumulated amortization at March 31, 2001. Other identified intangibles amount to £31 million (2000: £28 million) at March 31, 2001 with accumulated amortization of £8 million (2000: £3 million).

9. Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consist of the following:

	March 31,	
	2000	2001
(In millions)	£	£
Accrued taxes	227	247
Accrued expense and deferred income	562	685
Other	688	667
Total	1,477	1,599

10. Short-term borrowings and credit facilities

Marconi's short-term borrowings consist primarily of bank loans and overdrafts and are unsecured.

Under Marconi's 1998 syndicated credit agreement a group of banks committed a facility of €1.3 billion (approximately £800 million) on an unsecured, revolving basis. Such facility expired on March 22, 2001 and was not renewed. Under the same credit agreement, a group of banks committed a maximum of €4.5 billion (approximately £2.8 billion) at March 31, 2001 and 2000 on an unsecured, revolving basis until March 25, 2003. Under the terms of this agreement, borrowings bear interest of 0.175% per annum over the London inter-bank offered rate. As of March 31, 2001 and 2000, the average interest rate on borrowings under the facility was 6.21% per annum and 6.16% per annum respectively.

Under Marconi's 1999 syndicated credit agreement, a group of banks committed a maximum of €2.5 billion (approximately £1.6 billion) as of March 31, 2001 and 2000, on an unsecured, revolving basis until June 2, 2001. Under the terms of this agreement, borrowings bear interest of 0.25% per annum over the London inter-bank offered rate. As of March 31, 2001, there were no borrowings outstanding under this facility. Since March 31, 2001, this facility expired and was not renewed. Subsequent to March 31, 2001, the Company entered into a new €3 billion revolving credit facility with a one year term out option. The facility will bear interest at 0.40% per annum over the London inter-bank offered rate.

The undrawn amounts available to Marconi under both outstanding credit facilities were £3,343 million and £3,495 million at March 31, 2001 and 2000, respectively.

11. Long-term debt

	Year ended March 31,	
	2000	**2001**
(In millions)	**£**	**£**
Term loans	938	2,310
Finance leases	9	6
Total obligations	947	2,316
Current maturities of long-term obligations	(9)	(47)
Total long-term debt	938	2,269

On September 19, 2000, Marconi Corporation plc issued for cash consideration, two unsecured Yankee bonds having an aggregate principal amount of $1.8 billion (approximately £1.3 billion). The bonds are currently guaranteed by Marconi plc (but this guarantee may terminate at any time). One bond is for $900 million (approximately £630 million) with a coupon rate of 7.75% per annum, maturing on September 15, 2010. The other bond is for $900 million (approximately £630 million) with a coupon rate of 8.375% per annum, maturing on September 15, 2030. The bonds are not redeemable prior to maturity (except, at Marconi's option or in the event of certain tax changes).

As of March 31, 2001 and 2000, Marconi had two unsecured eurobonds having an aggregate principal amount of €1.5 billion (£927 million). One bond is for €500 million (£309 million) with a coupon rate of 5.625% per annum, maturing on March 30, 2005. The other is for €1,000 million (£618 million) with a coupon rate of 6.375% per annum, maturing on March 30, 2010.

As of March 31, 2001, Marconi had other obligations of £151 million (2000: £47 million) related to finance leases and secured debenture loans.

The following table sets forth the mandatory reductions in principal under the terms of all debt agreements for each of the next five years based upon the amounts outstanding at March 31, 2001:

(In millions)	**£**
2002	47
2003	33
2004	8
2005	5
2006	345
Thereafter	1,878
Total	2,316

12. Valuation and qualifying accounts

Description	March 31, 2000 balance	Additions	Net effect of acquisitions less disposals	Effect of exchange rate changes	Deductions	March 31, 2001 balance
	£	£	£	£	£	£
Allowance for doubtful accounts	26	50	13	3	(20)	72
Inventory reserve	163	77	(9)	8	(48)	191
Warranty reserve	51	48	(5)	1	(53)	42
Restructuring reserve	52	37	3	1	(60)	33
Total	292	212	2	13	(181)	338

Description	March 31, 1999 balance	Additions	Net effect of acquisitions less disposals	Effect of exchange rate changes	Deductions	March 31, 2000 balance
	£	£	£	£	£	£
Allowance for doubtful accounts	25	28	2	(3)	(26)	26
Inventory reserve	107	108	18	(6)	(64)	163
Warranty reserve	52	44	4	—	(49)	51
Restructuring reserve	40	36	3	(1)	(26)	52
Total	224	216	27	(10)	(165)	292

The restructuring reserve represents amounts charged with respect to businesses where exit announcements have been made and exit plans have been established and approved. Such accrual comprise involuntary redundancies and severance of £7 million (2000 £20 million), and asset write-downs and other withdrawal costs of £26 million (2000 £33 million).

13. Pension Plans and Other Postretirement Plans

Pension Plans

Marconi operates a number of defined benefit and defined contribution pension plans on behalf of its employees. The most significant pension plan is the GEC 1972 Plan (“the Plan”), a defined benefit plan for employees in the United Kingdom, the assets of which are held separately from the assets of Marconi plc, are administered by trustees and are managed professionally.

The benefit offered to a specific employee varies based upon the location of and past business decisions made by a specific business unit, as well as local statutory requirements. Where employees are eligible for defined benefit pension plans, after minimum service requirements are met, benefits to an individual member are calculated using a formula which is specific to the applicable pension plan, based on years of credit service and average earnings of the employee. Where employees are eligible for defined contribution plans, the benefit is based on the value of contributions paid into the applicable plan adjusted for investment returns.

Marconi funds its defined benefit pension obligations at a level which meets or exceeds local legal requirements. Funded pension plan assets are primarily invested in equity and debt securities.

Data with respect to benefit obligations is as follows:

	Pension Benefits U.K. Plans		Pension Benefits Overseas Plans	
	2000	2001	2000	2001
(In millions)	£	£	£	£
Change in benefit obligation:				
Benefit obligation at beginning of Year	2,255	2,296	179	263
Service cost	27	37	4	6
Interest cost	134	133	12	20
Plan participants' contributions	9	10	—	—
Plan amendments and mergers	—	—	3	—
Actuarial loss/(gain)	—	136	(11)	(20)
Benefits paid	(129)	(141)	(8)	(10)
Curtailment loss	—	—	—	4
Business acquired	—	—	84	—
Foreign currency exchange rate changes	—	—	—	38
Benefit obligation at end of year	2,296	2,471	263	301
Change in plan assets:				
Fair value of plan assets at beginning of Year	2,361	2,435	261	310
Actual return on plan assets	176	165	22	34
Employer contributions	18	22	1	—
Plan participants' contributions	9	10	—	—
Benefits paid	(129)	(141)	(8)	(10)
Business acquired	—	—	32	—
Foreign currency exchange rate changes	—	—	2	41
Fair value of plan assets at end of year	2,435	2,491	310	375
Funded status	139	20	47	74
Unrecognized net actuarial (gain)/loss	(98)	52	(50)	(66)
Unrecognized prior service cost	—	—	4	6
Unrecognized net transition obligation/(asset)	12	9	(2)	(1)
Net asset/(liability) recognized	53	81	(1)	13
Amounts recognized in the Balance Sheet consist of:				
Prepaid benefit cost	53	81	66	77
Accrued benefit liability			(68)	(65)
Intangible asset			—	—
Accumulated other comprehensive income			1	1
Net asset (liability) recognized	53	81	(1)	13

The actuarial assumptions used to develop the periodic benefit cost and funded status were as follows:

	Pension Benefits U.K. Plans		Pension Benefits Overseas Plans	
	2000	2001	2000	2001
	%	%	%	%
Weighted average assumptions:				
Discount rate for pension expense	6.0	6.0	7.0	7.8
Discount rate for year end disclosure	6.0	6.0	7.0	7.5
Expected return on plan assets	7.5	7.5	9.5	9.5
Rate of compensation increases	5.0	5.0	5.4	5.1
Rate of pension increases	3.0	3.0	—	—

Data with respect to net periodic benefit cost are as follows:

	Pension Benefits U.K. Plans		Pension Benefits Overseas Plans	
	2000	2001	2000	2001
(In millions)	£	£	£	£
Components of net periodic benefit cost:				
Service cost	27	37	4	6
Interest cost	134	133	12	20
Expected return on plan assets	(173)	(179)	(23)	(35)
Amortization of Unrecognized Transition Liability/(Asset)	3	3	(1)	(1)
Amortization of Prior Service Cost	—	—	—	—
Amortization of actuarial gains	—	—	(1)	(3)
Net periodic benefit cost of defined benefit plans	(9)	(6)	(9)	(13)
Net Curtailment Loss				2
Net periodic benefit income	(9)	(6)	(9)	(11)

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the overseas pension plans which have an accumulated benefit obligation in excess of plan assets were £61 million, £59 million, and £0 million respectively at March 31, 2001, and £59 million, £58 million, and £4 million at March 31, 2000.

Other Postretirement Benefits

At March 31, 2001 2,158 employees and 1,795 retired employees (in 2000 9,003 employees and 2,046 retired employees) of companies in the United States of America and Canada were entitled to health care benefits after retirement.

All but one of the plans are unfunded. The benefit cost charges and provisions for the liability are as follows:

	Post retirement Benefits	
	2000	**2001**
(In millions)	**£**	**£**
Change in benefit obligations:		
Benefit obligations at beginning of year	42	52
Service cost	1	1
Interest cost	3	3
Plan amendments	—	(3)
Actuarial (gain)/loss	—	(4)
Business acquired	9	—
Curtailment gain	—	(6)
Benefits paid	(3)	(3)
Foreign currency exchange rate changes	—	6
Benefit obligations at end of year	52	46

	Post retirement Benefits	
	2000	**2001**
(In millions)	**£**	**£**
Change in plan assets:		
Fair value of assets at beginning of year	1	1
Actual return on plan assets	—	—
Group funding of benefits	3	3
Plan amendments	—	—
Foreign currency exchange rate changes	—	—
Benefits paid	(3)	(4)
Fair value of plan assets at end of year	1	—

	Post retirement Benefits	
	2000	**2001**
(In millions)	**£**	**£**
Funded status	(51)	(46)
Unrecognized net actuarial gain	(13)	(18)
Unrecognized prior service cost	—	(5)
Net accrued benefit cost	(64)	(69)

Data with respect to net periodic benefit cost are as follows:

	Post retirement Benefits	
	2000	2001
(In millions)	£	£
Components of net periodic benefit cost:		
Service cost	1	1
Interest cost	3	3
Amortization of net gain	(1)	(1)
Net periodic benefit cost of other post-retirement plans	3	3
Net curtailment gain	—	(4)
Net periodic benefit cost	3	(1)

In the year ended March 31, 2001, an annual rate of increase per capita in the cost of retiree health care benefits of 7% for 2001 (decreasing gradually over the following years to 5% in 2005) was assumed for employees under 65. For retirees after 65, the rate was 10% in 2001 (decreasing gradually over the following years to 5% in 2005). In the year ended March 31, 2000, such rate was assumed to be 7% for 2000 (decreasing to 6% for the year 2001 and 5% for the year 2002).

An increase of one percentage point in such assumed rates would have increased the benefit obligation at March 31, 2001 by approximately £4 million and the service and interest cost components of the net periodic benefit cost for the year then ended by approximately £0.1 million and £0.3 million respectively. A decrease of one percentage point in such assumed rates would have decreased the benefit obligation at March 31, 2001 by approximately £4 million and the service and interest cost components of the net periodic benefit cost for the year then ended by approximately £0.1 million and £0.3 million respectively.

Defined Contribution Plans

The U.S. subsidiaries of the Company operate 401(K) plans for eligible employees who contribute a percentage of their pre-tax compensation with the Company matching these contributions up to prescribed limits. The Company's matching contributions were £6 million and £5 million for the years ended March 31, 2001 and 2000, respectively.

14. Fair values of financial instruments

The carrying amounts and fair values of material financial instruments at March 31, 2000 and 2001 are as follows:

	2000		2001	
	Carrying amounts	Fair values	Carrying amounts	Fair values
(In millions)	£	£	£	£
Marketable securities	192	193	475	476
Total long-term debt	938	919	2,310	2,243
Obligations under finance leases	9	9	6	6
Forward currency agreements	—	6	—	6
Interest rate swap agreements	—	124	—	(7)
Tax swap agreements	(41)	(27)	(25)	(13)
Equity forward contracts	—	(33)	—	(215)

The following methods and assumptions were used in estimating the fair values of financial instruments:

Cash and cash equivalents, receivables, payables, accrued liabilities and short-term borrowings

The carrying values of cash and cash equivalents, receivables, payables, accrued liabilities and short-term borrowings approximate their fair values due to the short-term nature of the instrument.

Marketable securities, long-term debt and finance leases

The fair value of marketable securities has been determined using quoted market prices. The fair value of finance leases and long-term debt, including current portion, has been determined by discounting projected future cash flows, using reference rates taken from the debt markets at which similar loans would be made to borrowers with similar credit ratings and for the same maturities. In the case of Marconi's bonds, a fair value was derived from traded market prices.

Foreign exchange contracts and other market derivatives

The fair values of the forward exchange contracts and other market derivatives have been determined with reference to data available from the markets on which the instruments are traded. Fair values have been calculated by discounting cash flows at prevailing interest rates.

Interest rate swaps

Marconi has entered into pay-fixed agreements to effectively convert a portion of its variable-rate debt to fixed-rate debt to reduce the risk of incurring higher interest costs due to rising interest rates. Marconi has also entered into receive-fixed agreements to reduce fair value risk on its fixed rate bonds. The following table summarizes the notional amounts outstanding and weighted average interest data, based on variable rates in effect at March 31, 2000 and 2001, for these swaps that expire between 2005 and 2010:

	Year ended March 31,	
	2000	2001
(In millions)	£	£
Pay fixed swaps:		
Notional amount	2,417	774
Average receive rate	5.49%	5.97%
Average pay rate	5.58%	6.16%
Receive fixed swaps:		
Notional amount	900	311
Average receive rate	6.13%	4.86%
Average pay rate	4.23%	5.63%

15. Shareholders' equity

Holders of ordinary shares in Marconi are entitled to one vote per share on matters to be voted on by the shareholders, and to receive dividends when and as declared by the board. Shareholders are not entitled to pre-emptive rights and have no subscription, redemption or conversion privileges. The ordinary shares do not have cumulative voting rights. The rights, preferences and privileges of holders of ordinary shares are subject to the rights of the holders of shares of any series of preferred shares issued or that may be issued in the future.

Under the terms of Marconi's share plans, employees including executive directors of Marconi plc and Marconi Corporation plc have been granted rights to purchase Marconi's ordinary shares and/or phantom options. The terms of the grant vary and each of the main plans are described below.

As of March 31, 2001, Marconi has granted options under eight share option plans: the GEC Employee 1992 Savings-Related share option plan, the GEC 1984 Managers' Share Option plan, the GEC 1997 Executive Share option plan, the Marconi 1999 stock option plan, the Marconi U.K. sharesave plan, the Marconi international sharesave plan, the Marconi launch share plan and the Marconi phantom option plan. In addition, during fiscal year ended March 31, 2001, Marconi granted options in its American Depository Receipts (ADR's) under the Marconi Employee Stock Purchase Plan for employees in North America. In relation to the acquisitions of MSI and Mariposa during fiscal year 2001, Marconi granted options under the following five plans: the MSI 1995 stock option plan, the MSI 1999 stock option plan, the MSIH stock option plan, the Mariposa Technology, Inc. 1998 employee incentive plan and the Marconi Restricted share plan.

The employee share plans are designed to create incentives for employees and encourage them to become long-term shareholders.

The Marconi 1999 stock option plan

All employees and full-time executive directors are eligible to be granted options under the option plan at the discretion of the remuneration committee. Options granted to participants will not normally be exercisable unless our earnings per share over a period of at least three financial years has exceeded the growth in the U.K. Retail Price Index by at least an average of 3% per year. Options entitle the option holder to acquire Marconi ordinary shares at a price per share determined by the remuneration committee, which shall not be less than the market value of a Marconi share shortly before the date of grant.

Marconi applies variable plan accounting for grants under this scheme and will recognize compensation cost when achievement of the performance conditions become probable.

The Marconi U.K. sharesave plan

All employees and executive directors of participating UK companies are eligible to participate in the U.K. sharesave plan. Under the U.K. sharesave plan, participants are granted options to purchase shares with an exercise price not less than 80% of the market value of a Marconi ordinary share on the trading day immediately before the invitation day (as defined in the rules of the plan). In order to participate, each employee must enter into a savings contract with a specified financial institution under which they agree to make monthly contributions, which must not exceed £250 per month in aggregate. This plan is non-compensatory in nature for those options with an exercise price not less than 85% of the market value. At March 31, 2001, 14,263,094 shares were outstanding to be purchased under the plan.

The Marconi launch share plan

Under this plan, employees at November 30, 1999 were, at the discretion of the board, granted the right to receive up to 1,000 Marconi ordinary shares, which would be exercisable provided that two conditions are met. The first condition is that the market price of a Marconi ordinary share must have doubled from 801.5p to £16.03 during the period between November 30, 1999 and November 30, 2004. The second condition is that a participant must normally remain in employment until November 30, 2002 or, if later, at the time that the first condition is met. Marconi applies variable plan accounting for grants under this plan and will account for the compensation expense if the first condition is met.

The Marconi long term incentive plan

Under the long term incentive plan, participants may be granted performance-related awards entitling them, at the end of a three-year period, to be granted a right to call for a number of ordinary shares of Marconi plc without payment based on corporate performance of the business in which they work and of the Marconi Group as a whole over that period. Any right so granted will normally become exercisable in three equal tranches. The first tranche will become exercisable immediately, and the second and third tranches will normally become exercisable on the first and second anniversaries of the date of grant. All full-time employees of the Marconi Group, executive directors of Marconi plc and directors of Marconi Corporation plc are eligible to participate in the long-term incentive plan, at the discretion of the remuneration committee of the board of directors of Marconi plc. No new issue shares may be used to satisfy options under this plan. Marconi applies variable plan accounting for grants under this plan and will recognize compensation cost when achievement of the performance conditions becomes probable.

The Marconi phantom option plan

In June 1999, the GEC remuneration committee adopted the phantom option plan for the purpose of granting incentives relating to any increase in our value primarily to executives and employees of Reltec and Fore Systems following our acquisition of those businesses. From November, 1999, Marconi has operated the phantom option plan and made awards by reference to Marconi shares and previous awards (grants made between June 1999 and November 1999 in relation to GEC Shares) were adjusted so that they related to Marconi shares on a value-for-value basis. Following the adjustment the holder of a phantom unit was kept in the same economic position as before through an adjustment to the exercise price and an increase in the number of units. A phantom option is similar to a share option except that it is a cash-based award granted in relation to a stated number of phantom units, each of which has the same economic value as a Marconi ordinary share. Upon exercise of a phantom option, the holder is entitled to receive a cash payment equal to the difference between the base price of the phantom option (normally corresponding to the market value of a Marconi ordinary share at the time the phantom option is granted) and market value of a Marconi ordinary share on the date of exercise. Marconi may give notice to participants that it elects to substitute options to acquire real Marconi ordinary shares for phantom options. If such an election is made, a participant will be required on exercise to pay an amount equal to the base price of the phantom options to Marconi and will receive Marconi ordinary shares. Marconi recognizes compensation expense measured at the end of each period as the amount by which the quoted market value of a Marconi share exceeds the unit price payable by the unit holder. The expense is recognized over the service period. Changes, either increases or decreases, in the quoted market value of the shares between the date of grant and the date the phantom options are exercised result in a change in the compensation expense to be recognized.

Where the phantom options were granted in exchange for Reltec and Fore System's options as part of those business combinations, the fair value of those options was treated as part of the respective purchase prices. Such phantom options continue to be governed by the relevant Reltec or Fore System's plans under which they were originally granted.

The Marconi International Sharesave Plan—Italian Appendix

All employees and executive directors whose remuneration is subject to taxation in Italy are eligible to participate in the Italian Appendix of the International Sharesave Plan. Under the Italian Appendix of the International Sharesave Plan, participants can exercise options to purchase shares with an exercise price not less than the market value of a Marconi ordinary share averaged over the 30 trading days immediately before the date of grant. Upon exercise, participants will be gifted such number of additional shares as can be purchased on the market with 10% of their total accumulated savings and interest. In order to participate, each employee must enter into a savings contract with a specified financial institution under which they agree to make monthly contributions, which must not exceed the Italian Lira/Euro equivalent of £250 per month in aggregate. This plan is non-compensatory in nature for all options with an exercise price not less than 85% of market value. At March 31, 2001, 1,434,931 shares were outstanding to be purchased under the plan.

Marconi Restricted Share Plan

The Restricted Share Plan was introduced to enable Marconi to award share based incentives to employees of companies which the Marconi Group acquires. The Remuneration Committee has discretion to make awards of restricted stock which entitle the employee to call for shares at nil cost once the stock has vested. The stock will vest either at certain specified times or subject to the satisfaction of performance conditions. In practice the performance conditions imposed generally relate to specific integration targets or business goals of the acquired company. Once the restrictions have ended or the conditions been met, the restricted share vests and will either be automatically released (in the case of US employees) or can be called for by the employee (in all other jurisdictions). The plan is compensatory in nature, and compensation expense is recorded over the vesting period.

The Marconi Employee Stock Purchase Plan for Employees in North America

All employees of participating US and Canadian companies are eligible to participate in the Stock Purchase Plan. Employees may purchase shares with after-tax payroll deductions at the end of an Offering Period, at a price no less than 85% of the lower of the closing price of a share on the Offering Date and the closing price of a share on the Purchase Date (as defined in the rules of the Plan). No employee may purchase shares pursuant to the Stock Purchase Plan at a rate which exceeds US$25,000 in any calendar year or such lower limit as Marconi may specify from time to time. This plan is non-compensatory in nature.

Metapath Software Corporation Amended and Restated 1995 Stock Option Plan, the Metapath Software International, Inc. Amended and Restated 1999 Stock Option Plan, and the Mobile Systems International Holdings Limited Share Option Plan.

Each of these option plans had been in place over MSI shares prior to Marconi's acquisition in June 2000. Following Marconi's acquisition, MSI option holders who would become Marconi employees exchanged options over MSI shares for options over Marconi shares. Following the exchange the option holder was kept in the same economic position as before the exchange through an adjustment to the exercise price and an increase in the number of shares under option. The optionholder was given a choice to retain their options with their existing vesting schedule, or to elect to accept an amended vesting schedule (vesting one third of their options on each of the first, second and third anniversaries of the acquisition) together with an award of restricted stock over the same number of shares as they had shares under option. Compensation expense is recognized on the shares that were unvested at the acquisition date (based on the intrinsic value of the shares as of the acquisition date) over the vesting period. The fair value of all shares issued at the date of acquisition, less the amount allocated to compensation expense, has been recorded as a cost of the acquisition. Certain arrangements under the Marconi Restricted Share Plan, the Marconi 1999 Stock Option Plan, the MSI 1995 Plan and the MSIH Plan were modified subsequent to acquisition. As a result, the modified arrangements became subject to variable accounting.

Mariposa Technology, Inc. 1998 Employee Incentive Plan

Prior to Marconi's acquisition in October 2000, options had been granted under The Mariposa Technology, Inc, 1998 Employee Incentive Plan over Mariposa Technology, Inc, shares. Following the acquisition, option holders who would become Marconi employees exchanged options over Mariposa Technology, Inc, shares for options over Marconi shares. Following the exchange the option holder was kept in the same economic position as before the exchange through an adjustment to the exercise price and an increase in the number of shares under option. Compensation expense is recognized on the shares that were unvested at the acquisition date (based on the intrinsic value of the shares as of the acquisition date) over the vesting period. The fair value of all shares issued at the date of acquisition, less the amount allocated to compensation expense, has been recorded as a cost of the acquisition.

Existing GEC share option plans

Options plans similar to the Marconi 1999 stock option plan and the Marconi U.K. sharesave plan had been in place over GEC shares. There was a non-compensatory plan known as the 1992 Savings-Related Scheme. There was a fixed plan known as the Managers' 1984 Scheme. There was a variable plan known as the 1997 Executive Scheme. During fiscal 2000, optionholders who would remain Marconi employees, were able to exchange options over GEC shares for options over Marconi shares. Following the exchange the optionholder was kept in the same economic position after the exchange as before the exchange through an adjustment to the exercise price and an increase in the number of shares under option. The exchange resulted in no change in measurement date for either the 1992 Savings-Related Scheme or the Managers' 1984 Scheme. As performance conditions in respect of the 1997 Executive Scheme ceased to apply, the measurement date for this option plan occurred. These performance conditions were the achievement of earnings per share targets and a vesting period. Optionholders in the three plans who would not remain Marconi employees were able to exercise their options. At March 31, 2001, 9,311,934 shares were available to be purchased under the 1992 Savings Related Scheme.

As of March 31, 2000 Marconi had not granted any options under either of the Marconi associated companies share option plan or the Marconi long term incentive plan.

Option activity under the non savings-related plans is as follows:

	Number of shares	Weighted average exercise price
Outstanding, March 31, 1998	34,676,217	£3.70
Granted (weighted average fair value of £1.42)	12,228,081	4.85
Cancelled	(1,163,908)	3.83
Exercised	(4,828,898)	3.10
Outstanding, March 31, 1999	40,911,492	4.11
Granted (weighted average fair value of £4.19)	150,237,840	3.33
Cancelled	(17,817,336)	4.20
Exercised	(23,375,946)	4.13
Outstanding, March 31, 2000	149,956,050	4.40
Granted (weighted average fair value of £0.85)	83,337,421	5.62
Cancelled	(11,237,767)	3.86
Exercised	(8,600,307)	3.58
Outstanding, March 31, 2001	213,455,397	4.98

All options were granted at fair market value as of date of grant, with the exception of those granted for acquisitions as noted above.

Of the total number of options outstanding at March 31, 2001, 74,134,990 will be settled, if exercised, in either cash or shares purchased in the market, and will not be dilutive. Such shares have a weighted average exercise price of £5.14 and a weighted average remaining contractual life of 8.59 years. In addition, 4,060,170 of such shares are exercisable as of March 31, 2001 and had a weighted average exercise price of £1.17. Additional information regarding all options outstanding as of March 31, 2001 are noted in the table below:

	Total Options outstanding			Total Options exercisable	
Range of Exercise prices	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number Exercisable	Weighted average exercise price
£nil- 2.66	61,345,511	8.41	£0.34	8,405,745	1.69
2.74- 4.72	17,580,436	6.87	3.46	10,960,340	3.28
4.76- 6.76	56,503,114	9.02	5.94	—	—
6.85-12.50	78,026,336	8.87	8.27	2,545	8.02
£nil-12.50	213,455,397	8.56	4.98	19,368,630	1.77

Additional employee share plan information

Marconi accounts for the employee share plans under Accounting Principles Board Opinion No. 25: ''Accounting for Stock Issued to Employees,'' under which no compensation cost has been recognized for all ordinary shares and share options issued with a price equal to fair market value. Marconi has recognized compensation cost for all ordinary shares and share options issued with a price below fair market value. For ordinary options, such expense is recognized over the vesting period of the options. Marconi recognized compensation expense of approximately £7 million and £118 million for the years ended March 31, 2001 and 2000, respectively, related to share options issued below fair market value and those plans which are variable. Unrecognized deferred compensation was approximately £67 million and £52 million at March 31, 2001 and 2000, respectively. Had compensation cost for the employee share plans been determined consistent with the fair value methodology of SFAS No. 123: ''Accounting for Stock-Based Compensation'', Marconi's net income would have been as follows:

	1999	2000	2001
(In millions, except per share data)	**£**	**£**	**£**
Net income:			
As reported	1,129	285	180
Pro forma income	1,117	233	23
Pro forma income/(loss) per share:			
Basic	£0.41	£0.12	£0.01
Diluted	£0.41	£0.12	£0.01

Under SFAS 123, the fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	1999	2000	2001
Risk-free interest rate	5.80%	6.10%	4.89%
Expected life (years)	3.5	3.5	3.5
Assumed volatility	34.15%	44.46%	48.5%
Expected dividends	£0.13	£0.13	£0.05

Further stock options may be granted, subject to approval by the remuneration committee, in accordance with the dilution limits set out in option plan rules. These dilution limits state that total numbers of options issued and outstanding for certain plans shall not exceed certain stated percentages of issued share capital.

At March 31, 2001 a further 21,172,116 options were available to be issued under the Marconi 1999 Stock Option plan. The options available to be issued at March 31, 2001 under the 1999 Stock Option plan, the UK Sharesave scheme, the International Sharesave scheme and the Launch plan was 176,611,860 in aggregate. Options available to be issued under all other plans were not governed by the dilution limits set out in the plan rules.

However, at the Annual General Meeting on July 18, 2001, a resolution was passed which removed certain dilution limits previously contained within the plan rules.

16. Earnings per share

The following table reconciles net income available for ordinary shareholders and the weighted average ordinary shares outstanding for basic and diluted earnings per ordinary share for the periods presented:

	Year ended March 31,		
	1999	2000	2001
(In millions, except for per share data)	£	£	£
Net income	1,129	285	180
Basic earnings per ordinary share:			
Weighted average ordinary shares outstanding	2,711.6	2,696.9	2,763.1
Basic earnings per ordinary share	£0.41	£0.11	£0.07
Diluted earnings per ordinary share:			
Weighted average ordinary shares outstanding	2,711.6	2,696.9	2,763.1
Effect of dilutive options	27.1	40.5	28.2
Adjusted ordinary shares outstanding	2,738.7	2,737.4	2,791.3
Diluted earnings per ordinary share	£0.41	£0.10	£0.06

During the year ended March 31, 2001, 20,397,701 share options were excluded from the computation of diluted earnings per share due to their antidulutive effect.

17. Income taxes

The components of income before income taxes and minority interests are as follows:

	Year ended March 31,		
Income/(Loss)	1999	2000	2001
(In millions)	£	£	£
United Kingdom	1,093	(194)	450
Non-United Kingdom	224	(145)	(286)
Income/(loss) from ordinary activities before income taxes and minority interest	1,317	(339)	164

Income tax provision/(benefit) includes:

	Year ended March 31,		
	1999	2000	2001
(In millions)	£	£	£
Current income taxes			
United Kingdom	244	54	145
Non-United Kingdom	76	14	72
Total current taxes	320	68	217
Deferred income taxes			
United Kingdom	(3)	149	(33)
Non-United Kingdom	131	(147)	(140)
Total deferred taxes	128	2	(173)
Total income taxes	448	70	44

The differences between the group's tax on profit on ordinary activities, and the statutory income tax rate in the United Kingdom are as follows:

	Year ended March 31,		
	1999	2000	2001
(In millions)	£	£	£
Taxes computed at the statutory rate: (31%- 1999, and 30%- 2000 and 2001)	408	(102)	49
Non-deductible goodwill amortization	26	148	97
Non-U.K. tax rate differences	20	(9)	(28)
Adjustment in respect of affiliates' tax	(34)	(14)	(10)
Tax charge on reorganizations	—	47	—
Non-deductible/(taxable) items	17	18	(100)
Changes in reinvestment position	—	(16)	39
Other, net	11	(2)	(3)
Income tax expense	448	70	44
Effective tax rate	34.0%	(20.6)%	26.8%

Deferred income tax assets/(liabilities) in the balance sheet are as follows:

	Year ended March 31,	
	2000	2001
(In millions)	£	£
Net current deferred tax assets (liabilities):		
Net operating losses	38	125
Reversal of reinvestment position	16	(63)
Provisions and other expenses not currently deductible	33	29
Sub total	87	91
Net non-current deferred tax assets/(liabilities)		
Property and equipment	(2)	(25)
Intangible assets (other than goodwill)	(572)	(574)
Write down of investments	—	33
Pension and post-employment liabilities not currently deductible	(44)	(26)
Sub total	(618)	(592)
Total	(531)	(501)

As of March 31, 2001 and 2000, the net deferred income tax liability of £501 million and £531 million, respectively, was presented in the balance sheet based on tax jurisdiction as required by SFAS No. 109, as current deferred income tax assets of £239 million and £133 million, current income tax liabilities of £146 million and £45 million, and a non-current deferred tax liability of £594 million and £619 million, respectively.

As of March 31, 2001 £354 million of net operating losses were available to be carried forward. As of March 31, 2000 there were £128 million of net operating losses, net of a valuation allowance of £45 million.

Cumulative undistributed losses of non-U.K. subsidiaries were approximately £771 million at March 31, 2001. No deferred tax assets have been provided for the undistributed losses to the extent that they are permanently reinvested in Marconi's non-U.K. operations. It is not practicable to determine the amount of additional tax that may be payable in the event that these earnings are repatriated.

A net deferred tax liability in the amount of £63 million has been recognized as of March 31, 2001 to account for the deferred tax expense relating to investments which are not considered permanently reinvested.

18. Discontinued operations

During fiscal 2001, management approved a formal plan to dispose of its Medical Systems business. Accordingly, the results of this business have been restated as discontinued operations for all years presented. A summary of operating results of the medical systems segment is presented below:

	Year ended March 31,		
	1999	2000	2001
(In millions)	£	£	£
Revenues	898	1,010	1,112
Operating income	36	36	78
Income before income taxes and minority interest	34	36	73
Income taxes	(10)	(14)	(28)
Net income from discontinued operations	24	22	45

Net assets of discontinued operations are as follows:

	March 31, 2000	March 31, 2001
(In millions)	£	£
Assets		
Cash and cash equivalents	11	30
Accounts receivable	228	335
Inventories	131	159
Deferred income taxes	25	21
Prepaid expense and other current assets	49	17
Total current assets	444	562
Property, plant and equipment, net	77	99
Investment in affiliates	5	5
Goodwill and intangibles, net	144	155
Other non-current assets	49	47
Total assets	719	868
Liabilities		
Accounts payable	83	88
Short-term borrowings	—	2
Accrued expenses and other current liabilities	175	244
Total current liabilities	258	334
Long-term debt	1	1
Other long term liabilities	31	24
Minority interests	(1)	(1)
Total liabilities	289	358
Cumulative effect of exchange rates on investment	22	20
Net assets of discontinued operations	408	490

In January 1999, GEC reached a preliminary agreement with British Aerospace (now known as BAE Systems) under which GEC's international aerospace, naval shipbuilding, defense electronics and defense systems business would be separated and subsequently merged with BAE Systems.

The results of operations of this business have been restated as discontinued operations for all years presented. A summary of operating results of discontinued operations is presented below:

Summary of operating results of discontinued operations:

	Year ended March 31,	
	1999	**2000**
(In millions)	**£**	**£**
Revenues	2,801	1,817
Operating income	267	27
Income before income taxes and minority interest	334	44
Income taxes	(81)	(42)
Income applicable to minority interest	(5)	(2)
Net income from discontinued operations	248	—

In November 1999, following sanction by the High Court of a Scheme of Arrangement pursuant to Section 425 of the Companies Act 1985, GEC undertook an internal reorganization and reconstruction under Section 110 of the Insolvency Act 1986 (the transaction). As a result of those steps, the former businesses of GEC became owned directly or indirectly by two new companies—MES Holdco (which held GEC's defense business—MES) and Marconi plc (which held GEC's remaining businesses). British Aerospace Plc (now named BAE Systems Plc) (BAe) acquired MES Holdco in consideration for the issue to former GEC shareholders of approximately 0.428 new BAe ordinary shares plus 13.54 pence of BAe Capital Amortizing Loan Stock for each GEC share held. GEC shareholders also received one share in Marconi plc for each GEC share held prior to the reorganization and reconstruction. On May 22, 2000, the rights of participants in GECs share option scheme to exercise options over GEC shares lapsed and reverted to the company as beneficiary. The shares have been classified as ''Treasury Stock'' at March 31, 2001. It is anticipated that these shares will be distributed to employees in conjunction with Marconi's employee share plans.

The transaction was completed on November 29, 1999; shares in Marconi were admitted to the Official List of the London Stock Exchange on November 30, 1999 and dealings in Marconi's shares commenced on that day.

The value of BAe ordinary shares and Capital Amortizing Loan Stock issued to GEC shareholders on November 29, 1999 amounted to £4,932 million.

At the date of separation MES owed an amount of approximately £1.2 billion to GEC. These liabilities were repaid immediately after separation with funds made available by BAe.

The separation has been treated as a partial disposition of the MES business and a partial distribution to shareholders. The net assets at separation (£2,278 million) have been apportioned on a pro-rata basis between the disposition to the extent of the cash received by Marconi (£439 million) and the distribution to the extent of the value of BAe shares and loan stock received directly by GEC shareholders (£1,839 million). The resulting gain on disposition, net of transaction costs of £65 million, is £675 million. As a result of the final settlement of the MES transaction, an additional £20 million gain was record in year ended March 31, 2001.

Net assets of discontinued operations:

(In millions)	March 31, 1999 £
Assets	
Cash and cash equivalents	(268)
Marketable securities	—
Accounts receivable	451
Inventories	436
Prepaid expense and other current assets	16
Total current assets	635
Property, plant and equipment, net	512
Marketable securities	99
Investment in affiliates	248
Deferred income taxes	64
Goodwill and intangibles, net	1,988
Other non-current assets	40
Total assets	3,586
Liabilities	
Accounts payable	167
Accrued expenses and other current liabilities	696
Total current liabilities	863
Long-term debt	6
Other long term liabilities	128
Minority interests	81
Total liabilities	1,078
Net assets of discontinued operations	2,508

19. Segment and related information disclosures

Marconi has adopted SFAS No. 131: ''Disclosures about Segments of an Enterprise and Related Information,'' in this report. This standard requires disclosure of segment information on the same basis used internally for evaluating segment performance and for deciding how to allocate resources to segments.

Description of the types of products and services from which each reportable segment derives its revenues

Under SFAS No. 131, during fiscal year 2001, Marconi had five reportable segments: communications networks, communications services, mobile communications, data systems, and medical systems (classified as a discontinued operation per note 18). Each segment operates in, and derives its revenues from, distinct business lines. Communications networks develops, manufactures, sells and supports optical networks, transmission systems and network management software for customers in the carrier network market. It also provides to customers in the carrier network market a broad range of access products. In addition, we supply to customers in both the carrier and the enterprise network markets, a broad range of high-performance, high-capacity broadband switches which select paths for sending large amounts of voice and data traffic through a network. Communications services provides a broad range of support services to the communications industry worldwide to enable operators to optimize business returns from their network investment including planning, building and operating communications networks tailored to suit customer's needs, as well as supporting our own communications and information technology products. Mobile communications designs, develops and integrates communications and information technologies into wireless communications systems for professional and military uses. Data systems provides a broad range of marking and imaging equipment used in the identification, distribution and tracking of food products, goods and printed matter. Medical systems, manufactures and distributes medical imaging equipment for both diagnostic and therapeutic uses. Marconi has other investments and businesses shown in the segmental information under ''Other''.

During the year ended March 31, 2001, the service station equipment business which was previously reported within ''Commerce systems'' has been reported within ''Other'' for segmental purposes. The retail automation systems business remains a separately identifiable systems business, but has not been disclosed as a separate segment as its results are not considered material to the group. Accordingly, the results of the retail automation systems business have also been reported within ''Other''. The data for each of the periods presented has been restated to reflect this change.

During fiscal 2001, management approved a formal plan to dispose of its Medical Systems business. Accordingly, the data for each of the periods presented has been restated to reflect the Medical Business as discontinued operation. See Note 18.

Measurement of segment operating profit or loss, segment assets, and segment capital employed

Marconi evaluates performance and allocates resources based on strategic long-term growth plans for each reportable segment. We measure performance on revenues and operating profits on a segment basis using U.K. GAAP. The principal measurement differences between U.K. GAAP and U.S. GAAP as related to the information reported on a segmental basis are the result of differences in the accounting for pensions and postretirement benefits, reorganization costs, employee share options and dividends. We also report capital employed on a U.K. GAAP basis to monitor trends in capital employed as it is an indicator of how effectively the fixed assets and working capital are being used by the segments.

Factors management used to identify Marconi's reportable segments

Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The five reportable segments are strategic market units that offer distinct products and services. These segments were determined based upon the customers and markets that Marconi serves. Each segment is managed separately as each segment requires different technologies and marketing strategies. The following tables present certain financial data from Marconi's reportable segments presented in accordance with U.K. GAAP and then reconciled to U.S. GAAP financial information consolidated totals:

Analysis of reportable segments (management information—U.K. GAAP reconciled to U.S. GAAP)

As of and for the year ended March 31, 2001	Net Revenues	Depreciation	Operating Profit(1)	Capital employed(*)
(In millions)	£	£	£	£
Communications networks	3,318	121	465	1,825
Communications services	1,016	19	112	136
Mobile communications	331	16	15	127
Data systems	239	5	55	65
Other	926	37	55	135
Medical systems (Discontinued)	1,112	13	105	354
Segment total—U.K. GAAP	6,942	211	807	2,642

As of and for the year ended March 31, 2000	Net Revenues	Depreciation	Operating Profit(1)	Capital employed(*)
(In millions)	£	£	£	£
Communications networks	2,535	80	416	807
Communications services	543	9	73	33
Mobile communications	295	8	26	123
Data systems	235	5	59	46
Other	1,106	41	100	407
Medical systems (Discontinued)	1,010	12	76	289
Segment total—U.K. GAAP	5,724	155	750	1,705

As of and for the year ended March 31, 1999	Net Revenues	Depreciation	Operating Profit(1)	Capital employed(*)
(In millions)	£	£	£	£
Communications networks	1,343	41	247	340
Communications services	244	5	32	37
Mobile communications	271	6	16	126
Data systems	218	5	57	43
Other	1,116	41	107	404
Medical systems (Discontinued)	898	10	49	303
Segment total—U.K. GAAP	4,090	108	508	1,253

(*) Included in the capital employed category are the following: property, plant and equipment, inventory, accounts receivable, prepaid expense and other current assets, other non-current assets, accounts payable, accrued liabilities, non-current liabilities, and other liabilities.

(1) Operating profit under U.K. GAAP is defined as profit from operations before goodwill and intangible amortization, in-process research and development, U.K. GAAP operating exceptional items, gains and losses on business disposals and the impact of less than 50% owned affiliates.

The segment information reviewed by the Chief Operating Decision Maker is prepared under U.K. GAAP. As required under U.K. GAAP the segment revenue total includes Marconi's share of revenues earned by joint ventures. These revenues include revenues earned by joint ventures from sales to Marconi.

Accordingly Marconi's share of joint ventures revenue is a deductive item in reconciling from U.K. GAAP revenue to the revenue recorded in the U.S. GAAP consolidated financial statements.

The following is a reconciliation from net revenue per segments to revenues per the consolidated statement of income for the three fiscal years ended March 31, 2001:

	1999	2000	2001
(In millions)	£	£	£
Net revenues per U.K. statutory accounts financial statements	4,090	5,724	6,942
Medical systems revenues classified as discontinued	(898)	(1,010)	(1,112)
Net revenues per segments	3,192	4,714	5,830
Less: joint ventures	(301)	(287)	(289)
Less: long-term contract adjustment	—	—	(50)
Revenues (U.S. GAAP)	2,891	4,427	5,491

The following is a reconciliation from operating profit per segments to income from continuing operations before income taxes and minority interests for the three fiscal years ended March 31, 2001:

	1999	2000	2001
(In millions)	£	£	£
Operating profit per segments	508	750	807
Medical systems operating profit classified as discontinued	(49)	(76)	(105)
U.S. GAAP adjustments	41	(124)	24
Adjusted operating profit	500	550	726
Operating exceptional items(*)	(46)	(79)	(19)
Joint ventures	(25)	(25)	(22)
Goodwill and other intangibles amortization and purchased in-process research and development and development	(89)	(764)	(692)
Other income/(expense), net	977	(21)	171
Income from continued operations before income taxes and minority interest	1,317	(339)	164

(*) These U.K. GAAP exceptional items relate to reorganization costs of £19 million (2000: £35 million, 1999: £24 million) and year 2000 costs of £nil (2000: £31 million, 1999: £22 million) which are disclosed on a separate line under U.K. GAAP. For U.S. GAAP reporting these items have been reclassified to the appropriate expense line in the income statement. In all cases this was selling, general and administrative expenses.

U.S. GAAP adjustments include the following:

	1999	2000	2001
(In millions)	£	£	£
Reorganization costs and gains on sale of businesses	7	(48)	40
Option schemes	—	(108)	9
Pension and post-retirement benefits	34	32	13
Long-term contract adjustment	—	—	(30)
Other	—	—	(8)
	41	(124)	24

U.K.—U.S. GAAP adjustments are discussed on pages F-[53] and F-[54].

The following is a reconciliation from capital employed to total assets per the consolidated balance sheet at March 31, 2000 and 2001:

	2000	2000	2001	2001
(In millions)	£	£	£	£
Per U.K. GAAP				
Segments capital employed	1,416		2,288	
Corporate capital employed	(977)		(719)	
Joint venture capital employed	(71)		(43)	
		368		1,526
U.S. GAAP Adjustments				
Pension and postretirement benefits	150		167	
Proposed dividends	93		96	
Option schemes	325		357	
Reorganization costs	6		10	
[Long-term contract adjustment]	—		20	
Other	—		12	
		574		662
Add items excluded from capital employed:				
Cash and cash equivalents	544		373	
Restricted cash	—		132	
Marketable securities, current	178		469	
Net assets of discontinued operations	408		490	
Marketable securities, long-term	14		6	
Investments in affiliates	569		120	
Deferred income taxes	133		239	
Goodwill and other intangibles, net	4,699		5,449	
		6,545		7,278
Add back credit balances included in capital employed:				
Accounts payable	742		875	
Accrued liabilities	1,477		1,599	
Other liabilities	149		170	
		2,368		2,644
Total assets		9,855		12,110

The following describes the significant U.K. GAAP to U.S. GAAP adjustments as they relate to segment information.

Pension and postretirement benefits

Under both U.K. GAAP and U.S. GAAP pension costs are provided so as to provide for future pension liabilities. However, there are differences in the prescribed methods of valuation, which give rise to GAAP adjustments to the pension cost and obligation or prepayment.

Proposed dividends

Under U.K. GAAP dividends are provided for in the year in respect of which they are recommended by the board of directors. Under U.S. GAAP, dividends are not provided for until declared by the board of directors.

Option Schemes

Under both U.K. GAAP and U.S. GAAP option schemes give rise to compensation expense when specified criteria are met. The measurement date and calculation of expense can be different, giving rise to GAAP adjustments to compensation expense, accrued liabilities, and additional paid-in capital as well as goodwill and amortization if such options are issued in connection with a business combination.

Reorganization costs

Under U.K. GAAP, provisions are recognized when Marconi has a present obligation as a result of a past event, when it is probable that a transfer of economic benefits will be required to settle the obligation, and when a reliable estimate can be made of the amount of the obligation. Under U.S. GAAP, a number of specific criteria must be met before reorganization costs can be recognized as an expense. Among these criteria is the requirement that all significant actions arising from the restructuring plan and their completion dates must be identified by the balance sheet date, and employees must be notified in order for termination benefits to be accrued. Accordingly, adjustments arise due to the timing differences for recognition under U.K. and U.S. GAAP.

Long-term contract adjustment

An agreement exists for the sale of equipment which has been installed and accepted by the customer. Under U.K. GAAP, these types of arrangements qualify for long-term contract accounting with revenue recorded based on work performed under the contract. U.S. GAAP does not permit revenue recognition in those instances where specific criteria have not yet occurred, and where the obligation for the customer to pay has not yet fallen due. Accordingly, adjustments arise due to the timing differences for recognition under U.K. and U.S. GAAP.

Discontinued operations

U.K. GAAP requires disclosure as discontinued operations any businesses ceased or disposed of prior to approval of the financial statements. Under U.S. GAAP, discontinued operations also include those operations where management have committed to a formal plan of disposal. Under U.S. GAAP, the results of the medical systems and MES businesses have been disclosed as discontinued for all years reported.

Major customer information

Marconi had one customer which accounted for 16%, 14% and 17% of revenue for the years ended March 31, 2001, 2000 and 1999, respectively.

Geographic information

Revenue data is collected on a territory basis and thus the following disclosures are provided.

Revenue to unaffiliated customers by geographic region are as follows:

	For the year ended March 31,		
Revenues by territory of destination:	**1999**	**2000**	**2001**
(In millions)	**£**	**£**	**£**
United Kingdom	1,020	1,232	1,473
The Americas	539	1,550	1,972
Rest of Europe	823	1,090	1,490
Africa, Asia, and Australasia	509	555	556
Total external revenues	2,891	4,427	5,491

	For the year ended March 31,		
Revenues by territory of origin:	**1999**	**2000**	**2001**
(In millions)	**£**	**£**	**£**
United Kingdom	1,440	1,826	1,957
The Americas	498	1,616	2,022
Rest of Europe	648	686	1,205
Africa, Asia, and Australasia	305	299	307
Total external revenues	2,891	4,427	5,491

Revenue by origin with the USA (included within The Americas above) totaled £1,794 (2000: £1,535 million; 1999: £496 million) and with Italy (included in the Rest of Europe) £669 (2000: £573 million; 1999: £512 million). No other country contributed more than 10% of revenue by origin in any of the years reported.

Long-lived assets

Within capital employed, the balance sheet measure reviewed by the Chief Operating Decision Maker, the only long-lived assets are property, plant and equipment and other non current assets.

Expenditure by sector on property, plant and equipment is as follows:

	For the year ended March 31,		
	1999	**2000**	**2001**
(In millions)	**£**	**£**	**£**
Communications networks	55	174	235
Communications services	6	11	48
Mobile communications	8	16	35
Data systems	5	5	5
Other	67	79	236
Total	141	285	559
Discontinued operation	30	14	28
Total	171	299	587

Other sector non-current assets included within capital employed are as follows:

	For the year ended March 31,	
	2000	2001
(In millions)	£	£
Communications networks	2	3
Communications services	—	—
Mobile communications	—	18
Data systems	—	—
Other	93	138
Total	95	159
Discontinued operation	49	47
Total	144	206

The geographical split of long-lived assets included within capital employed is as follows:

	For the year ended March 31,	
	2000	2001
(In millions)	£	£
United Kingdom	267	490
United States	261	338
Italy	70	133
Other	178	250
Total	776	1,211

Long-lived assets within other countries are not individually material for either fiscal year presented.

20. Related party transactions

Marconi and its consolidated subsidiaries have sales and purchases during the year with equity investments, joint ventures and associates, which are not consolidated, during the fiscal years ended March 31, 1999, 2000 and 2001. All transactions are in the ordinary course of business. The primary transactions between Marconi and related parties are summarized as follows:

	Year ended March 31, 1999		
	Alstom	Marconi Medical Financial Group	Other
(in millions)	£	£	£
Income statement:			
Net sales	17	48	51
Purchases	3	—	2
Balance sheet:			
Trade receivables	5	13	16
Trade payable	1	1	—

	Year ended March 31, 2000		
	Alstom	Marconi Medical Financial Group	Other
(in millions)	£	£	£
Income statement:			
Net sales	30	54	12
Purchases	5	—	—
Balance sheet:			
Trade receivables	5	14	3
Trade payable	1	—	—

	Year ended March 31, 2001		
	Alstom	Marconi Medical Financial Group	Other
(in millions)	£	£	£
Income statement:			
Net sales	—	90	59
Purchases	—	1	1
Balance sheet:			
Trade receivables	—	25	28
Trade payable	—	1	9

No significant transactions with directors or other executive officers of Marconi have occurred during the period.

During the year to March 31, 2001, Marconi made sales of equipment and services to Atlantic Telecom totalling £26.5 million. These sales formed part of the consideration of £113 million given in exchange for shares in Atlantic Telecom, which were recorded as an equity investment in the year to March 31, 2000.

21. Commitments and contingencies

Marconi is subject to legal proceedings and other claims arising in the ordinary course of business. Various lawsuits, claims and proceedings have been or may be instituted or asserted against Marconi relating to the conduct of its business, including those pertaining to environmental, safety and health, employment and contract matters. Although the outcome of litigation cannot be predicted with certainty and some lawsuits, claims or proceedings may be disposed of unfavorably to Marconi, management believes that the ultimate outcome of these matters will not have a material adverse effect on the results of operations or financial position or cash-flows of Marconi, except as set out below:

- Fore Systems is a defendant in a lawsuit filed by Bell Communications Research, Inc. (formerly known as Bellcore, now named Telecordia Technologies) on October 14, 1998 in the United States District Court for the District of Delaware. Telecordia alleges that Fore Systems has infringed and continues to infringe four patents owned by Telecordia, and seeks unspecified damages for past infringement and an injunction against future infringement. Fore Systems has denied infringement and asserted the affirmative defenses of invalidity, unenforceability, laches, equitable estoppel, implied license, misuse and unclean hands. In addition, Fore Systems has counterclaimed for a declaratory judgment on non-infringement, invalidity, unenforceability, laches, equitable estoppel, implied license, misuse and unclean hands and asserted affirmative claims seeking damages for reformation of contract based on fraud, breach of the covenant of good faith and fair dealing, negligent misrepresentation and common law unfair business practices and competition. Discovery in this case has closed. The court conducted a claim construction hearing in late August 2000 and subsequently entered an order construing the claims of the patents in suit. Bellcore, taking the position that it could not, given the court's patent claim construction, prevail on its claims of infringement at trial, moved the court to enter an order finding that Fore Systems had not infringed the patents in suit so that the case would be procedurally postured for appeal. Fore Systems subsequently moved the court to require that Bellcore identify which of the patent claim elements construed by the Court it contends were in error and which preclude Bellcore from proving infringement. That motion has been fully briefed and is pending before the Court.

- Fore Systems is a defendant in a second lawsuit filed by Telecordia on June 8, 1999 in the United States District Court for the District of Delaware. Telecordia's second lawsuit alleges that Fore Systems has infringed two additional Telecordia patents. Fore Systems has denied infringement and asserted the affirmative defenses of invalidity, unenforceability, laches, equitable estoppel, implied license, misuse and unclean hands. In addition, Fore Systems has counterclaimed for a declaratory judgment on the issues of non-infringement, invalidity and unenforceability and has alleged that Telecordia infringed one of Fore Systems' patents. Discovery in this case has closed. The plaintiff has filed summary judgment motions which are pending before the court. The case was scheduled for trial in November 2000; however, all proceedings have been stayed pending the outcome of the proceedings in the first lawsuit described above.

- On October 4, 2000, Alcatel and Alcatel CIT, both French companies, issued a claim in the U.K. against Marconi plc, Marconi Communications Limited and Marconi Communications SpA, alleging infringement of two patents held by Alcatel group companies. In connection with one of these patents, Alcatel issued a claim in Italy against Marconi Communications SpA and Marconi Sud SpA, alleging infringement and seeking an injunction to restrain further infringement. The Italian claim was rejected by the Court of first instance on December 18, 2000, and no appeal was made against this decision. Alcatel has recently discontinued the action in the U.K. in connection with this one patent. The remaining patent in suit relates to the operation of elements of SDH telecommunications transmission equipment. In addition to claims for damages, Alcatel is seeking redress by demanding cessation of production of the allegedly infringing elements of SDH equipment. Alcatel reserves the right to enforce such demand by means of injunction. Marconi has denied liability under the single Alcatel patent in suit.

- Fore Systems, together with six of its former directors and officers, are defendants in a consolidated class action lawsuit filed in the United States District Court for the Western District of Pennsylvania on behalf of a class of persons (other than defendants and their respective affiliates) who purchased Fore Systems securities during the period July 19, 1996 through April 1, 1997, inclusive. Plaintiffs allege that, during this period, Fore Systems misrepresented material facts relating to its results of operations, competitive position and future prospects and concealed its alleged deterioration, declining growth and inability to compete successfully until the April 1, 1997 preliminary release of Fore Systems' projected results of operations for the fiscal year ended March 31, 1997. Plaintiffs also allege that Fore Systems' financial statements for the fiscal quarters ended June 30, September 30 and December 31, 1996 improperly recognized revenues on sales to certain customers. These alleged misrepresentations are said to constitute violations of the anti-fraud provisions of Section 10(b) of the U.S. Securities Exchange Act of 1934 and, as to the individual defendants, of Section 20(a) of the U.S. Securities Exchange Act of 1934. Plaintiffs' consolidated complaint seeks unspecified damages, counsel and expert fees and other costs of suit and other unspecified relief. Defendants have denied all allegations of wrongdoing. Discovery has concluded, and both plaintiffs and defendants have filed their respective pretrial statements. No date has been set for the filing of dispositive motions or for trial.

- Marconi Corporation plc, Fore Systems and 13 persons who were then directors and/or senior executives of Fore Systems are defendants in a consolidated class action lawsuit filed in the United States District Court for the Western District of Pennsylvania on behalf of the public stockholders of Fore Systems (other than defendants and their respective affiliates) relating to Marconi Corporation's tender offer for Fore Systems' shares, Fore Systems' grant of stock options to certain of the individual defendants and the treatment afforded the individual defendants' stock options in that tender offer and in the merger agreement between Marconi Corporation and Fore Systems. Plaintiffs allege that, in violation of the anti-fraud provisions of Sections 14(e) and 10(b) of the U.S. Securities Exchange Act of 1934, Fore Systems' Schedule 14D-9 failed to disclose the material facts concerning the individual defendants' stock options and the Fore Systems' board of directors' determination that the terms of the tender offer and proposed merger were fair to Fore Systems' public stockholders. Plaintiffs further allege that the individual defendants' conduct violated Section 20(a) of the U.S. Securities Exchange Act of 1934 and that those defendants violated their fiduciary duties in connection with the grant of stock options and the negotiation and disclosure of the terms of the merger agreement. Plaintiffs further allege that Marconi Corporation, as part of the tender offer, agreed to cash out options held by the individual defendants and that such agreement constituted (1) additional consideration in violation of SEC Rule 14d-10 and (2) a ''side purchase'' in violation of SEC Rule 10b-13. Defendants have denied all allegations of wrongdoing. Plaintiffs' consolidated complaint seeks unspecified damages, counsel and expert fees and other costs of suit and other unspecified relief. The parties are engaged in the late stages of general discovery. No date has been set for the filing of dispositive motions or for trial.

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.

	Contingent liabilities		
	1999	2000	2001
(In millions)	£	£	£
At March 31,	25	25	25

Under the terms of the Marconi launch share plan, subject to the performance conditions being met (see footnote 15) Marconi may issue up to 37,751,480 Marconi ordinary shares to employees. The compensation expense, which would be recorded if the first performance condition is met, is estimated to be approximately £605 million.

In the ordinary course of business Marconi enters into contracts for capital expenditures as set out below:

	Capital expenditure commitments		
	1999	2000	2001
(In millions)	£	£	£
At March 31,	40	58	92

Marconi leases certain facilities and equipment under operating leases, many of which contain renewal options and escalation clauses. Total rental expense was £46 million, £35 million and £13 million for the years ended March 31, 2001, 2000 and 1999, respectively.

At March 31, 2001, minimum future rental commitments under operating leases having non-cancelable lease terms in excess of one year are as follows:

	Land and buildings	Other items	Total
(In millions)	£	£	£
2002	29	16	45
2003	25	16	41
2004	22	12	34
2005	20	9	29
2006	15	7	22
Thereafter	22	180	202
Total	133	240	373

22. Subsequent events

Subsequent to March 31, 2001, we entered into a new €3 billion revolving credit facility with a one year term out option. For borrowings up to €1.5 billion, the facility will bear interest at 0.04% above LIBOR and has a commitment fee of 0.125%. For borrowings in excess of €1.5 billion, the facility will bear interest at 0.045%, and additional commitment fee of .005% is payable.

On July 3, 2001, we entered into an agreement to sell the medical systems business for approximately £780 million ($1.1 billion) in cash subject to customary regulatory approvals and other closing conditions. Subject to these conditions being met and approvals being received, the transaction is expected to be completed during the last quarter of the calendar year ended December 31, 2001 and is expected to result in a gain.

Subsequent to March 31, 2001, Marconi plc and three of its current or former officers were named as defendants in five substantially identical class actions filed in the United States District Court for the Western District of Pennsylvania on behalf of a putative class of all persons (other than defendants and their respective affiliates) who purchased American depository receipts of Marconi plc between April 11, 2001 and July 4, 2001, inclusive. Plaintiffs in these actions allege that, during this period, Marconi plc and the individual defendants falsely reassured investors that Marconi's revenues would rise during the year and that its geographic and business mix left it relatively immune to the economic downturn affecting its competitors. Plaintiffs further allege that on July 4, 2001 defendants belatedly disclosed that tougher trading conditions in the quarter ended June 30, 2001 indicated that Marconi plc's sales and operating profits for its fiscal year ended March 31, 2002 would fall significantly from the levels achieved in fiscal 2001. Defendants' alleged misrepresentations are said to violate the anti-fraud provisions of Section 10(b) of the U.S. Securities Exchange Act of 1934 and, as to the individual defendants, Section 20(a) of the U.S. Securities Exchange Act of 1934. Plaintiffs seek class certification, an award of unspecified damages, counsel and expert fees and other costs of suit and other unspecified relief. Plaintiffs have moved for consolidation of these actions and for designation of lead plaintiffs. Following the consolidation of these actions, plaintiffs are expected to file a consolidated amended complaint. Defendants' obligation to respond to these complaints has been deferred.

On July 26, 2001, we completed the merger of our 92% owned subsidiary ipsaris Limited and EasyNet Group Plc (EasyNet) in exchange for 82.9 million EasyNet shares valued at approximately £271 million at the completion date. As a result, Marconi plc initially owns 71.9% of the issued share capital, and 49.9% of the issued voting capital of EasyNet and will account for such investment under the equity method.

Subsequent to March 31, 2001, the market for communications products and services has significantly declined. This has resulted in a significant decrease in our trading which has resulted in a decision to undertake further plans of restructuring and other charges as well as changes to management and the board of directors. Included in other charges will be additional inventory provisions of £500 million, writedowns in the carrying value of goodwill of approximately £3.0 billion to £3.5 billion (on a U.K. GAAP basis), and potential additions to bad debt provisions of approximately £150 million. The above was announced on September 4, 2001 and will be recorded in the six month period ended September 30, 2001. The September 4, 2001 announcement also stated that no dividend payment will be made for the fiscal year ended March 31, 2002.

As filed with the Securities and Exchange Commission on September 28, 2001

Commission file No. 0-30924

MARCONI plc
MARCONI CORPORATION PLC

EXHIBITS

filed with the

2001 Annual Report on Form 20-F

Volume 1 of 2

As filed with the Securities and Exchange Commission on September 28, 2001

Commission file No. 0-30924

MARCONI plc
MARCONI CORPORATION PLC

EXHIBITS

filed with the

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Exhibit 1.1

Memorandum and Articles of Association
of Marconi plc (as amended July 18, 2001)

Exhibit 4.14

Underwriting Agreement dated February 8, 2001
between Credit Suisse First Boston (Europe) Limited,
Société Générale and Merrill Lynch International
as underwriters, Alcatel, Marconi Corporation plc and Alstom

Exhibit 4.15

Purchase and Sale Agreement dated June 19, 2001
between Credit Suisse First Boston (Europe) Limited
and Marconi Corporation plc

Exhibit 4.16

2001 Credit Facility Agreement dated May 30, 2001 between
Marconi plc as guarantor, Marconi Corporation plc as original borrower,
certain banks and financial institutions as mandated lead arrangers,
certain banks and financial institutions as lenders and
HSBC Investment Bank plc as agent

Exhibit 4.17

Stock Purchase Agreement among Marconi Corporation plc,
Marconi Systems Holding Inc. and Koninklijke Philips Electronics N.V.
dated as of July 3, 2001

Exhibit 4.18

Communications Solutions Agreement between
Koninklijke Philips Electronics N.V. and Marconi Corporation plc
dated July 3, 2001

Exhibit 4.19

Merger Agreement
dated June 26, 2001 between Marconi Corporation plc
and EasyNet Group Plc relating to the merger of
ipsaris Limited with EasyNet Group Plc

Exhibit 4.20

Relationship Agreement dated June 26, 2001
between Marconi Corporation plc and EasyNet Group Plc

Exhibit 4.21

Railtrack Implementation Agreement dated June 26, 2001
between Marconi Corporation plc, Railtrack Telecom Services Limited (RTSL)
and ipsaris Limited

Exhibit 4.22

Marconi Lock up Undertaking dated June 26, 2001
from Marconi Corporation plc to EasyNet Group Plc and ABN Amro

Exhibit 4.23

Merger Agreement dated September 20, 2000 between Marconi plc
Marconi Acquisition Sub, Inc. and Mariposa Technology, Inc.

Exhibit 8.1

List of principal subsidiaries and other associated companies of Marconi plc

Exhibit 8.2

List of principal subsidiaries and other associated companies of Marconi Corporation plc

PRINCIPAL SUBSIDIARIES AND OTHER ASSOCIATED COMPANIES OF MARCONI PLC

The following table shows the principal subsidiaries and other associated companies of Marconi plc, being those which are considered by Marconi plc to be likely to have a significant impact on the assessment of the assets and liabilities, the financial position and/or the profits and losses of the Marconi Group to March 31, 2001. Except where stated otherwise, each of these companies is wholly-owned by a member of the Marconi Group and the share capital is fully paid.

Effective September 4, 2001, we reorganized our businesses into two divisions: communications and capital. Our communications subsidiaries are included in the communications division and all other subsidiaries, investments and associated companies are included in the capital division. For a more detailed discussion of our reorganization, see ''Item 4—Information on the Company—Business Overview'' and ''Item 4—Information on the Company—Organizational Structure''.

Name	Registered Office
Marconi Corporation plc	One Bruton Street, London W1J 6AQ, England
Communications	
Marconi Communications Ltd	New Century Park, PO Box 53, Coventry CV3 1HJ, England
Marconi Mobile S.p.A.	Via A. Negrone 1/A, 16153 Genoa, Italy
Marconi Communications S.p.A.	Via Ludovico Calda 5, 16153 Genoa, Italy
Marconi Communications, Inc.	c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, USA
Systems	
Marconi Medical Systems, Inc.*	c/o CT Corporation System, 1633 Broadway, New York, New York 10019, USA
Marconi Data Systems, Inc.	c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, USA
Other	
Marconi Commerce Systems Inc.**	c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, USA
Marconi Applied Technologies Limited	One Bruton Street, London W1J 6AQ, England
Marconi Software Solutions Limited	One Bruton Street, London W1J 6AQ, England
ipsaris Limited***	One Bruton Street, London W1J 6AQ, England
General Domestic Appliances Limited (50%)	Morley Way, Peterborough, PE2 9JB, England

Other associated companies

Global Air Movement Holdings Limited (42%)	4 Grosvenor Place, London SW1X 7HJ, England
Plessey Holdings Limited (50%)	One Bruton Street, London W1J 6AQ, England

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* On July 4, 2001, we agreed to sell Marconi Medical Systems to Philips Electronics. The transaction is subject to standard closing conditions, including regulatory approvals, and subject to these conditions being met and approvals being received, is expected to close in the fourth calendar quarter of 2001.

** Effective in September 2000, the retail automation systems and service station equipment businesses of Marconi Commerce Systems were accounted for as separate businesses in capital division. These two businesses were reunited under the name Commerce Systems and will be reported as a single business in the capital group for fiscal 2002.

*** Effective July 26, 2001, we merged our 92% interest in ipsaris Limited into EasyNet Group Plc, acquiring 71.9% of the issued share capital of EasyNet and control of 49.9% of EasyNet's issued voting capital. EasyNet's registered office is located at 44-46 Whitfield Street, London KT16 8DF, England.

Exhibit 8.1

List of principal subsidiaries and other associated companies of Marconi plc

Exhibit 8.2

List of principal subsidiaries and other associated companies of Marconi Corporation plc

PRINCIPAL SUBSIDIARIES AND OTHER ASSOCIATED COMPANIES OF MARCONI CORPORATION PLC

The following table shows the principal subsidiaries and other associated companies of Marconi Corporation plc, being those which are considered by Marconi Corporation plc to be likely to have a significant impact on the assessment of the assets and liabilities, the financial position and/or the profits and losses of the Marconi Group to March 31, 2001. Except where stated otherwise, each of these companies is wholly-owned by a member of the Marconi Group and the share capital is fully paid.

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Name	Registered Office
Communications	
Marconi Communications Ltd	New Century Park, PO Box 53, Coventry CV3 1HJ, England
Marconi Mobile S.p.A.	Via A. Negrone 1/A, 16153 Genoa, Italy
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Marconi Communications, Inc.	c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, USA
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Marconi Medical Systems, Inc.*	c/o CT Corporation System, 1633 Broadway, New York, New York 10019, USA
Marconi Data Systems, Inc.	c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, USA
Other	
Marconi Commerce Systems Inc.**	c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, USA
Marconi Applied Technologies Limited	One Bruton Street, London W1J 6AQ, England
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ipsaris Limited***	One Bruton Street, London W1J 6AQ, England
General Domestic Appliances Limited (50%)	Morley Way, Peterborough, PE2 9JB, England

Other associated companies

Global Air Movement Holdings Limited (42%)	4 Grosvenor Place, London SW1X 7HJ, England
Plessey Holdings Limited (50%)	One Bruton Street, London W1J 6AQ, England

* On July 4, 2001, we agreed to sell Marconi Medical Systems to Philips Electronics. The transaction is subject to standard closing conditions, including regulatory approvals, and subject to these conditions being met and approvals being received, is expected to close in the fourth calendar quarter of 2001.

** Effective in September 2000, the retail automation systems and service station equipment businesses of Marconi Commerce Systems were accounted for as separate businesses in capital division. These two businesses were reunited under the name Commerce Systems and will be reported as a single business in the capital group for fiscal 2002.

*** Effective July 26, 2001, we merged our 92% interest in ipsaris Limited into EasyNet Group Plc, acquiring 71.9% of the issued share capital of EasyNet and control of 49.9% of EasyNet's issued voting capital. EasyNet's registered office is located at 44-46 Whitfield Street, London KT16 8DF, England.