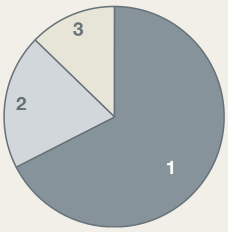
Group Key Figures £m	Year ended 31 March 2002	2001
Group Sales*	**4,567**	6,942
Group Operating (Loss)/profit* before exceptional items and goodwill amortisation	**(463)**	754
Exceptional Items	**(4,383)**	(50)
Pre-Tax Loss	**(5,664)**	(70)
Loss per share (pence)	**(210.6)**	(10.4)

* Includes the Group's share of joint ventures but excludes the Group's share of associates

2001/02 Group Sales by Division £m

1 Core	3,100
2 Capital	908
3 Medical	584

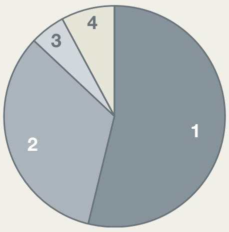


Group Sales £4,567m

excluding intra-Group sales of £25m

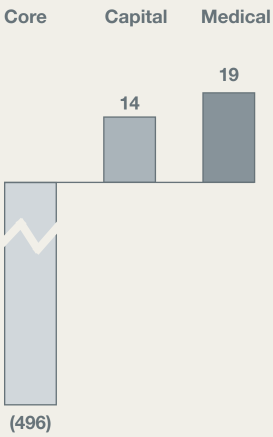
2001/02 Group Sales by Geography £m

1 Europe, Middle East & Africa	2,456
2 North America	1,523
3 Central & Latin America	237
4 Asia Pacific	351



Group Sales £4,567m

2001/02 Group Operating Profit by Division £m



Group Operating Loss £463m

before exceptional items and goodwill amortisation

I am reporting on a period of rapid and unprecedented deterioration in the global telecommunications market that has had an adverse impact on the financial position of Marconi.

All equipment suppliers have suffered from substantial declines in demand as network investments by the world's telecommunications service providers, our key customers, have been severely curtailed. Sales in our core telecommunications business in 2001/02 declined by 34 per cent compared with the previous financial year, resulting in a significant operating loss.

I have, therefore, to report an extremely disappointing set of results for the year ended 31 March 2002. At Group level (including joint ventures), on sales of £4,567 million, Marconi suffered an operating loss before exceptional items and goodwill amortisation of £463 million. Exceptional write-offs and provisions of £5,216 million were offset, to some extent, by exceptional gains of £667 million generated from disposals of businesses and fixed assets, and the reversal of share options provisions. After net interest payable of £238 million, the overall pre-tax loss for the year was £5,664 million. Given this result, the Board is unable to recommend the payment of a dividend for the year.

"I am reporting on a period of rapid and unprecedented deterioration in the global telecommunications market that has had an adverse impact on the financial position of Marconi. "

For Marconi, the impact of these extreme market conditions has been compounded by the financing costs relating to the acquisitions made during the past four years. Acquisitions totalling £5,492 million were paid for in cash, which created most of the current debt burden being carried by the Company. In light of reduced market demand, the trading and cash flow performances of these acquired businesses have been running at levels well below those that underpinned their valuations at the time of acquisition.

John Mayo resigned from the Board on 6 July 2001. Sir Roger Hurn and Lord Simpson resigned on 4 September 2001. At that time, I accepted the invitation of the Board to become Interim Chairman, Mike Parton was appointed Chief Executive and Mike Donovan became Chief Operating Officer. Steve Hare had joined the Board as Chief Financial Officer on 10 April 2001. Baroness Dunn and Rob Meakin both resigned from the Board in 2002. We are currently looking to appoint some new Board members to achieve a more appropriate balance of skills and experience. Notwithstanding an increasingly hostile trading environment, the new management team has made real progress in stabilising the performance of the Company in line with the Operational Review they presented on 4 September 2001.

Planned disposals of non-core businesses and property generated cash proceeds of £1,559 million during 2001/02. Operating costs in the core telecommunications equipment business have been reduced to a level that is consistent with a cost run-rate of £1 billion as we entered the current financial year. As a result of these actions and improvements to the management of our supply chain, £204 million of operating cash flow was generated in the final quarter, by far the best performance seen during the year. These actions and our re-purchase of Marconi bonds produced a year end net debt figure of £2,865 million, some £1.4 billion below the 30 September 2001 figure and well within our announced target range.

Against a background of further market deterioration early in calendar 2002, the Board announced on 22 March that it had decided not to proceed with new banking facilities to re-finance the Company's existing syndicated loan facilities. As a result of this decision, the undrawn commitments under these facilities were cancelled and the drawn portion of the €4.5 billion facility which matures in March 2003 was placed on demand.

We have subsequently developed a revised business plan that rigorously reviews the conditions in each of our markets and the competitive position of each of our product lines. The plan demonstrates a restructured core telecommunications business that is sustainable and that will generate both operating profit (before exceptionals and goodwill amortisation) and operating cash flow (after net capital expenditure) in the early stages of the 5 year plan period. This plan has been presented to representatives from our syndicated lending banks and bondholders and is currently being reviewed by them and their advisers. We aim to reach an agreement, as soon as possible, on a financial restructuring proposal that is acceptable to our shareholders, bondholders, bankers and other creditors. This agreement could result in a dilution of value for existing shareholders.

This trading environment has put huge pressure on the executive management team at Marconi and caused upset and uncertainty for all staff including the many who left the Group during the year. I would like to thank all those who have contributed in their different ways during a most traumatic period. While we see no early recovery in our markets, we are taking decisive actions to deal with the hostile environment, and hope for continuing support as we look to secure a more certain future for investors, employees, customers and suppliers.

Derek Bonham
Chairman

The financial year to March 2002 has, without doubt, been the most difficult in the history of our industry and our Company as the previous strong growth trends reversed sharply. After an extremely disappointing first half operating performance, we have taken further, more radical action since September to reduce our cost base and our debt burden and re-organise the business to compete in a drastically changed market environment.

Market Conditions

Trading conditions in our industry continued to deteriorate throughout the year. The high levels of telecoms operators' capital investment in the latter part of the 1990s proved unsustainable. The combination of a growing number of operators competing for the same customers, overly optimistic expectations for demand growth and technological improvements contributed to an oversupply of bandwidth. As a result, in calendar year 2001, capital expenditure among wireline operators globally fell significantly as these operators focused on their own profitability and cash generation.

Operational Performance

Every competitor in our industry has been affected by the rapid turnaround in demand for telecoms equipment. The speed of this decline was far greater than anticipated and has meant that our sales fell faster than we could reduce our cost of sales and operating expenses. On 18 July 2001 we announced a comprehensive Operational Review focused on reducing our cost base to lower the level of sales required for the business to break even. The outcomes of the review were announced on 4 September, and were based on two main challenging objectives for the end of the financial year:

- to reduce our Group net debt from £4.3 billion at the end of August 2001 to between £2.7 billion and £3.2 billion; and
- to reduce our operating cost base to an annual run rate of £1 billion from £1.4 billion one year previously.

Business Disposals

A major part of our debt reduction programme was the disposal of non-core businesses which we completed during the year. The major disposals included Medical Systems in October 2001, Commerce Systems and Data Systems in February 2002, and our 50 per cent stake in General Domestic Appliances in March 2002. Additionally, we exchanged our optical components business for an approximate ten per cent interest in Bookham Technology in February 2002.

We continue to manage all assets in our Capital division for value, and ultimately for disposal.

Debt Reduction

Through the combination of disposal proceeds, positive operating cash flow before exceptional items in the final seven months of the year and the re-purchase of some of our bonds, we reduced Group net debt to the lower end of our target range by March 2002.

Reduced Operating Costs

Our operating costs relate to Research and Development, Sales and Marketing, and General and Administration. When compared with the 2001 financial year, Core Research and Development costs increased by 5 per cent. We had increased the R&D run-rate throughout the previous year as our business grew and have progressively realigned investment to our lower sales volumes during the year. As a result of the time it takes to scale back previously committed R&D projects, however, this has not resulted in overall year on year savings but we do expect to see the benefits of this strategy during the current financial year. The increased investment in 2002 was mainly concentrated in Optical