MARCONI PLC
Form 20-F
September 25, 2003

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As filed with the Securities and Exchange Commission on September 25, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

(Mark One)

o	**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**
	OR
x	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the fiscal year ended March 31, 2003
	OR
o	**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 333-12430

Marconi plc

(Exact name of Registrant as specified in its charter)

ENGLAND AND WALES
(Jurisdiction of incorporation or organization)

New Century Park

P.O. Box 53
Coventry
Warwickshire CV3 1HJ
United Kingdom
(Address of principal executive office)

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:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
$900,000,000 7 3/4% Bonds due 2010 of Marconi Corporation plc
$900,000,000 8 3/8% Bonds due 2030 of Marconi Corporation plc

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of March 31, 2003:
2,793,011,951 Ordinary Shares of 5p each

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 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 x NO o

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

ITEM 17 o ITEM 18 x

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* We have responded to Item 18 in lieu of responding to this Item.

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

On May 19, 2003, Marconi plc and Marconi Corporation plc concluded the financial restructuring of the Marconi group. The financial restructuring was effected through separate schemes of arrangement under the U.K. Companies Act 1985 for each of Marconi plc and Marconi Corporation plc. As a result of the restructuring, Marconi Corporation plc became the new parent company of the Marconi group and Marconi plc ceased to be a member of the Marconi group. Marconi plc no longer conducts any business and does not intend to revive any business operations. In this annual report, the terms we , us , our , Marconi , the Company refer to Marconi plc and, prior to May 19, 2003, its subsidiari and joint ventures, as the context requires.

Under the terms of the Marconi plc scheme of arrangement, all of the assets of Marconi plc, other than those necessary to fund the administration of the scheme, will be distributed to its creditors over time in accordance with the scheme of arrangement. We expect to liquidate or dissolve Marconi plc after the completion of these distributions to its creditors. While Marconi plc shares, and ADRs representing Marconi plc shares, remain outstanding following the effectiveness of the financial restructuring, we believe that there will be no circumstances under which any additional value will be returned to shareholders of Marconi plc. As that is the case, we believe Marconi plc shares and ADRs are effectively worthless.

Marconi plc is incorporated as a public limited company under the laws of England and Wales. We state our financial statements in United Kingdom (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, and references to United States (U.S.) dollars, U.S.$ or $ are to the currency of the United States of America.

Some of the market share information and other statements in this annual report regarding our former 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 competed. Unless otherwise specified or the context otherwise requires, market share and market data are based on fiscal 2003 sales.

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 2003 represents the fiscal year beginning on April 1, 2002 and ending on March 31, 2003.

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. Other than in Item 5: Operating and Financial Review and Prospects and our consolidated financial statements beginning on page F-1, all segment information is presented solely on a U.S. GAAP basis.

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

The information concerning equity affiliates 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 U.S. Securities and Exchange Commission (SEC), supplemented by additional information obtained in our capacity as shareholders.

Solely for convenience, this annual report contains translations of certain U.K. pounds sterling amounts into U.S. dollars at specified rates. These are simply translations and you should not expect that a U.K. pounds sterling amount actually represents a stated U.S. dollar amount or that it could be converted into U.S. dollars at the rate suggested, or any other rate. In this annual report, the translations of U.K. pounds sterling amounts into U.S. dollars, where indicated, have been made at the rate of U.S.$1.5790 per £1.00, the noon buying rate for cable transfers of U.K. pounds sterling, as reported by the Federal Reserve Bank of New York (the Noon Buying Rate) on March 31, 2003. The Noon Buying Rate on September 23, 2003 was U.S.$1.6560 per £1.00.

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PART I

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

This item is not applicable.

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

This item is not applicable.

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Item 3: ***Key Information***

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected historical consolidated financial information presented below as at and for each of the five years ended March 31, 1999 through 2003, has been derived from our audited consolidated financial statements prepared in accordance with U.S. GAAP.

On May 19, 2003, we and Marconi Corporation plc concluded the financial restructuring of the Marconi group through two separate schemes of arrangement under the U.K. Companies Act 1985. As a result of the restructuring, Marconi Corporation plc became the new parent holding company of the Marconi group, replacing us, and we ceased to be a member of the Marconi group. Additional details on the restructuring are included elsewhere in this document.

The information below has been restated for the following business disposals that have been treated as discontinued operations under U.S. GAAP:

Mobile (disposed in fiscal 2003);

Medical Systems and Data Systems businesses (disposed in fiscal 2002); and

Marconi Electronic Systems (MES), the international aerospace, naval shipbuilding, defense electronics and defense systems business (separated and subsequently merged with BAE Systems plc in fiscal 2000).

The information set forth below is not necessarily indicative of future results and should be read in conjunction with the audited consolidated financial statements and accompanying notes included elsewhere in this annual report and with the information set forth in Item 5: Operating and Financial Review and Prospects .

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SELECTED CONSOLIDATED FINANCIAL INFORMATION (continued)

	At and for the fiscal year ended March 31,					
	2003 $[(2)]	2003 £	2002 £	2001 £	2000 £	1999 £
	(in millions, except share data)					
STATEMENT OF OPERATIONS DATA:						
Revenues						
Network Equipment	1,786	1,131	1,812	3,268	2,535	1,343
Network Services	1,173	743	969	1,016	543	244
Other	35	22	465	637	824	815
Total	2,994	1,896	3,246	4,921	3,902	2,402
Operating (loss)/income[(1)]	(960)	(608)	(6,392)	(52)	(380)	271
Other (expense)/income, net	(465)	(295)	(143)	310	(106)	972
(Loss)/income from continuing operations before income taxes, minority interest, cumulative effect of changes in accounting principles and extraordinary items	(1,425)	(903)	(6,535)	258	(486)	1,243
(Loss)/income from continuing operations before cumulative effects of changes in accounting principles and extraordinary items	(1,193)	(756)	(6,260)	101	(451)	811
Cumulative effects of changes in accounting principles[(4)]			(240)			
Net (loss)/income	(1,274)	(807)	(6,150)	180	285	1,129
(Loss)/income per share basic						
(Loss)/income from continuing operations	(0.43)	(0.27)	(2.24)	0.03	(0.17)	0.30
Net (loss)/income	(0.46)	(0.29)	(2.20)	0.07	0.11	0.42
(Loss)/income per share diluted						
(Loss)/income from continuing operations	(0.43)	(0.27)	(2.24)	0.03	(0.17)	0.30
Net (loss)/income	(0.46)	(0.29)	(2.20)	0.06	0.11	0.41
Cash dividends declared per common share [(3)]						
£ per share				£0.05	£0.11	£0.12
$ equivalent per share				$0.08	$0.17	$0.20
BALANCE SHEET DATA:						
Total assets	4,912	3,111	4,925	11,683	9,426	7,699
Net assets/(liabilities)	(3,947)	(2,500)	(1,493)	4,805	4,468	5,874
Capital stock	1,926	1,220	1,203	946	622	414
Shares issued and outstanding (millions)	2,793	2,793	2,793	2,785	2,724	2,677

Notes:

(1) For fiscal 2002, operating loss is reflected after business restructuring and asset impairment charges of £5,319 million. For further information about these charges, see consolidated financial statements contained elsewhere herein.

(2) The consolidated financial statements are presented in millions of U.K. pounds sterling. U.S. dollar amounts are presented solely for the convenience of the reader at the rate of £1.00 = $1.5790, 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, 2003. These translated amounts should not be construed as representations that the U.K. pounds sterling amounts could have been, or could in the future, be converted into U.S. dollars at this or any other exchange rate.

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SELECTED CONSOLIDATED FINANCIAL INFORMATION (continued)

(3) Dividend payments were made out of net income, which included income from discontinued operations.

(4) We adopted EITF 00-19, Accounting for Derivative Instruments Indexed to, and Potentially Settled in, the Company s Own Stock in fiscal 2002. The value of such instruments, as of the implementation date, was recorded as a cumulative effect of a change in accounting principles of £240 million in fiscal 2002.

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RISK FACTORS

As a result of our financial restructuring, we have ceased business operations and intend to distribute our remaining assets to our creditors.

On May 19, 2003, we concluded the financial restructuring of the Marconi group. The financial restructuring was effected through separate schemes of arrangement under the U.K. Companies Act 1985 for each of Marconi plc and Marconi Corporation plc. As a result of the restructuring, Marconi Corporation plc became the new parent company of the Marconi group and Marconi plc ceased to be a member of the Marconi group. Marconi plc no longer conducts any business and does not intend to revive any business operations.

Under the terms of the Marconi plc scheme of arrangement, all of the assets of Marconi plc, other than those necessary to fund the administration of the scheme, will be distributed to its creditors over time in accordance with the scheme of arrangement. We expect to liquidate or dissolve Marconi plc after the completion of these distributions to its creditors. While Marconi plc shares, and ADRs representing Marconi plc shares, remain outstanding following the effectiveness of the financial restructuring, we believe that there will be no circumstances under which any additional value will be returned to shareholders of Marconi plc. As that is the case, we believe Marconi plc shares and ADRs are effectively worthless.

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EXCHANGE RATE INFORMATION

The noon buying rate for pounds sterling expressed in U.S. dollars per pounds sterling on September 23, 2003 was £1.00 = U.S.$1.6560.

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:

2003	High	Low
April	1.6000	1.5500
May	1.6484	1.5930
June	1.6840	1.6278
July	1.6718	1.5867
August	1.6170	1.5728
September (through Sept. 23)	1.6560	1.5732

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, based on the noon buying rate on the last business day of each month.

Fiscal year ended March 31,	Average
1999	1.6526
2000	1.6085
2001	1.4737
2002	1.4320
2003	1.5541

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Item 4: ***Information on the Company***

HISTORY AND DEVELOPMENT OF THE COMPANY

Until the effectiveness on May 19, 2003 of the schemes of arrangement described below under the caption Financial Restructuring , Marconi plc was the parent company of Marconi Corporation plc and its subsidiaries, which operated (and continues to operate) the business of the Marconi group. As a result of the effectiveness of those schemes of arrangement, Marconi plc ceased to be a member of the Marconi group and ceased business operations. Unless the context otherwise requires, the discussion below relates to the business and operations of the Marconi group that was, and continues to be, operated through the former direct and indirect subsidiaries of Marconi plc.

Following the passage of a special resolution at our annual general meeting on September 25, 2003, we will be submitting a request to the registrar of companies to change our name to M (2003) plc.

History

Early history

Marconi plc was a holding company that operated through its direct wholly owned subsidiary Marconi Corporation plc and Marconi Corporation s direct and indirect subsidiaries. Marconi Corporation, previously called The General Electric Company, p.l.c., or GEC, was incorporated as a private limited company in England in 1900 under the name The General Electric Company (1900) Limited. GEC originally operated in the electrical industry. The more significant events in our development are as follows:

1960s: We expanded significantly in the electrical industry through acquisitions;

1970s and 1980s:

- We acquired Videojet Systems International Inc., a data systems business, Picker International Holdings Inc., a medical systems business, and Gilbarco Inc., a commerce systems business.
- We formed GEC Plessey Telecommunications Holdings Limited, or GPT, a 50% joint venture with The Plessey Company plc, subsequently increasing our stake to 60%.
- We formed two 50% joint ventures, GEC Alsthom N.V. with Alcatel S.A., and General Domestic Appliances Limited, now known as General Domestic Appliances Holdings Limited, with the General Electric Company of the United States.

1990s:

- We reduced our stake in the GEC Alsthom joint venture to a 24% shareholding in Alstom.
- We acquired the minority 40% stake in GPT and formed Marconi Communications.
- We combined the GPT business with the Marconi telecommunications operations in Italy, Hong Kong and South Africa under the same management structure.

1999: GEC separated the Marconi Electronic Systems business, or MES, its international aerospace, naval shipbuilding, defense electronics and defense systems business, which merged with British Aerospace plc, now known as BAE SYSTEMS plc, or BAE. GEC s remaining businesses were reorganized under Marconi plc, with GEC becoming a wholly-owned subsidiary of Marconi plc. Shareholders of GEC became shareholders of Marconi plc.

Modern history

Following the separation of MES, we focused our strategy on communications technology and services.

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Acquisitions

From that time until we completed the operational review in fiscal 2002 referred to below, we acquired a number of business, including the following:

Fiscal 2000:

RELTEC Corporation,

FORE Systems,

the business of RDC Communications Limited,

Nokia s transmission equipment business,

the public networks business of Bosch,

the Australian communications solutions business of Scitec, and

a 27% interest in Atlantic Telecom which was diluted in June 2000 to 19.7% as a result of Atlantic Telecom s acquisition of First Telecom. Atlantic Telecom is now in liquidation.

Fiscal 2001:

Metapath Software International Inc., or MSI,

Systems Management Specialist, Inc.,

Albany Partnership Limited, and

Mariposa Technology, Inc.

Fiscal 2002:

a 71.9% economic interest, and 49.9% of voting share capital, in Easynet Group plc in July, 2001.

Reorganization and dispositions

Following a profit warning that we made on July 4, 2001, we undertook an operational review of our activities, the results of which we announced in September 2001. These results included a change in management with the appointment of a new chief executive officer and interim chairman. Subsequently, in December 2002, a new chairman was appointed to our board. The review also covered our markets, operations and scope of business and focused on adapting the group to the changed circumstances of the telecommunications market during the substantial decline in market demand for the group s products and services. As a consequence of the review, we streamlined our activities and disposed of a number of businesses and investments, including the following:

Fiscal 2002:

our remaining 24% interest in Alstom in February and June 2001,

our 92% interest in ipsaris Limited, as part of the Easynet acquisition referred to above;

our remaining 1.49% interest in Lagardère SCA in September 2001,

Marconi Medical Systems Group in October 2001, a 6.5% interest in Lottomatica SpA in November 2001 and February 2002,

Marconi Commerce Systems Group in February 2002,

the Marconi Optical Components business in February 2002 for a 9% interest in Bookham Technology p.l.c. which was later diluted to approximately 6%,

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Marconi Data Systems Group in February 2002, and

our 50% interest in General Domestic Appliances Holdings Limited in March 2002.

Fiscal 2003:

our applied technologies division in July 2002,

our strategic communications business (Mobile) in August 2002,

OTE SpA, our private mobile networks division, which was also known as TETRA in January 2003,

our 50% interest in Ultramast Limited, a joint venture, in February 2003 through a capital reduction, and

Marconi Online, in January 2003.

We also reorganized our businesses with effect from March 31, 2002, into two main divisions: Core, which focused primarily on network communications, and Capital, which comprised certain non-Core businesses that we managed for value and ultimately for disposal. This division is reflected in our historical financial statements included in this annual report. We further divided our Core business into two main business types, Network Equipment and Network Services.

Financial Restructuring

On May 19, 2003, the Marconi group concluded its financial restructuring. The restructuring was effected through two separate schemes of arrangement under the U.K. Companies Act 1985. A scheme of arrangement is a procedure under English law through which a company may enter into a voluntary compromise or arrangement with one or more classes of its creditors to effect a restructuring of its financial obligations. One scheme of arrangement involved all of the creditors of Marconi Corporation plc, other than certain excepted categories of creditors but including the syndicate banks and bondholders to whom our primary financial indebtedness was owed. The second scheme of arrangement involved creditors of Marconi plc. As a result of the restructuring, Marconi Corporation plc became the new parent holding company of the Marconi group, replacing us, and Marconi plc ceased to be a member of the Marconi group.

The financial restructuring covered approximately £4.8 billion of creditors claims, comprising £4.0 billion of syndicated bank debt and externally held U.S. dollar and euro denominated bonds and £800 million of related party debt. In exchange for the cancellation of their claims against us and Marconi Corporation plc, on May 19, 2003 the creditors covered by these schemes of arrangement received:

Cash: £340 million in cash;

Senior Notes: U.S.$717,139,584 (approximately £437 million) in aggregate principal amount of new guaranteed senior secured notes due April 2008 issued by Marconi Corporation plc, with interest payable quarterly in cash at a rate of 8% per annum;

Junior Notes: U.S.$486,881,472 (approximately £297 million) in aggregate principal amount of new guaranteed junior secured notes due October 2008 issued by Marconi Corporation plc, with interest payable quarterly in cash at a rate of 10% per annum or, at our option, in kind, by issuing additional junior notes, at a rate of 12% per annum; and

Marconi Corporation plc Shares: 995 million ordinary shares, representing 99.5% of Marconi Corporation plc s issued ordinary share capital on May 19, 2003.

In addition, Marconi Corporation plc issued 5 million ordinary shares, representing 0.5% of its issued ordinary share capital upon consummation of the financial restructuring, and warrants to subscribe for up to 50 million additional ordinary shares, equal to 5% of its issued ordinary share capital upon consummation of the financial restructuring, to shareholders of Marconi plc. In connection with the restructuring Marconi Corporation plc listed its ordinary shares on the London Stock Exchange and established an ADR program in respect of those shares.

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In connection with the financial restructuring, our ordinary shares were delisted from the London Stock Exchange. Under the terms of the Marconi plc scheme of arrangement, all of the assets of Marconi plc, other than those necessary to fund the administration of the scheme, will be distributed to its creditors over time in accordance with the scheme of arrangement. We expect to liquidate or dissolve Marconi plc after the completion of these distributions to its creditors. While Marconi plc shares, and ADRs representing Marconi plc shares, remain outstanding following the effectiveness of the financial restructuring, we believe that there will be no circumstances under which any additional value will be returned to shareholders of Marconi plc. As that is the case, we believe Marconi plc shares and ADRs are effectively worthless.

Prior to the financial restructuring, we had issued options in respect of Marconi plc s shares to Marconi group employees under a number of different option plans. In order to hedge some of the potential cost of acquiring the shares necessary to satisfy the group s obligations under these plans, we, through an ESOP trust entity, entered into contracts, which we refer to as ESOP derivative transactions, to purchase shares in the future at prices that were fixed at the dates of the contracts. In connection with the restructuring process, on March 26, 2003 we and Marconi Corporation plc entered into a final settlement with the banks, which we refer to as the ESOP derivative banks, that were the counterparties under the ESOP derivative transactions. This settlement agreement definitively settled the claims of the ESOP derivative banks against Marconi plc and Marconi Corporation plc in relation to the ESOP derivative transactions. Under the settlement, which was conditional on Marconi Corporation plc s financial restructuring becoming effective, we paid a total of £35 million to the ESOP derivative banks and the claims of the ESOP derivative banks under the ESOP derivative transactions were excluded from our and Marconi Corporation plc s schemes of arrangement.

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BUSINESS OVERVIEW

Until the effectiveness on May 19, 2003 of the schemes of arrangement of Marconi plc and Marconi Corporation plc described under the caption History and Development of the Company Financial Restructuring , Marconi plc was the parent company of Marconi Corporation plc and its subsidiaries, which operated (and continues to operate) the business of the Marconi group. As a result of the effectiveness of the Marconi plc and Marconi Corporation schemes of arrangement, Marconi plc ceased to be a member of the Marconi group and ceased its business operations. The business of the Marconi group continues to be operated by Marconi Corporation plc, the current parent holding company of the Marconi group, and its subsidiaries. Marconi plc does not intend to revive any business operations.

Prior to May 19, 2003, we, through our former Marconi group subsidiaries, were a global vendor of telecommunications equipment and services. Our customers included a number of the leading telecommunications operators throughout the world, with whom we had a large base of installed equipment. Unless context otherwise requires, the following discussion relates to the business of the Marconi group.

Principal operations

Our principal executive office was in Coventry with principal operating sites of the Marconi group in:

United Kingdom: Coventry, Beeston, Chorley, Camberley, Liverpool, London, Stafford and Wellingborough.

United States and Canada: Florida, Pennsylvania, Ontario, Georgia, Mississippi, North Carolina, Illinois, Texas, Ohio and Quebec.

Italy: Genova, Marcianise and Pisa.

Germany: Backnang, Offenburg, Frankfurt and Radeberg.

Spain: Madrid.

Australia: Melbourne and Sydney.

China: Beijing, Guilin and Hong Kong.

Malaysia: Daralam and Kuala Lumpur.

New Zealand: Auckland.

India: New Delhi.

Saudi Arabia: Riyadh.

United Arab Emirates: Dubai.

South Africa: Johannesburg.

Brazil: Sao Paulo and Votorantim.

Mexico: Naucalpan de Juarez and Huixquilucan Edo de Mexico.

As of March 31, 2003, we were organized into main divisions: Core and Capital.

Core businesses

For the purposes of our historical financial reporting, we divided our Core activities into two main business types: Network Equipment, comprising optical networks, BBRS, European Access, North American Access, OPP and other network equipment; and Network Services, comprising installation, commissioning and maintenance and valued added services.

Our customer base included telecommunications companies and providers of internet services for their public networks. In addition, we counted certain large corporations, government departments and agencies, utilities and educational institutions for their private networks as customers.

Sales, marketing and distribution

We sold our Network Equipment and Network Services using our direct sales force as well as indirect channels such as local partners and distribution partners. Our sales activities included sales and marketing organizations in all major geographic regions. There were specialized product marketing groups which supported these organizations internally. In addition, we had a central marketing staff which provided strategic direction and customer and market communications support for these organizations externally. Each of these regional organizations had responsibility for account management, sales, technical support and contract negotiation.

Our distribution partners include Ericsson, Italtel, Nokia and Siemens. We entered into a seven-year agreement with Ericsson in July 1999 that allows Ericsson to market the full range of our SDH equipment throughout the world. In June 2002, we entered into an additional seven-year agreement enabling Ericsson to source our range of next-generation DWDM optical networking equipment as well as encompassing the existing 1999 agreement on SDH equipment. We also entered into a five-year agreement with Nokia in November 1999 to market our SDH and DWDM systems.

Customers

We benefitted from the continued support of our strong customer base which comprised mainly well-established incumbent telecommunications operators and government agencies.

The main customers of our Network Equipment and Network Services included:

Europe: BT, the Metro City Carriers in Germany, Telecom Italia, the U.K. Government and Vodafone Group.

United States: BellSouth, Qwest, Sprint, the U.S. Federal Government and Verizon.

Asia-Pacific: China Railcom, China Telecom, China Unicom, Telkom Malaysia and Telstra.

Central and Latin America: Brasil Telecom, Telcel, Telecentro Oeste, Telefonica and Telmex.

These customers accounted for approximately 52% of our total sales during fiscal 2003.

Customers of our optical networks and European Access businesses were predominantly based in Europe as well as in the Asia-Pacific region and Central and Latin America. Customers of our BBRS, OPP and North American Access businesses were predominantly based in the Americas. In addition, we provided network services to a number of customers in the transportation and utility sectors, mainly in Europe.

Except for BT, each of our customers accounted for less than 6% of total sales for fiscal 2003. For the same period, BT accounted for approximately 18% of our total sales.

We entered into frame contracts with most of our major customers. While the terms of the frame contracts vary from customer to customer, these contracts generally set out the terms and conditions, including pricing, on which we planned to supply a customer with products and services. The length of frame contracts varied from customer to customer and ranged from one to five years. Some of the frame contracts established price and volume expectations which provided us with some visibility of expected sales during the terms of the contracts. However, the frame contracts did not typically guarantee the volume or value of products or services actually supplied by us, which remain at the discretion of the relevant customer. Near the end of their term, some frame contracts imposed an obligation on the parties to negotiate in good faith to agree an extension of the contract.

Customers were not normally contractually bound under their frame contracts to purchase products or services solely from us. Customers also often had the right to terminate a frame contract after a specified notice period. Notwithstanding the flexibility customers had in terms of the volume and value of the orders they placed and whether they placed those orders with us or one of our competitors, customers often had a commercial incentive to continue to purchase all of their requirements for specific types of products and services from, and to have those parts of their networks serviced by us.

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Network Equipment

We designed and supplied communications systems that transmitted and switched voice, data and video traffic predominantly in public networks. Our network equipment products included optical networking systems, broadband and narrowband switches, routers and aggregation devices, wireless transmission systems and software management systems. In addition, we sold outside plant and power products for use in communications networks.

Aggregate sales for all of our Network Equipment businesses for fiscal 2003 were £1,131 million, representing 60% of our total sales, compared to £1,812 million, or 56% of total sales, in fiscal 2002 and £3,268 million, or 66% of total sales, in fiscal 2001.

Overview of the public network market and competition

Historically, government-owned or government-regulated monopolies have operated public networks, which traditionally transmitted voice calls between users. Privatization and deregulation of public networks contributed to the entry of a large number of new companies into the public network market, offering new voice, data and video services.

The public network markets in which we operated are highly competitive. Our principal competitors included Alcatel, Cisco Systems, Ericsson, Fujitsu, Lucent Technologies, Nortel Networks and Siemens. The primary method of competition in the public network market is the widespread use of open bids for equipment purchases. Buyers use a combination of factors to evaluate bids, including price, technical compliance, ability to deliver in the required timescale and provide after-sales support, financial stability and long-term viability.

A typical public network can be portrayed as comprising three high level layers. These are the service, switching and transport layers. Traffic in the network is moved around the network by equipment in the transport layer and routed to different points in the network by equipment in the switching layer. Equipment in the services layer defines and makes available the service associated with each particular class of network traffic, for example, voice, data or video services. Public networks, which comprise the three layers above, can typically be either access, metro or core networks, depending on the connections they establish. The access network typically connects an end user of a service to a network operator s local exchange, where switches are located. The core network usually connects an operator s major points of presence like, for example, the routes between two cities. The metro network typically provides connections between the access and core networks, for example, between a major city and the various local exchanges or points of presence within a particular geographic region.

Our equipment can be found in most parts of the typical public network with:

- our optical products predominantly operating in the transport layer;
- our multi-service switches and softswitch in the switching layer; and
- our range of access products found in most layers of the access network.

Optical Networks

Communications service providers primarily use three technology standards, SDH, SONET and DWDM, to transmit voice, data and video traffic over fiber optic communications networks. DWDM is a relatively new transmission standard that is used worldwide. SDH is the digital transmission standard that is used in most regions except North America and Japan. SONET is the predominant standard that is used in North America and Japan. In June 2002, we announced that we were ceasing development of our SONET products because of continuing weak market conditions. We had never made material sales of SONET products. Sales of our optical networks products constituted 23% of our total sales in both fiscal 2003 and 2002. During the latter period, sales were predominantly in Europe and Asia, with the remainder from the Americas.

We focused our development on a comprehensive range of optical transmission equipment based on SDH and, more recently, DWDM.

Synchronous Digital Hierarchy: We were a pioneer of SDH technology following its introduction in the early 1990s and have continued to introduce next generation SDH products. We were a leading supplier of SDH transmission equipment within Europe and believed we had a tenable position in other markets including the Central and Latin American and Asia-Pacific regions. SDH contributed approximately 84% of optical networks business s sales in both fiscal 2003 and 2002.

Our add-drop multiplexers transport voice, data and video traffic streams over ring-based optical fiber networks to provide protection against network failures. Our line systems transport high-capacity voice, data and video traffic streamed between major traffic centers. We also supplied cross-connects to provide points of flexibility and restoration within an SDH network and to switch traffic streams from one transmission line to another.

Dense Wavelength-Division Multiplexing: DWDM is the transmission of closely spaced signals through a single optical fiber using wavelengths each of which functions as a separate, independent signal, and allows the capacity of installed optical fiber to be increased substantially to meet future growth in demand for voice, data and video traffic capacity. Our DWDM equipment was complementary to our SDH equipment and enables service providers to increase significantly the bandwidth of installed fiber optic cabling while still using the existing network infrastructure. Over the past few years, our share of the next generation DWDM market in Europe grew significantly.

We had already established what we believed was a tenable market position with our photonic line system, or PLx. We had recently launched a solution-based, ultra-long-haul photonic line system, or UPLx, that extended the distance that traffic can be transported before regeneration of the signal is required. We were developing this product specifically for ultra and extended long-haul DWDM networks which will have much higher per fiber capacity than SDH or SONET networks. In 2000, we launched a remotely re-configurable photonic add-drop multiplexer, or PMA. This product allowed traffic streams to be inserted and removed from a transmission ring without disturbing other traffic streams. We also developed a range of point-to-point and ring-based metro products, PMM. DWDM contributed approximately 14% of our optical networks business s sales in both fiscal 2003 and 2002.

Our network management system, or ServiceOn, manages our transmission equipment. ServiceOn provides a broad range of management functions required by a network operator. It can be used by service providers to remotely re-configure their networks in accordance with changing traffic patterns. ServiceOn also provides network performance information and has fault detection capability to support the day-to-day operation of the network.

Our broad portfolio of optical networks products, coupled with scalability and ease of upgrade, enabled us to sell optical networks to our customers which optimized network design and cost for those customers. Our focus on overall optical networks solutions, rather than single product solutions, enabled us to design more cost effective networks and to integrate future product offerings over the life of frame contracts.

Broadband Routing and Switching

In 2001, we refocused our technical and commercial resources in our BBRS business towards customers requiring more resilient networking platforms of the sort found in carrier class networks, namely government and military agencies, selected telecommunications service providers and other large corporations. Our BBRS business continued to provide support services to our approximately 1,000 U.S. Federal Government, service provider and enterprise customers. Our single largest customer of BBRS products was the U.S. Federal Government with whom we had enjoyed a long relationship. To date, this had resulted in an installed base of BBRS products in U.S. Federal Government communications networks of approximately U.S.$1.3 billion in value.

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Our BBRS business contributed approximately 6% of the total revenues in fiscal 2003 and approximately 4% in fiscal 2002. The BBRS business sales were made predominantly in the North American market and these sales accounted for approximately 5% of our total sales in the latter period.

Our products addressed the three principal packet-oriented protocols in use in the current market:

asynchronous transfer mode, or ATM;

internet protocol, or IP; and

multi-protocol label switching, or MPLS, an emerging standard which provides greater predictability, quality of service, or QoS, and differentiated service levels for IP-based data, voice and video communications when compared with services available over traditional, connectionless IP networks.

Our principal products comprised a range of multi-service switch-router devices that both established the physical communication links between end points and determined the optimal route across the network. In addition, we also developed and sold a range of integrated access devices, or IADs, which were cost-effective solutions supporting converged voice, data and video transmissions over a single circuit. We focused on the sale and support of our ASX-200BX, ASX-1000 and ASX-4000 range of multi-service switches, while we continued the development of our next generation BXR-48000.

We designed our switch router product platforms, such as the ASX-4000 and BXR-48000, to support communications traffic transmitted by ATM, IP and MPLS protocols. We designed them to enable operators to build on their existing switching and routing infrastructure to continue to support their legacy services while offering the flexibility and scalability to roll-out next generation IP, wireless and packet voice services. We also designed them to enable operators to reduce their capital investment and operating costs.

The ASX-4000 can switch at transmission speeds ranging from 10 to 40 gigabits per second, or Gbps, and can be positioned either within the core, or at the edge, of service provider networks or high-capacity private networks. Recent developments of the ASX-4000 switch included applications to allow service providers to transport voice traffic over packet switched infrastructures such as ATM (VTOA) or IP (VoIP).

The BXR-48000 can operate at transmission speeds ranging from 40 Gbps to 480 Gbps. It can be configured as a very high capacity router or a very high capacity switch. Routers function in the IP (packet) networking domain, while switches typically operate in the traditional voice, frame relay and ATM domains. In March 2002, following technical trials on the first BXR-48000 unit, the U.S. Department of Defense s Naval Research Laboratory, or NRL, demonstrated the high performance, high security, speed, reliability and functionality of this product. Subsequently, in September 2002, the U.S. Department of Defense placed a firm order for the product. The military-grade capabilities demonstrated by the BXR-48000 are equally applicable for the voice, video, data and multiservice networks of service providers and large non-military institutions. In December 2002, we announced a further sale of the BXR-48000 to a leading European financial institution.

We also provided support services to customers of our BBRS products. We reported these revenues within our Network Services segment. The BBRS business service offerings ranged from routine technical support and assistance for our switch-routers, to dedicated, on-site project and program support for complex network environments.

European Access

Access equipment connects the end user to a service provider s switch or local exchange across what has been traditionally known as the last mile or local loop . This is the physical wire, fiber or wireless link that runs from a subscriber s telephone set or other communications device to the service provider s local exchange. We designed, manufactured, sold and supported a range of access equipment which maximizes the capabilities of physical transport media, including copper telephone lines, fiber optics, and both licensed and unlicensed wireless spectra. Our access systems activities had undergone significant rationalization and, as a result, were focused on leveraging our reputation and relationships in Europe to continue penetration of key customers with fixed wireless, access hub and voice software systems. Our European Access business contributed approximately 14% of our total revenues in fiscal 2003 and approximately 11% in fiscal 2002.

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During the latter period, approximately 85% of the European Access business sales were in EMEA, and approximately 10% in the Asia-Pacific region, with the remainder in Central and Latin America.

Our principal access systems products were:

Digital Subscriber Line Access Multiplexer, or DSLAM. These products are typically located within an operator s local exchange on one end of the subscriber loop providing broadband internet/DSL data and voice services. Our access hub, which can be configured as an advanced high density DSLAM, also incorporates integrated ATM edge switching and IP multi-casting functionality. This enables it to perform as a broadband aggregator for multiple applications including voice, video and data services as well as providing conventional DSLAM functionality, such as asymmetric digital subscriber line, or ADSL, capabilities. This next generation product offers one of the highest port densities available in the industry and is optimized for ease of configuration and management. We launched our access hub platform in 2001 and won two major frame contracts with Telecom Italia and Telkom (South Africa). Wind (Italy) was also a customer.

Fixed Wireless. Our Skyband MDRS product family encompassed our point-to-point, or PtP, portfolio which offers long and short haul SDH transmission for services ranging from trunk networking, local access bypass and mobile network feeder applications. Our Skyband MDMS point-to-multi-point, or 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 radio planning and installation services enhanced our ability to offer customized, cost-effective solutions for network operators and service providers. The main customers of our range of fixed wireless access products included mmO2 (Germany) and E-plus (Germany).

Voice Systems. We provided switching hardware and software to telecommunications and media carriers in both legacy narrowband and next generation networks. The three main activities were:

Narrowband Switch Support. We supplied upgrades and extensions to our significant installed base of narrowband voice telephony systems, or System X. The majority of this installed base is in the United Kingdom. The need for operators to adapt their networks to changing traffic patterns, predominantly caused by the growth in internet traffic, has driven upgrades and extensions.

SoftSwitch. This next generation product is a system which builds on many of the features of the narrowband switch allowing network operators to combine their traditional telephony services with broadband multimedia and high-speed data services across a single broadband packet switched network. Our SoftSwitch was one of only a limited number of products offering full class 5 capability available in the market. It could therefore address both public and private network applications and has been designed to allow customers significantly to reduce the cost of operating their networks. We installed our SoftSwitch in the Dubai Marina project where it delivers voice and multimedia services. It was also undergoing trials with a number of customers in the United Kingdom. In December 2002, we announced the sale of our SoftSwitch system to support Jersey Telecom s roll out of a suite of commercial and residential broadband services.

Intelligent Networks. As legacy narrowband services have evolved, operators have experienced an increasing need to provide additional value added services that can be billed to individual subscribers. These services, such as 0800 numbers, voicemail, call waiting and ringback, can be controlled from a small number of service points where data and applications can be stored and updated centrally. Intelligent network products also work with switches from other manufacturers, increasing their attractiveness to operators whose systems contain a range of products.

The services offered by these products provided differentiating capability for our customers. We therefore undertook directly customer-funded developments as well as self-funded research and development. Our voice systems activities primary geographical market was the United Kingdom where we had a strong position in the U.K. circuit switching market and we were an equipment supplier to customers such as BT, Cable and Wireless, NTL and Telewest, each of which relied on us for upgrades and care and maintenance of installed equipment. Our narrowband switching products are deployed in approximately 70% of BT s local telephone exchanges and are central to the U.K. public service telephone network, or PSTN.

Other Access Products. We had a range of other access products that are deployed in our customers networks, including our Deep Fiber DMP product. This product brings the high bandwidth of the core fiber network into the access network.

North American Access

We designed, sold and supported a range of copper and fiber based access platforms for markets that use North American communications standards. Our largest customers were BellSouth and Sprint and we were one of the main suppliers of digital loop carrier systems by market share in North America. Our North American Access business contributed approximately 5% of our total sales in fiscal 2003 and approximately 4% of our total sales in fiscal 2002.

The DLC DISC*S family of products provided copper based access for voice and data services. We had provided over ten million lines of digital local loop equipment based on the DISC*S platform throughout the United States and had recently introduced a smaller footprint broadband high density version of the platform.

Our fiber to the curb solutions support a mix of voice, broadband data and video services to each customer. They deploy fiber all the way to a curbside pedestal and utilized copper or coax cables only for the short final drop to the customer s premises.

We had significantly rationalized the North American Access business and we were managing it for value and ultimately for disposal.

Outside Plant and Power

We were one of the major providers of outside plant and power products and services in North America. We were one of the major suppliers to Qwest, Verizon BellSouth, SBC, Sprint, AT&T and MCI. In addition, we were a supplier to Cingular, Telcel and U.S. Cellular. We had contracts to provide services to Bechtel in the building of wireless networks for AT&T and Cingular. Our OPP business contributed approximately 7% of our total revenues in fiscal 2003, and approximately 8% in fiscal 2002.

Our OPP business had three primary product lines:

Outside Plant supplied connection, protection and enclosure products for the local loop, and was a supplier in enclosure design such as thermal management and analysis, water and dust intrusion, equipment packaging techniques and corrosion resistance. Although these are primarily passive hardware products, the trend of placing sensitive electronics outside the local exchange and closer to the subscriber requires increasingly sophisticated enclosures and static protection. The connection and protection products included 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. The enclosure products are metal and plastic cabinets that house equipment such as power supplies, connection products, and digital and wireless transmission equipment.

Power supplied power systems to service providers and telecommunications equipment manufacturers for the local loop, local exchange switching, wireless sites and other customer equipment such as computer networks. Our power products and systems included large power systems for local exchange 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. We marketed our family of power products under Vortex, Lorain and other brand names. We based them 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 local and remote power system access that is easily expanded for system configuration and control.

Services provided customers with software that allowed for remote monitoring and control of power systems as well as complete program management support for communications systems deployment. Additionally, we provided a range of customer services, including site contract maintenance and breakdown service, spare parts provisioning, equipment depot repair, and training.

The OPP business s principal geographic markets were in North America and Central and Latin America.

We had significantly rationalized the OPP business and we were managing it for value and ultimately for disposal.

Other Network Equipment businesses

Other Network Equipment businesses contributed approximately 3% of our total sales in fiscal 2003, and approximately 4% in fiscal 2002. These comprised mainly the following businesses:

Marconi Interactive Systems, or MIS: MIS manufactured payphones and multimedia terminals which range from an indoor desk top phone through to sophisticated street multimedia terminals which have voice telephony and internet access capability. The business is predominantly U.K.-based and sells primarily to the major public network customers such as BT, Telecom Italia, Singtel, Telenor, Teledanmark and, through Loxley Business Information Technology Company Limited, TelecomAsia.

Network Equipment South Africa: Our operations in South Africa included the design, manufacture and supply of a range of terminal products including telephones, PABX key-systems and public payphones. On December 23, 2002, we disposed of our 51% interest in our optic fiber cable and copper cable business, ATC (Proprietary) Limited.

Network Services

Our Network Services activities comprised a broad range of support services to telecommunications operators and other providers of communication networks. We supported both our own products as well as those of other vendors of network equipment.

Aggregate sales of all our Network Services activities for fiscal 2003 were £742 million, or approximately 39% of our total sales, compared to £969 million or approximately 30% of total sales in fiscal 2002 and £1,016 million or approximately 21% of total sales in fiscal 2001.

Overview of the Network Services market

The substantial reduction in sales of network equipment led to corresponding reductions in the network planning, installation and commissioning services associated with the sales of new products. However, as network operators have sought to reduce expenditures to cope with excess capacity, the requirements for maintenance and support have continued. In some cases new opportunities have emerged as operators have sought to consolidate vendors and outsource additional services.

The fragmented nature of the network support services market means there are no dominant competitors in the provision of services to the public network market. However, major telecommunications vendors, such as Alcatel, Cisco Systems, Ericsson and Lucent Technologies are extending their service capabilities to offer total solutions that compete with Marconi products. In addition, major information technology and systems integrators, such as CSC, EDS and IBM, 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.

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The principal method of competition in this market is through open bidding. Services may also be sold as a part of, or linked to, equipment sales.

Service offerings

We provided, planned, built and operated support services to both fixed line and wireless network operators in many countries around the world. We targeted customers in the service provider, large-scale carrier class markets and in the government, transport and utilities sector. Our services segment had two main sub-groupings:

Installation, Commissioning and Maintenance, or *IC&M,* which comprised the following activities:

Customer Fulfillment provides project management, installation and commissioning, field engineering support and customer training. The main markets were the United Kingdom, North America, Germany and Italy. The North American activities are associated with the OPP business.

Managed Services supported the installed base of our equipment worldwide through technical support, on-site maintenance and spares & repairs management. Managed services also remotely monitored, managed and supported customers live networks. Services were provided from a global network of technical assistance centers, or TACs, and stock hubs and network operation centers, or NOCs. We operated thirteen TACs, five in the United States, two in the United Kingdom, two in the rest of Europe, two in Canada, and one in each of Japan and Australia, which offer around-the-clock telephone assistance to customers. We also had five NOCs, one in each of Australia, Germany, Italy, the United Kingdom and the United States, for remote monitoring, fault diagnosis and network repair. We supported our own product range as well as products supplied by other communication equipment companies.

Operational Support Systems provided the software systems and systems integration services that enable operators to maximize the efficiency of their networks and the quality of the services they provide to customers.

The bulk of these services were related to the sale of our products, although we also had considerable experience of working with equipment from other vendors.

Value-Added Services, or VAS, which comprised the following activities:

Integrated Systems provided turnkey projects and plan, build and operate services for non-telecommunications businesses in market sectors such as transportation and government. The projects involved planning, building, operating and supporting carrier class telecommunications infrastructure and were generally long-term. The principal geographical markets were the United Kingdom, Germany and the Middle East.

Wireless Services provided radio frequency consulting services to both wireless and wireline network operators. These were primarily consulting and contractual services for site acquisition, mast design and construction, radio frequency cell site planning and network optimization. Our radio planning and installation services enhanced our ability to offer customized, cost-effective solutions for network operators and service providers. In North America, our primary focus was on radio cell site planning and network optimization. In Europe, the Middle East and Africa, or EMEA, our principal geographical markets were the United Kingdom, Saudi Arabia, the Netherlands and Germany.

Managed Services provided customer support services associated with our BBRS equipment.

We developed our services businesses over a number of years. In EMEA, installation and commissioning services were necessary to support equipment sales to service providers. In North America, the business developed through supporting the data networking and power markets. The integrated systems activities developed organically to support complex mission critical network projects for large enterprises.

Capital Businesses

Our Capital businesses comprised certain non-essential businesses that we managed for value and ultimately for disposal. Activities in the Capital segment included our holdings in Easynet Group Plc and Bookham Technology plc.

On July 26, 2001, we merged our 92% interest in ipsaris Limited into Easynet Group Plc, a U.K. registered company listed on the London Stock Exchange. We acquired 71.9% of the issued share capital of Easynet and control of 49.9% of Easynet s issued voting capital. Easynet s share capital comprises voting ordinary shares and non-voting convertible shares. The closing of the Ultramast Limited capital reduction on February 24, 2003 and the settlement of the litigation associated with Ultramast Limited allowed us to acquire approximately a further 1.3 million ordinary shares in Easynet. However, these shares, together with some of the ordinary shares we already had held, were converted into convertible ordinary shares so that we did not own more than 49.9% of the voting ordinary shares. Our economic interest in Easynet was 72.7% prior to the effectiveness of our scheme of arrangement. Easynet operates an internet network and data center infrastructures. In the United Kingdom, Easynet has a national broadband network. We accounted for Easynet as an affiliate in our consolidated financial statements.

On December 17, 2001, we sold our optical components business to Bookham Technology plc in exchange for 9% of its issued ordinary shares. Bookham is a provider of optical components to network equipment vendors. Pursuant to a subsequent agreement between Bookham and Nortel Networks Corporation, our share ownership fell from 9% to approximately 6% of Bookham prior to the effectiveness of our scheme of arrangement.

Other activities in the Capital segment included a number of minor activities, investments and assets.

Intellectual property

Members of the Marconi group other than Marconi plc owned a number of intellectual property rights including patents and designs throughout the world. The Marconi group had a number of patent and know-how and other licenses from third parties relating to products and methods of manufacturing products. The Marconi group had also granted patent and know-how and other licenses to third parties.

Because we developed some of our technologies through customer-funded research, we did not always retain proprietary rights to the products we developed.

We relied on patents, trademarks, trade secrets, design rights, copyrights, confidentiality provisions and licensing agreements to establish and protect our proprietary technology and to protect against claims from others. Infringement claims had been 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. In each case, our financial condition could be materially affected. See Item 8: Financial Information Legal proceedings .

The Marconi trademark used by many of the Marconi group businesses was identified with and important to the sale of our products and services. It was either registered or the subject of an application for registration in approximately 120 territories, including all of those territories which we viewed as being our major trading territories.

In connection with the restructuring of the Marconi group, the intellectual property rights owned by the Marconi group remained with our former group. Marconi plc did not receive, nor does it have, any ownership rights to the intellectual property that was owned by the Marconi group prior to the effectiveness of the schemes of arrangement of Marconi plc and Marconi Corporation. Furthermore, Marconi plc was released from any liabilities that it had in connection with any Marconi group intellectual property rights and licences.

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Environmental And Other Regulations

Environmental, and employee health and safety matters

We were subject to increasingly stringent regulation under various U.K., U.S., EU and other international, national and local laws and regulations relating to employee safety and health, and environmental protection, including law and regulations governing air emissions, water discharges and the use, management and disposal of hazardous substances.

One of the many environmental laws that affected us in the United States was CERCLA , which is the primary federal statute governing clean-up of contaminated properties. CERCLA can impose joint, several and retroactive liability for the costs of investigating and cleaning up contaminated properties, without regard to fault or the legality of the original conduct. Potentially liable parties under CERCLA can include current and former owners or operators of a site, as well as those who generate or arrange for the disposal of hazardous substances. Environmental laws in other jurisdictions can also impose significant clean-up liabilities.

The Marconi group is conducting an investigation or clean-up at approximately 20 contaminated sites, principally in the United States including three clean-ups under obligations imposed under CERCLA. The remaining sites are being cleaned up voluntarily in connection with a prior property sale or purchase, or pursuant to government directive. The Marconi group estimated the total cost to clean up all of these sites will be between approximately £10 million and £20 million. A number of these and other of our current and former sites were associated with hazardous substance use and may give rise to unforeseen liabilities. We could therefore incur additional clean-up costs upon the discovery of new contamination at these or other sites for which we may be found to be responsible, either directly under CERCLA or other laws, or through a contractual indemnity obligation as the result of a prior property or business sale. We could also incur additional costs as a result of any related personal injury or property damage claims. Litigation is by its nature an unpredictable form of risk and is disclosed wherever unliquidated damages are sought but no information is currently available that indicates a material liability.

The Marconi group regularly audited its facilities compliance with employee safety and environmental requirements. We had not incurred material capital expenditures for environmental, health or safety matters during the past three financial years.

Other government regulation

Our products are subject to industry-specific government regulation and legislation in the United States, the European Union and throughout the world. For example, the Network Equipment business must comply with U.S. Federal Communications Commission requirements and regulations and other safety regulations governing communications products sold in the United States.

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PROPERTY, PLANT AND EQUIPMENT

Our registered office is located at New Century Park, P.O. Box 53, Coventry, Warwickshire, CV3 1HJ.

We had facilities in the United Kingdom, continental Europe, North America, Africa, Asia and Australasia. We owned or leased all of our principal sites. Our principal facilities immediately prior to the effectiveness of our scheme of arrangement were as follows:

Owned property

Location	Building or site area sq ft	Principal use
122 Edward Street St. Thomas, Ontario N5P 1Z2 **Canada**	45,000	Manufacturing
Hueftelaecker 1 T Backnang **Germany**	8,762	Offices R&D
Gerberstrasse 33 71522 Backnang **Germany**	714,160	Offices R&D
Max-Planck Str. 1 77656 Offenburg **Germany**	454,000	Manufacturing
MAIN SITE S.P. Casapuzzano Marcianise **Italy**	113,021	Manufacturing
Via Ambrogio Negrone 1/A (excluding L1 floor) 16153 Genova **Italy**	284,899 including Via Ludovico Calda 5	Offices R&D
Via Ludovico Calda 5 16153 Genova **Italy**	See Via Negrone above	Offices R&D
Iron Road, New Era Springs Johannesburg 1560 **South Africa**	318,289	Manufacturing & Offices
18/20 Denington Road Wellingborough Northants **U.K.**	44,929	Offices & Services
Reltec Corporation 104 Wiley Road La Grange Georgia 30240 **U.S.A.**	172,004	Manufacturing

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Location	Building or site area sq ft	Principal use
956 North Broadway Extended Greenville, Mississippi MS 38702 **U.S.A.**	126,416	Manufacturing & Offices
Evergood, 325 Welcome Center Blvd. Welcome, NC 27374 North Carolina **U.S.A.**	158,000	Manufacturing & Offices
1000 Marconi Drive Warrendale, PA 15086 Pennsylvania **U.S.A.**	574,286	Manufacturing, Offices and R&D
1122F Street Lorain, 44502 Ohio **U.S.A.**	311,495	Manufacturing & Offices

Leased properties

Location	Building or site area sq ft	Principal use
SCALA West Solmsstrasse 83 60486 Frankfurt **Germany**	116,500	Offices and R&D
Lot 24 Kumlim Industrial Estate 00009, Kulm, Kedah Daralam **Malaysia**	348,483	Manufacturing
New Century Park PO Box 53 Coventry CV3 1HJ **UK**	618,924	Offices and R&D
New Horizon Park Waterman Road Coventry **UK**	314,000	Offices and Manufacturing
13 Wilison Road Huyton Liverpool L36 6AE **UK**	105,497	Warehousing & Distribution
Edge Lane Liverpool L7 9NW **UK**	221,010	Offices & R&D

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Item 5: ***Operating and Financial Review and Prospects***

This discussion and analysis should be read in conjunction with Risk Factors , the Selected Consolidated Financial Information and the consolidated financial statements and related notes and the descriptions of our businesses included elsewhere in this document.

Overview

We were a global vendor of telecommunications equipment and services. Our customers included a number of the leading telecommunications operators throughout the world, with whom we had a large base of installed equipment. Conditions in the telecommunications market continued to deteriorate throughout fiscal 2003, with further reductions in capital investment by telecommunications operators. As a result, our total revenues of £1,896 million in fiscal 2003 decreased £1,350 million or 41.6% as compared with £3,246 million in fiscal 2002. In our Network Equipment and Network Services segments, revenues of £1,874 million in fiscal 2003 decreased £907 million or 32.6% as compared with £2,781 million in fiscal 2002.

We had taken extensive action to reduce the scope of our activities and to rationalize or curtail non-core areas. Since September 2001, we had embarked on a sequence of substantial cost reduction programs to reduce sales and marketing, general and administrative and research and development costs. We achieved significant reductions in annual expenditures through focused headcount reductions, organization consolidation, site rationalization (including the relocation of our U.K. corporate headquarters) and closure of sales offices worldwide. In addition, we had also reduced discretionary marketing spend. As a result, our total operating expense of £982 million in fiscal 2003, which included approximately £299 million of business restructuring and asset impairment charges, was reduced from approximately £6,341 million, which included approximately £4,364 million of business restructuring and asset impairment charges, in fiscal 2002. Excluding business restructuring and impairment charges, operating expenses in fiscal 2003 decreased by £1,294 million or 65% as compared with fiscal 2002.

On May 19, 2003, the Marconi group concluded its financial restructuring, which was effected through two separate schemes of arrangement under the U.K. Companies Act 1985. As a result of the restructuring, Marconi plc ceased to be a member of the Marconi group and ceased business operations. See the additional discussion of our financial restructuring in History and Development of the Company Financial Restructuring and Liquidity and Capital Resources below. Unless the context otherwise requires, the discussion below relates to the business and operations of the Marconi group that was, and continues to be, operated by the former direct and indirect subsidiaries of Marconi plc.

Basis of presentation

Our financial statements included in this annual report were prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The discussion and analysis below of our consolidated results of operations and financial condition were based upon these financial statements.

The requirements of U.S. GAAP applied to our group resulted in us preparing our discussion and analysis of segment results using information prepared in accordance with generally accepted accounting principles in the United Kingdom (U.K. GAAP). The U.S. Financial Accounting Standards Board standard Statement of Financial Accounting Standards No. 131 Disclosure about Segments of an Enterprise and Related Information required us to determine and review our segments as reflected in the management information systems reports that our managers use in making decisions. As we are an English company and we prepare our consolidated statutory financial statements under U.K. GAAP, our chief operating decision maker evaluated our segment performance using U.K. GAAP measures. Therefore, we presented our discussion and analysis of segment revenues and operating (loss)/profit below based upon information prepared in accordance with U.K. GAAP.

During the period to March 31, 2003, we divided our continuing operations into three separate segments: the Network Equipment and Network Services segments, which comprised what we referred to as our Core businesses, and the Capital segment, as follows:

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The Network Equipment segment, which comprises Optical Networks, Broadband Routing and Switching (BBRS), European Access, North American Access, Outside Plant & Power (OPP) and Other Network Equipment;

The Network Services segment which comprises Installation, Commissioning & Maintenance (IC&M) and Value-Added Services (VAS); and

The Capital segment, which comprises businesses that we manage for value and ultimately for disposal.

During fiscal 2003, the Capital segment comprised the following: Marconi Applied Technologies, until its disposal on July 12, 2002; Infochain, until its closure on August 18, 2002; and Online, until its disposal on March 5, 2003. In fiscal 2002, Capital also included GDA and Marconi Optical Components.

Under U.K. GAAP, the Capital segment also included: Strategic Communications, until its disposal on August 2, 2002; TETRA, until its disposal on March 5, 2003; and our UMTS mobile activities, all of which were treated as discontinued operations under U.S. GAAP. In addition, the Medical and Data Systems segments are presented as discontinued under U.S. GAAP for all years presented. We also had an economic interest of 72.7% in Easynet Group plc, which we included in our Capital segment. We accounted for Easynet using the equity method of accounting.

In February 2002, we were obliged to acquire by a put option 1,324,054 ordinary shares in Easynet for £20 million. We disputed the legal basis of the put option and entered into litigation with Railtrack Group. In February 2003, the litigation with Railtrack Group was settled and we became beneficial owners of the 1,324,054 Easynet ordinary shares under the put option. Consequently, the £20 million and related impairment have been reflected in equity in loss of affiliates. The put option increased our equity holding to 72.7% and our holding of voting shares to 51.6%. However, under the Articles of Association of Easynet and our relationship agreement with Easynet, our voting rights in Easynet are limited to 49.9%. Accordingly, Easynet applied in April 2003 to the U.K. Listing Authority to cancel the 1,324,054 ordinary shares and non-voting convertible shares have been issued to us in exchange. Since we were not able to exercise control over Easynet at anytime, we continued to account for Easynet using the equity method of accounting.

Results of operations Consolidated

The following table presents our results of operations for the three years ended March 31, 2003 prepared in accordance with U.S. GAAP.

	2003 £	2003 % of revenues	2002 £	2002 % of revenues	2001 £	2001 % of revenues
			(In millions)			
Revenues:						
Network Equipment	1,131		1,812		3,268	
Network Services	743		969		1,016	
Capital	22		465		637	
	1,896		3,246		4,921	
Direct costs	1,522	80.3%	3,297	101.6%	3,034	61.7%
Gross margin	374	19.7%	(51)	(1.6%)	1,887	38.3%
Selling, general and administrative expenses	356	18.8%	836	25.8%	783	15.9%
Research and development	290	15.3%	525	16.2%	506	10.3%
Amortization of goodwill and intangibles	44	2.3%	436	13.4%	647	13.1%
Business restructuring charges	230	12.1%	396	12.2%		
Impairments of long-lived assets	69	3.6%	3,968	122.1%		
Other (income)/expenses	(7)	(0.4%)	180	5.6%	3	0.1%
Total operating expenses	982	51.7%	6,341	195.3%	1,939	39.4%
Operating loss	(608)	(32.0%)	(6,392)	(196.9%)	(52)	(1.1%)
Other income/(expense):						
(Loss)/gain on sales of investments, net	(5)	(0.3%)	89	2.7%	461	9.4%
Impairment of investments	(40)	(2.1%)				
Other income	34	1.8%				
Interest expense, net	(284)	(15.0%)	(232)	(7.1%)	(151)	(3.1%)
(Loss)/income from continuing operations before income taxes, minority interests, cumulative effects of changes in accounting principles and extraordinary gain	(903)	(47.6%)	(6,535)	(201.3%)	258	5.2%
Income tax benefit/(provision)	209	11.0%	471	14.5%	(17)	(0.3%)
Equity in net loss of affiliates	(62)	(3.3%)	(196)	(6.0%)	(137)	(2.7%)
Minority interests					(3)	(0.1%)
(Loss)/income from continuing operations before cumulative effects of changes in accounting principles and extraordinary gain	(756)	(39.9%)	(6,260)	(192.8%)	101	2.1%
(Loss)/income from discontinued operations	(74)	(3.9%)	(64)	(2.0%)	59	1.2%
Gain on sale of discontinued operations	23	1.2%	248	7.6%	20	0.4%
Extraordinary gain, net of tax of £nil			166	5.1%		

Cumulative effect of changes in accounting principles			(240)	(7.4%)		
Net (loss)/income	(807)	(42.6%)	(6,150)	(189.5%)	180	3.7%