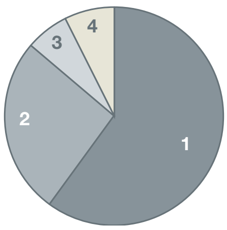
Sales in EMEA declined by 34 per cent and in NAM by 37 per cent, while Central and Latin America (CALA) and Asia Pacific decreased sales by 2 per cent and 25 per cent respectively. EMEA remained the largest market for the Core business, contributing 60 per cent of total Core sales (2001 61 per cent). NAM represented 26 per cent of Core business sales (2001 28 per cent), while CALA and Asia Pacific contributed 7 per cent (2001 4 per cent) and 7 per cent (2001 7 per cent) respectively.

	Year ended 31 March	
Core £m	**2002**	2001
Order Backlog	**1,679**	2,074
Orders Received	**2,833**	4,452
Sales	**3,100**	4,665
Gross Profit	**699**	1,794
Operating (Loss)/profit before exceptional items and goodwill amortisation	**(496)**	548

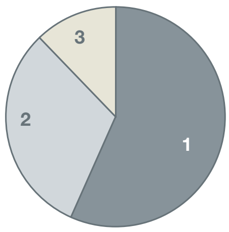
Core Sales by Geographic Destination %

1 EMEA	60
2 NAM	26
3 CALA	6
4 APAC	8



Core Sales by Segment £m

1 Network Equipment	1,762
2 Network Services	969
3 Mobile	369



Core Sales £3,100m

Core - Operating Loss

The Core business recorded an operating loss before goodwill amortisation and exceptional items of £496 million during the year (2001 operating profit before goodwill amortisation and exceptional items of £548 million). This substantial decline was driven by a significant drop in gross margins caused by the decline in sales volumes and the Group's inability to restructure its cost base sufficiently rapidly within the year to offset the speed of the sales decline. The operating performance year on year declined across all major product segments but was most marked in Network Equipment.

In September 2001, management targeted to exit the year to March 2002 with an operating expense run-rate in the Core business of £1 billion compared to £1.4 billion one year earlier. The Group achieved this target as a result of its ongoing cost saving measures. Research and development expenses increased year on year, mainly as a result of product launch costs in Broadband Switching and Optical Networks but this increase was more than offset by reduced sales & marketing and general & administration expenses. Marconi began to target cost savings from July 2001 and implemented the necessary actions progressively during the year to achieve its targeted run-rate by the end of March 2002. Due to the time required to achieve certain of these actions, the Group was unable to generate sufficient savings within the year to compensate the decline in sales volumes. This led to a higher percentage of operating expenses relative to sales than in the previous year.

The Group operating loss also includes central and other costs, mainly related to the UK and regional head offices. These amounted to £64 million compared to £15 million in the previous year. In 2000/01 these costs were largely offset by income from the sale of trademarks, the successful settlement of a legal claim and the release of provisions no longer required against insurance-related liabilities.

Network Equipment £m	2001/02	2000/01
Sales	**1,762**	3,318
Operating (Loss)/profit before exceptional items and goodwill amortisation	**(461)**	448

Network Services £m	2001/02	2000/01
Sales	**969**	1,016
Operating Profit before exceptional items and goodwill amortisation	**35**	102

Mobile £m	2001/02	2000/01
Sales	**369**	331
Operating (Loss)/profit before exceptional items and goodwill amortisation	**(6)**	13

Segmental Analysis

Network Equipment

Sales in the Network Equipment business were £1,762 million, a decline of 47 per cent compared to the previous year. Sales declined across all major product areas as a result of the general decline in demand for telecommunications equipment as the majority of telecom operators have significantly reduced their capital spending budgets in order to focus on profitability and cash generation.

Network Equipment incurred an operating loss of £461 million during the year (2001 operating profit £448 million). This decline was driven by the substantially reduced gross margin in the business. This resulted from the decline in sales recorded during the year, which led to under-recovery of costs in the supply chain. Contractual annual price reductions under existing frame contracts, some price erosion on new Optical Networks orders and issues relating to business mix also contributed to the decline but to a much lesser extent.

Optical Networks

Optical Networks comprises Marconi's range of SDH, DWDM and SONET transmission equipment as well as its network management systems.

Sales in this predominantly European business decreased by 48 per cent to £737 million (2001 £1,408 million). The main driver of this decline was the strong fall in sales of SDH equipment, which accounted for around 85 per cent of total Optical Networks sales during 2001/02 and a higher proportion of 2000/01 sales.

The underlying decline was broadly in line with the overall market trend in SDH, but was exacerbated by the phasing of capital expenditure of Marconi's major incumbent customers, who have decreased spend more rapidly and ahead of other operators. Spending by some, mainly continental European operators remained more resilient during the year but this benefited some of the Group's competitors more than Marconi itself, due to their existing incumbent relationships with this group of operators.

Despite this substantial decrease in sales, Marconi has maintained its market share position in the European Optical market. According to RHK, a leading telecom market research firm, Marconi was joint European leader in this market for calendar year 2001 and Marconi continued to lead the SDH add-drop multiplexer market in Europe with approximately 25 per cent share including the share achieved through its channel partners (Ericsson, Nokia and Siemens).

The decline in SDH was partly offset by an increase in DWDM sales, which more than doubled compared to the previous year. This was a result of the first shipments of DWDM to Telecom Italia under the previously awarded exclusive frame contract as well as a number of new customer contracts including Omnitel-Vodafone, China Railcom and Fibernet. This follows the successful launch of Marconi's full range of DWDM solutions in the early part of 2000/01. According to RHK, during calendar year 2001, Marconi increased its share of the European DWDM market to 8 per cent.

In addition, during the second half of the year, Marconi made shipments of ultra-broadband DWDM equipment to BT under the previously announced 5-year frame contract. Given the nature of this contract, revenue relating to ultra-broadband products will be recognised when the circuits provided by this equipment are utilised. As none of the circuits were utilised prior to 31 March 2002, no sales associated with these shipments were recognised during the financial year.

Broadband Switching

Broadband Switching comprises mainly sales of multi-service switching products such as the ASX 4000 multi service core switch and the smaller ASX and TNX edge switches and a range of legacy ATM switching and routing products designed for enterprise customers.

Sales in Broadband Switching were £209 million (2001 £427 million), a reduction of 51 per cent. Two main factors contributed to this decrease:

Enterprise: in line with the Group's previously stated strategy to focus its technical and commercial resources towards customers requiring carrier-class networks, namely telecom service providers, sales to Enterprise customers have declined substantially. The US Federal Government, however, remains the largest customer of Marconi's broadband switching equipment.

Service Providers: sales to US service providers decreased during the year as a result of reduced capital spending in this business' traditional service provider customer base of CLECs and ISPs and the absence of major new contract wins with incumbent operators. In addition, Marconi has historically sold a third party's Broadband Switching equipment into the UK market under an OEM distribution agreement. Sales under this agreement have declined during the year as a result of reduced customer spending and the impact of the pending termination of this contract during the first half of the current financial year.

During the fourth quarter of the year, Marconi's new multi-service core switch, the BXR 48000 was successfully launched and shipped to the US Federal Government and BTexact Technologies for field trials.

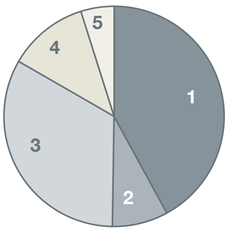
Broadband Access

Broadband Access includes wireless-based (point-to-point and point-to-multipoint radio), fibre-based Mx platform (Fibre to the Curb) and Marconi's new multi-service (Access Hub) access platforms.

Sales of fixed wireless access products, which account for the majority of Broadband Access sales, were only slightly down compared to last year mainly as a result of continued shipments to German mobile service providers, who use the technology within their 2.5G and 3G mobile networks. In addition, the Group recorded the first sales of its Access Hub platform under frame contracts to Telecom Italia and Telkom South Africa. This application is initially being used as a high density DSLAM platform to deliver ADSL based services. The combination of these two factors led to stable sales in Broadband Access year on year at £145 million.

Network Equipment Sales by Product Area £m

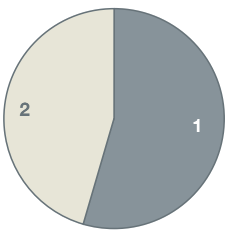
1 Optical Networks	737
2 Broadband Access	145
3 Mature Access	584
4 Broadband Switching	209
5 Other Network Equipment Sales	87



Network Equipment Sales £1,762m

Network Services Sales by Product Area £m

1 IC&M	528
2 VAS	441



Network Services Sales £969m

Mature Access

Sales in Mature Access were £584 million, down 52 per cent compared to £1,227 million of sales recorded in the previous year. This decrease occurred equally across Outside Plant and Power, Voice Systems and Narrowband Access products.

In Outside Plant and Power, the sharp fall in sales was due to the significant reduction in capital expenditure in the United States and Mexico, the Group's main markets for these products. Marconi has maintained its market shares in both the power and outside plant segments in the Americas where it enjoys leading market positions.

In Voice Systems, which is predominantly a UK-based business, sales declined because previously awarded contracts have reached completion and have not been replaced with significant new contracts for these mature products as customers refocus investment away from narrowband switching installed bases.

In Narrowband Access which comprises the Group's North American DLC products and other, mainly European, mature access product ranges, sales were down due to the continuing slowdown of narrowband access infrastructure investment particularly in the US and UK.

Other Network Equipment

Sales of Other Network Equipment, comprising mainly the Group's activities in South Africa and legacy activities within Asia-Pacific, declined to £87 million (2001 £111 million). This was primarily due to the impact of negative foreign exchange mainly relating to the South African operations (£13 million) and the completion of various historical contracts in Asia-Pacific.

Network Services

Network Services comprises two reportable segments: Installation, Commissioning and Maintenance (IC&M) and Value-Added Services (VAS). VAS comprises the services provided to customers to plan, build and operate their networks including the acquire, design, construct and civil engineering capabilities the Group offers to mobile operators. It also includes the Group's Integrated Systems activity, which manages network design and engineering projects, particularly in the transportation and government sectors.

Sales in the Network Services business were £969 million, a decline of 5 per cent compared to the previous year (2001 £1,016 million). Excluding the impact of acquisitions completed since 1 April 2000 such as MSI, APT and Northwood Technologies, Network Services sales decreased by 7 per cent. The main driver of this decline was a fall in sales of installation and commissioning services following the downturn in network equipment supply.

Operating profit in Network Services decreased to £35 million (2001 £102 million). Whilst operating profit was down in both IC&M and VAS, the main reason for the overall decline was lower operating profit contribution from installation and commissioning. This labour-intensive activity recorded strong quarter on quarter sales growth throughout the last financial year 2000/01 and the operating cost base, in particular the workforce, was geared up to deal with demand at that time. During 2001/02, demand for installation and commissioning activities dropped quarter on quarter following lower network equipment supply orders, leading to under-utilisation of the overall service resources. The Group was unable to reduce costs quickly enough, particularly during the first half of the financial year to prevent operating margin erosion. Operating profit in Wireless Services has been negatively impacted by under-utilisation of resources. In the UK this is due to delays in the planned roll-out of 3G networks by mobile operators whilst in the US this is due to the changed business mix resulting in a higher proportion of software sales and a decline in the level of consulting activities.

Installation, Commissioning and Maintenance

IC&M sales decreased by 20 per cent to £528 million (2001 £656 million). The decrease in installation and commissioning activities relating to Marconi products which arose from the lower volume of Network Equipment sales, was partially off-set by an increase in demand for cable installation in the UK as well as maintenance services world-wide as network operators seek to maximise the utilisation of their existing networks.

Value-Added Services

VAS sales increased by 23 per cent to £441 million (2001 £360 million). Excluding the impact of acquisitions, sales increased by 14 per cent. The major driver of the like-for-like increase related to project-based Integrated Systems activity primarily in the UK, due to the conclusion of the London Underground Jubilee Line extension contract and in the Middle East. Sales in Wireless Services remained relatively stable over the period with growth in RF planning software sales being offset by declines in consultancy activities. Sales of Managed Services also remained resilient mainly as a result of the continued outsourcing of non-core activities by some telecoms operators and enterprise customers.

Mobile

Mobile comprises three main businesses:
(1) Strategic Communications, which accounted for more than 80 per cent of Mobile sales during the year and designs, manufactures and supplies communications and information systems primarily for defence and security applications,
(2) Private Mobile Radio Systems and
(3) Public Mobile Radio Systems where the Group has concentrated its development of 3G UMTS radio access network technology.

Sales in Mobile increased by 11 per cent to £369 million (2001 £331 million). This Segment serves mainly government, military and emergency service organisations, a very different customer base to that of Network Equipment and Network Services and sales growth has remained resilient mainly as a consequence of continued government spending on communications equipment. 17 per cent reported growth in Strategic Communications resulted mainly from increased sales of terrestrial and naval communications systems to various government defence departments but was partially offset by a drop in sales of legacy analogue products in Private Mobile Radio due to the decline in demand for this mature technology. Sales of the Group's TETRA product range remained stable year on year.

Mobile incurred an operating loss of £6 million during the year (2001 operating profit £13 million). The main factor contributing to this decline was the significantly increased R&D spend in Public Mobile Radio in relation to the start-up UMTS development as well as the continued high level of spending on the development of the Group's TETRA product range within Private Mobile Radio. Strategic Communications reported a similar level of operating profit as last year.

Our customers remain our highest priority. To deliver to them we rely on people who are focused, resilient and committed. Exceptional challenge requires nothing less than an exceptional team…

That's why in a tough economic environment and against the background of delivering key business targets we are still dedicated to getting the best out of people through a process of education, support and development.

Living With Change

We manage in times of shifting and constant change. Our objectives continue to be:

- To support the evolution of an appropriate organisation that meets Company and business needs.
- To ensure we continuously improve our competencies within the organisation to provide the best and most innovative contribution to our customers
- To be passionate in the constant development of our people and their talents and ensure their professional and managerial growth.

Evolving the organisation to fit the needs of the business and the market in which we operate has been achieved through a number of key initiatives:

- Business Divestitures
- Outsource & Partnering Solutions
- Business Rightsizing
- Driving Organisation Effectiveness

Our organisation shape and size continues to develop to fit the evolving business model. In March 2001 we employed approximately 56,000 people in the Group as a whole, of which approximately 39,000 were employed in our Core business. In March 2002 that figure has shifted to just over 28,500 in our Core business. Through the divestiture of Medical Systems, Data Systems, Commerce Systems, Optical Components and GDA and outsourcing activities in our Global Supply Chain approximately 15,000 of the 56,000 employees have transferred to new ownership or third party vendor/outsource partners. An equal number of employees have left the business through our managed leavers and voluntary severance programmes.

In such difficult times sensitivity and attention to detail, for every individual, is of the utmost importance. We achieve these challenges united behind a commitment to

our customers and our people – to treat those who are leaving us with fairness and dignity and those who remain with respect and support - and a challenge to stay focused on the things that matter. For those leaving us this includes providing comprehensive outplacement support and re-deployment/re-training opportunities in all our major territories. For those staying with us it means clear communication and direction going forward.

This simple ethic ensures that through all of the change process both our customers and our employees remain our highest focus of attention.

Developing Through Change
We are dedicated to supporting the long-term stability and growth of the organisation by driving organisation effectiveness and delivering focused learning, education and support.

In launching our own Corporate University last year we continue to maintain this commitment, whilst at the same time reducing the cost of learning and building the basis for improving the effectiveness of our learning provision.

Our Corporate University combines technical education with leadership and professional development by adopting a blended learning approach that includes easy access to sophisticated online learning solutions. Our Corporate University web-site offers access to a number of acclaimed external learning providers, including:

- NETg
- Harvard Business Manage Mentor
- Ashridge Business School

This global, state of the art e-learning capability continues to be enthusiastically received throughout the business. Over 1,000 courses in a number of languages are available to staff, with no need to book or join long waiting lists. 1,000 students a month take advantage of the courses available and the system continues to support valuable and cost effective learning for all our people.

An enhanced version of the service will be launched during 2002, which will provide people with an even wider range of services.

In addition to delivering internal learning solutions, Marconi continues to maintain a presence in the external market particularly with our academic and community partnerships.

Partnering Through Change
BT/Ericsson/Marconi Development in Partnership Programme
This innovative multi-company programme offers promising young leaders the chance to fast track their careers through shared development opportunities with other businesses in the telecommunications environment.

Candidates study practical topics such as: Customer Supplier Relationships, Shareholder Value, Managing Change, and Business Planning. With active mentoring and coaching from senior line managers, the programme equally supports the development of strong business leaders as well as technology experts.

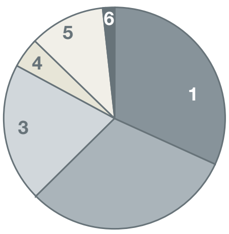
Marconi Masters
This three-year Master of Science course in International Technology Management – led by Warwick University, combines professional, technical and business modules to give students a thorough foundation in communications technologies and management. Partner schools in the consortium include Carnegie Mellon University in the US, University of Cambridge, Imperial College London, University College London, Lancaster University, Leeds University, Sussex University, the Scuola Superiore Sant'Anna in Pisa, and the University of Management & Technology in Arlington, Virginia. Participants explore cutting edge topics in technology management, ranging from E-Business Solutions, Innovation Management, Photonics, Software Engineering, Technology Acquisition & Deployment and Wireless Systems.

Marconi Education & the Community
Marconi supported a number of charities and educational programmes.
This includes:
– charity support for the NSPCC Full Stop Campaign, Youth At Risk and the United Way, and
– educational support to the UK Telecomm Academy (committed to providing quality communications training free of all tuition charges for countries seeking to develop their communications expertise) and North Allegheny Senior High School Communications Technology Curriculum.

Technology Overview

Core R&D Expenditure by Product Area £m

1 Optical Networks	167
2 Access	168
3 Broadband Switching	111
4 Services	24
5 Mobile	60
6 Other	15



Total Core R&D £545m

Total Group expenditure on research and development amounted to £628 million (2001 £626 million), representing approximately 14 per cent of sales (2001 9 per cent).

The Group invested £545 million (2001 £517 million) of this amount in its Core business, an increase of over 5 per cent compared to the previous year. This investment represents 18 per cent of Core sales (2001 11 per cent). This increase in absolute spend and as a percentage of sales was mainly the result of higher R&D costs in Broadband Switching and Optical Networks, driven by the development and launch of key products such as the BXR 48000 multi-service core switch, new additions to Marconi's SmartPhotoniX range of equipment, notably Ultra Long Haul and Metro DWDM product ranges as well as further development of the Group's SDH technology to produce a 4th generation SDH multiplexer. The Group also increased R&D investment in its Mobile Division. R&D investment in Access was scaled back during the year in line with the Group's strategy to focus spend on certain broadband access product lines, notably in fixed wireless access and the recently launched Access Hub.

In addition, customer-funded R&D, which is charged to gross profit, amounted to £15 million (2001 £38 million).

Optical Networks

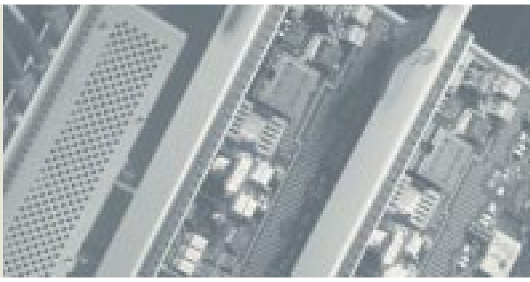
Focus on SmartPhotoniX

With a growing range of new data services to offer to their customers, many telecoms operators are finding capacity on their existing optical fibre networks becoming constrained. The Marconi solution is called SmartPhotoniX and it multiplies the capacity of existing optical fibre using a technology called DWDM (Dense Wavelength Division Multiplexing). This allows our customers to transmit signals using a range of wavelengths within each optical fibre, rather than the single wavelength technology used in existing networks. For operators, SmartPhotoniX offers more economical network operation and faster service delivery to their customers. And all of this builds directly onto our existing European Number One installed base of SDH (Synchronous Digital Hierarchy). To date, Marconi has been selected as DWDM supplier to two of the top five European Service Providers, BT and Telecom Italia, as well as to a number of other operators mainly in the EMEA region.

BT Ignite Nederland

In November 2001, BT Ignite – BT Group's international solutions and broadband business – began the implementation of one of Europe's fastest and most flexible national DWDM networks, covering 20 Dutch cities. Based on Marconi's SmartPhotoniX range, the new network is a key part of BT Ignite's efforts with the Dutch government to give the Netherlands the lead in the development and use of innovative internet technology. The first customer of BT's network is SURFnet5, the Dutch national network for higher education and research.

As demand for faster networks grows, this will be seen worldwide as a prime example of the leading-edge optical solution that Marconi provides. Its flexibility and huge capacity will allow BT Ignite Nederland to grow its business, offering customers the unrivalled speed and quality of service they increasingly demand.



Omnitel-Vodafone

In January of this year, Omnitel-Vodafone and Marconi announced deployment of an optical transmission network spanning over 10,000 kilometres, making use of our SDH and DWDM technology. This deployment will radically enhance Omnitel-Vodafone's network capacity, and will allow them to support third generation mobile services in the future. Our expertise, experience and research and development in DWDM, combined with our market leading position in SDH, makes Marconi a compelling advanced network partner. The new network deployment reinforces Marconi's position as one of the leading providers of SDH and DWDM technology in Italy, with existing customers including the most important operators in fixed and mobile telephony.

Broadband Switching

Focus on the BXR-48000

Operators' networks handle vast quantities of voice, data, internet, video and other traffic each day. So our customers need a high speed, high capacity and highly reliable device that sits at the heart of their networks, interconnecting their infrastructure and directing and routing these many types of traffic.

Marconi is developing just such a device, called the BXR-48000 broadband multi-service switch which is currently undergoing trials with some of our major customers.

BTexact Technologies

BT's advanced research and technology business, BTexact Technologies, began trials of Marconi's BXR-48000 in April 2002, focusing on assessing the product's capability for deployment in service provider networks. The tests will examine in particular the enhanced resiliency of our newest flagship product which enables the BXR-48000 to detect and correct data errors and to remove faulty hardware from service without causing errors or data loss. Having a team of engineers from a leading service provider put the product through its paces will create a robust assessment of its capabilities, and will be an important step in gaining customer acceptance of the BXR-48000 worldwide.

US Department of Defense Naval Research Laboratory

In March 2002, the US Naval Research Laboratory demonstrated for the Defense Department how BXR-48000 can help military commanders make faster and better-informed decisions. With 480 gigabits per second of switching capacity, BXR-48000 can deliver the very high bit-rates needed for applications from high definition television broadcasting to battlefield visualisation and capturing data from space exploration, even under the most stressful of conditions. The military standard capabilities of BXR-48000 are equally applicable for public voice, video and data networks.

Access

Focus on the Access Hub

The "last mile" of the telecoms network forms the connection between operators and their customers. This complex layer of the network uses various technologies – wireless, copper and fibre – to deliver a wide range of services to meet an even wider range of customer needs.

Marconi provides a last mile solution called the Access Hub, a single device platform that can reliably bring together all of these services and technologies, to help operators deliver to their customers. Using a single device platform to aggregate a wide range of traffic types allows our customers to operate their networks more economically. Launched in May 2001, we have already delivered the Access Hub to some of our major customers.

Telecom Italia

In the same month it was launched, Marconi's Access Hub was announced as the chosen solution for Telecom Italia Wireline – Telecom Italia's fixed telephony and internet business – to roll out 700,000 ADSL and SHDSL lines (Single-pair High Speed Digital Subscriber Lines). Our solution was chosen because it supported Telecom Italia's need to provide high-speed mass deployment of all DSL applications. The agreement with Telecom Italia demonstrates the competitive strength of Marconi's Access Hub – helping customers generate significant new revenue streams by cost effectively delivering value added high speed services.

Telkom South Africa

In February of this year, Marconi partnered with Telkom South Africa to play a key role in deploying broadband communications and services in South Africa. Using our Access Hub solution range, Marconi will install South Africa's first commercial ADSL (Asymmetric Digital Subscriber Line) network. The new network will allow Telkom to offer residential customers, small and medium-sized enterprises and the small-office home-office market new ADSL services, including high-speed internet access with always-on connections. Together, Marconi and Telkom will provide South Africans with a world-class broadband network enabling a full spectrum of digital services to evolve — from commercial applications to distance learning, telemedicine to online gaming.

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D C Bonham *Interim Chairman and Non-executive Director*
Aged 58. Appointed to the Board in April 2001, Mr Bonham was appointed Interim Chairman of the Company in September 2001. He held the position of senior independent non-executive Director from July 2001 until May 2002. He is currently Chairman of Cadbury Schweppes plc, Fieldens Plc and Imperial Tobacco Group plc and was Chief Executive and Deputy Chairman of Hanson plc until 1997. He is a past member of the Financial Accounting Standards Advisory Council (USA) and served on the Accounting Standards Committee (UK).

Sir William Castell *Non-executive Director*
Aged 55. Appointed to the GEC Board in 1997 and subsequently to the Marconi Board in October 1999 and appointed Chairman of the Remuneration Committee in November 2001 in succession to Mr Bonham. Sir William has been Chief Executive of Amersham plc (formerly Nycomed Amersham plc) since 1990, having previously been Commercial Director on the board of Wellcome plc. Sir William is Chairman of The Prince's Trust.

M J Donovan *Chief Operating Officer*
Aged 49. Appointed to the Board in 2000, Mr Donovan was Chief Executive Officer of Marconi Systems and Marconi Capital and in September 2001 was appointed Chief Operating Officer of the Group. He previously held a number of executive management positions in the Rover Group (1976 to 1991), Vickers plc (1991 to 1994) and British Aerospace Plc (1994 to 1998). Mr Donovan became Chief Executive of GEC's Industrial Electronics Group in 1998 and is based in the US.

S Hare *Chief Financial Officer*
Aged 41. Appointed to the Board in April 2001, Mr Hare, a chartered accountant, joined GEC in 1989 and has held a number of financial positions in the Group's UK-based subsidiaries including seven years with GPT, GEC's telecommunications joint venture with Siemens. He subsequently became Finance Director of GEC's Industrial Group and in 1998 was appointed Chief Operating Officer of Marconi Communications. In 1999, he was appointed Chief Financial Officer of Marconi Communications and in 2000, Senior Vice President, Finance for Marconi plc.

M W J Parton *Chief Executive Officer*
Aged 47. Appointed to the Board in 2000, Mr Parton was Chief Executive Officer of Marconi Communications when he was appointed Chief Executive Officer of the Company. He has held a number of finance appointments in ICL plc (1977 to 1980), GEC-Marconi Ltd (1980 to 1986) and STC Telecommunications Ltd (1986 to 1991). He joined GEC in 1991 as Finance Director of GPT and was appointed Managing Director of GPT's Public Networks Group in 1995, Managing Director of GEC's Industrial Group in 1997, and Chief Executive Officer of Marconi Communications at the time of its formation in July 1998.

Sir Alan Rudge CBE *Non-executive Director*
Aged 64. Appointed to the GEC Board in 1997 and subsequently to the Marconi Board in October 1999, Sir Alan is Chairman of the Company's Technology Advisory Committee. Sir Alan was formerly Deputy Chief Executive of British Telecommunications plc and is currently Chief Executive of MSI Cellular Investment Holdings BV. He is Chairman of ERA Technology Ltd and a non-executive director of Great Universal Stores Plc. Sir Alan is a Fellow of the Royal Academy of Engineering and the Royal Society and a Past President of the Institution of Electrical Engineers.

Hon Raymond G H Seitz *Non-executive Director*
Aged 61. Mr Seitz, who was Ambassador of the United States to the Court of St James's from 1991 to 1994 and is Vice Chairman of Lehman Brothers International (Europe), was appointed to the GEC Board in 1994 and subsequently to the Marconi Board in October 1999. He is also a non-executive director of British Airways plc, Cable and Wireless plc, Rio Tinto plc and Chairman of Authoriszor, Inc. and a former Trustee of the National Gallery and the Royal Academy.

N J Stapleton *Non-executive Director*
Aged 55. Appointed to the GEC Board in 1997 and subsequently to the Marconi Board in October 1999, Mr Stapleton is Chairman of the Audit Committee and was appointed senior independent non-executive Director in May 2002. He is Chairman of Uniq plc. He was previously Chairman of Reed International plc and Co-Chief Executive of Reed Elsevier plc. Mr Stapleton is a Director of AXA UK plc, the London Stock Exchange and a member of the Financial Reporting Review Panel.

Secretary and Registered Office
N C Porter, One Bruton Street, London W1J 6AQ
Telephone: +44 (0)20 7493 8484

During this year of substantial change for the Company, the Board has continued to support and apply the Principles of Good Governance set out in Section 1 of the Combined Code. A summary of the Company's system of applying the principles and the extent to which the provisions in Section 1 have been complied with, are set out in this report to shareholders. Section 1 of the Combined Code establishes 14 Principles of Good Governance, which are split into 4 areas:

1 The Board

The Company is controlled through the Board of Directors which comprises the Chairman, three executive Directors and four non-executive Directors who, with their different backgrounds, bring with them a wide range of expertise and experience to the Company. The Board considers all of the non-executive Directors to be independent as they are independent of the Company's executive management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. There is a clear division of responsibility between the Chairman and Chief Executive with no single individual having unfettered powers of decision. The Chairman is responsible for running the Board and ensures that all Directors receive sufficient relevant information on financial, business and corporate matters to enable them to participate effectively in Board decisions. The Chief Executive's primary role is the co-ordination of the Company's businesses and the development and implementation of strategy. The Combined Code recommends the appointment of a senior independent non-executive Director, and Mr D C Bonham was appointed by the Board in July 2001 to fulfil that role; Mr N J Stapleton succeeded Mr Bonham in May 2002.

The Board ordinarily meets eight times a year but holds additional meetings when circumstances require. During the year to 31 March 2002, the Board met on 11 occasions. Between meetings, the Chairman and Chief Executive update the non-executive Directors on current matters and there is frequent contact to progress the affairs of the Company. Broadly, attendance at Board and Committee meetings was approximately 90 per cent during the year. The non-executive Directors meet with the Chairman and Chief Executive at least three times a year to discuss a wide range of matters affecting the Company and have the opportunity to arrange additional meetings to consider and discuss with executive Directors the Company's business strategy and other matters.

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

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

The names and biographical details of all the Directors are set out on page 23.

Board Committees

The Board has established a number of committees with defined terms of reference, which are reviewed periodically, and receives reports of their proceedings. The principal committees, their membership and a brief description of their terms of reference, as of 15 May 2002, are as follows:

Audit Committee

Mr N J Stapleton (Chairman)	Sir William Castell
Mr D C Bonham	Hon Raymond G H Seitz

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

Nomination Committee

Mr D C Bonham (Chairman)	Hon Raymond G H Seitz
Sir William Castell	Mr N J Stapleton
Sir Alan Rudge	

The Committee makes recommendations to the Board on all proposed new appointments of Directors. The Chairman and the non-executive Directors who are members of this Committee are independent.

Remuneration Committee

Sir William Castell (Chairman)	Hon Raymond G H Seitz
Mr D C Bonham	Mr N J Stapleton
Sir Alan Rudge	

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

Executive Committee

Mr M W J Parton (Chairman)	Mr S Hare
Mr D Beck	Mr D O Lewis
Mr M J Donovan	Mr D H Reid
Mr G W Doy	Mr N D Sutcliffe
Ms V Gentile Sachs	

The Committee, which normally meets monthly, is appointed by the Board and its membership comprises the executive Directors and senior executives. The quorum requires the presence of at least two executive Directors. The Committee's main functions include approval of the Group's business plan and budget, the review of performance against plan, the Group's strategies in areas including technology, people, information technology, corporate communications and change programmes, prior to submission to the Board for its approval. This Committee also deals with day-to-day matters of a routine nature. The Committee also acts as the Group's Business Risk Committee from January 2002.

Technology Advisory Committee
Sir Alan Rudge (Chairman)
Mr D O Lewis

The Committee meets at least twice a year and comprises a non-executive Chairman and Marconi's most senior technology executive. Selected senior technology executives, on rotation from each of the product areas, attend by invitation. It examines the Group's research and development activities and, where appropriate, advises the Board in the areas of the Group's technology.

The Secretary of the Company is Secretary to all Board Committees.

2 Directors' Remuneration
In accordance with the requirements of the Combined Code, the Board has approved the terms of reference of the Remuneration Committee, as with all Board Committees. The Report to Shareholders by the Board on Directors' Remuneration, sets out the Company's remuneration policy, procedures and the remuneration of individual Directors.

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

The Company's website (www.marconi.com) provides shareholders with information about the Company including the annual and interim report, quarterly trading updates, details of recent announcements, investor presentations and share price information. Shareholders are able to put questions to the Company through its website.

The Company aims to deal expeditiously with all enquiries from individual shareholders on a wide range of matters. Individual shareholders also have the opportunity of attending the Annual General Meeting to put questions to the Chairman and the chairmen of Board committees. Directors also meet informally with shareholders before and after the meeting. The Company keeps under review ways in which it can communicate more effectively with its shareholders throughout the year as well as at the Annual General Meeting.

It has been the Company's practice to send the Notice of the Annual General Meeting and related papers to shareholders at least 20 working days before the meeting and to propose separate resolutions on each substantially separate issue. The Company indicates the level of proxy votes lodged in respect of each resolution proposed at its Annual General Meeting following each vote on a show of hands. In the event of a poll being called the result is published as soon as possible after the conclusion of the Annual General Meeting.

4 Relations with Creditors
The Company is currently engaged in tripartite discussions with representatives of its syndicated banks and its bondholders. A business plan has been presented to this group as a basis for negotiating a financial restructuring. The business plan is being reviewed by independent accountants and financial advisors working for the banks and bondholders. The Company aims to conclude the financial restructuring as soon as is possible. The Company also considers it important to conduct regular dialogue with its major trade creditors.

5 Accountability and Audit
Financial Reporting
The Board includes a detailed review of the performance and financial position of each business on pages 12 to 17. Reading these alongside the Chairman's Statement, the Chief Executive's Review, the Financial Review and the Directors' Report, the Board seeks to present a balanced and understandable assessment of the Company's position and progress.

Internal Control
Further discussion of the internal control environment can be found in the Directors' Statement on Internal Control.

Audit Committee and Auditors
The Audit Committee meets at least 4 times a year with the Chief Financial Officer and other executive Directors, attending by invitation. The Committee overviews the monitoring of the adequacy of the Company's internal controls, accounting policies and financial reporting and provides a forum through which the Company's external audit and finance functions report to the non-executive Directors. The duties of the Audit Committee also include keeping under review the scope and results of the audit and its cost effectiveness. The Committee also receives reports from the external and internal auditors on a regular basis.

Compliance Statement
The Listing Rules of the United Kingdom Listing Authority require the Board to report on compliance with the provisions contained in Section 1 of the Combined Code throughout the accounting period. Throughout the year ended 31 March 2002, the Company has been in compliance with the provisions set out in Section 1 of the Combined Code.

Profits and Dividends
The loss for the year to 31 March 2002 on ordinary activities after taxation and minority interests amounted to £5,875 million.

On 4 September 2001, the Company announced that the Board had decided to halt dividend payments for the year to 31 March 2002. The Board will review future dividend policy at the appropriate time in light of trading results.

Review of the Group
An analysis of results, net liabilities, turnover and operating loss before goodwill amortisation and exceptional items for the Company, its subsidiaries, its share of joint ventures and associates is shown in note 4 to the accounts. A commentary on the activities of the Group and likely future prospects is given in the Chief Executive's Review. A review of the Group's research and development activities can be found in the Technology Overview.

The Company acts as a holding company; its subsidiaries and associated companies are principally engaged in the provision of communications equipment and services together with associated support applications. Further details of the principal subsidiaries, joint ventures and associates are shown in note 16.

Share Capital
In addition to the increases in share capital during the year arising from the allotment of shares in respect of the exercise of options under the Company's share option plans, on 6 August 2001, 230,889 Marconi shares were allotted to the shareholders of Albany Partnership for which such shares formed part of the consideration.

Structure of the Group
Changes in the structure of the Group during the year ended 31 March 2002, other than those of a minor nature, were as follows:

a Telit Networks S.p.A. and a 19.9 per cent interest in Telit Mobile Terminals S.p.A. were acquired in April 2001;
b Harman Information Technology Pty Limited was acquired in April 2001;
c a 19.9 per cent interest in Inviscid Networks Inc was acquired in April 2001;
d a 16.2 per cent interest in Enargeia Global Networks Limited was acquired in May 2001;
e Northwood Technologies Inc was acquired in May 2001;
f Netscient Limited was acquired in May 2001;
g the Group disposed of its remaining 5.67 per cent interest in Alstom SA in June 2001;
h the Group acquired a 71.9 per cent interest (49.9 per cent of voting share capital) in Easynet Group Plc and disposed of its 92 per cent interest in ipsaris Limited as part of the same transaction in July 2001;
i the Group disposed of its remaining 1.49 per cent interest in Lagardère SCA in September 2001;
j the Group disposed of the Marconi Medical Systems group in October 2001;
k the Group disposed of a 3.7 per cent interest in Lottomatica SpA in November 2001;
l the Group disposed of the Marconi Commerce Systems group in February 2002;
m the Group disposed of its Marconi Optical Components business in exchange for a 10 per cent interest in Bookham Technology PLC in February 2002;
n the Group disposed of its Marconi Data Systems group in February 2002;
o the Group disposed of its remaining 2.8 per cent interest in Lottomatica SpA in February 2002; and
p the Group disposed of its 50 per cent interest in General Domestic Appliances Holdings Limited in March 2002.

Since 31 March 2002, no acquisitions or disposals have been made by the Group.

Directors
The present members of the Board are shown on page 23, together with their biographical details.

On 10 April 2001, Mr D C Bonham and Mr S Hare were appointed to the Board.

On 6 July 2001, Mr J C Mayo resigned from the Board.

On 4 September 2001, Sir Roger Hurn and Lord Simpson resigned from the Board and Mr D C Bonham was appointed Interim Chairman, Mr M W J Parton was appointed Chief Executive Officer and Mr M J Donovan was appointed Chief Operating Officer.

On 1 March 2002, Mr R I Meakin resigned from the Board.

On 11 April 2002, The Rt Hon The Baroness Dunn resigned from the Board.

Sir William Castell, Mr M J Donovan and Mr N J Stapleton retire by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

In accordance with the recommendation of the Hampel Committee's Combined Code, Mr D C Bonham succeeded Sir Alan Rudge as the senior independent non-executive Director on 18 July 2001 and was succeeded by Mr N J Stapleton on 7 May 2002.

The Report to Shareholders by the Board on Directors' Remuneration shows the Directors' interests in the shares of the Company.

Substantial Holders of Share Capital
So far as the Directors are aware, no person holds a substantial part of the issued share capital of the Company.

Payment of Creditors
It is the policy of the Marconi Group that operating subsidiaries agree with suppliers the best available terms taking account of quality, delivery, price and period of settlement and to abide by those terms.

Marconi plc is a holding company and, as distinct from the Marconi Group, has no revenue and no trade creditors, as in the prior year. It is therefore not possible to provide statistics for the Company as required by the Companies Act.

Employees
A report on people in the Marconi Group can be found on pages 18 and 19.

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

Individual employees and their representatives are kept informed of current business issues through the Group's intranet website, telephone conference calls, briefing groups, newspapers, training seminars and professional networks as well as through more formal consultative procedures.

During the year, the following options have been granted under the Company's Share Option Plans:

a to 673 employees in respect of 86,372,750 ordinary shares of 5 pence each at a subscription price of 35 pence per share under the Marconi 1999 Stock Option Plan;
b under the North American Employee Stock Purchase Plan, 1,655,012 ADRs (comprising 3,310,024 ordinary shares of 5 pence each) were purchased by 1,683 participants in the Offering Period 1 July 2001 to 31 December 2001 at a purchase price of US$ 0.99 per ADR, and in the Offering Period 1 January 2002 to 30 June 2002, 813 employees have elected to purchase ADRs using their savings totalling US$ 1,011,200. The purchase price is 85% of the lower of the market value of an ADR at the beginning or end of the Offering Period and, accordingly, the purchase price in respect of the Offering Period 1 January 2002 to 30 June 2002 will not be determined until after 30 June 2002.

Details of the options outstanding at 31 March 2002 and details of shares allotted pursuant to the exercise of options during the year ended 31 March 2002, are given in notes 13 (d) and 23 (a) to the Accounts.

Social Responsibility
A report on corporate social responsibility including energy, environment and health and safety can be found under Corporate Social Responsibility.

Charitable Donations
Charitable donations made by Marconi Group companies during the year amounted to £181,000 (2001 £827,000) of which £99,000 (2001 £414,000) was made to charities in the United Kingdom. These amounts exclude operating units' support for charitable purposes and for educational establishments. The Company halted charitable donations from September 2001.

Political Donations
No donations for political purposes were made during the year (2001 £nil).

The Directors do not anticipate making any donations for political purposes in the foreseeable future and therefore will not be putting a resolution to shareholders at the forthcoming Annual General Meeting seeking their authority to do so.

Business at the Annual General Meeting
Shareholders will be advised of the time, date and venue for the Annual General Meeting by a separate notification from the Company as soon as these details become available. Details of the business to be put to shareholders at the Annual General Meeting will be contained in a letter from the Chairman to shareholders which incorporates the Notice of Meeting and will be posted to shareholders in due course.

By Order of the Board
Marconi plc

N C Porter
Secretary
One Bruton Street, London W1J 6AQ
15 May 2002

Policy and Objectives

The underlying principles adopted by the Committee are:

- to ensure that executive remuneration policy and practices support business strategy and are cost effective;
- to provide remuneration packages which are competitive within the Company's operating environment, enabling the Company to attract, retain and motivate senior executives with high quality, appropriate skills; and
- to operate short and long term incentive plans, as part of total remuneration, which reward the delivery of results aligned with shareholders interests while limiting earnings where there is under-performance.

The exceptional nature of the challenges faced by the Company during the year:

- extremely difficult trading conditions requiring major reductions in the cost base;
- a reduced share price, resulting in the Company no longer being a member of the FTSE 100 group of companies; and
- the refocusing of the Company's resources on core businesses and the disposal of non-core activities,

have all had major implications for the remuneration of executives under these policies.

In supporting the reshaping of the Board and the putting in place of a new management team, the objectives of the Remuneration Committee have been:

- to ensure that the new management team is fairly and equitably rewarded in accordance with changed Company circumstances;
- to finalise payments to Directors leaving the Company, specifically the previous Chairman, Chief Executive Officer, Deputy Chief Executive Officer and Human Resources Director giving careful consideration to their ability to mitigate loss of earnings arising from the termination of their employment; and
- to provide management and employees with appropriate incentives to develop the Company's position in order to exploit the opportunities which will arise in the communications industry.

Directors' Remuneration

Excluding severance payments and exceptional payments made in respect of meeting funding requirements on pension arrangements, the cash cost of the Board did not change significantly between 2001 and 2002 and is around £5.4 million. However, following restructuring, the annual remuneration of the Board for 2003, excluding further exceptional arrangements in respect of restructuring the Company, based on salaries at 1 April 2002, is projected to be around £3.3 million.

				Excluding pension contributions		Pension contributions			Payments to meet pension
	Salary & Fees £000	Other benefits £000	Bonus £000	**2002 Total £000**	2001 Total £000	**2002 Total £000**	2001 Total £000	Severence payments £000	commitments on severence £000
D C Bonham	174	–	–	**174**	–	**–**	–	–	–
M W J Parton	400	281	–	**681**	524	**177**	177	–	–
M J Donovan	400	87	248	**735**	475	**94**	156	–	–
S Hare	375	58	–	**433**	–	**25**	–	–	–
Sir William Castell	35	–	–	**35**	33	**–**	–	–	–
The Rt Hon The Baroness Dunn	33	–	–	**33**	33	**–**	–	–	–
Sir Alan Rudge	40	–	–	**40**	40	**–**	–	–	–
Hon Raymond G H Seitz	33	–	–	**33**	33	**–**	–	–	–
N J Stapleton	40	–	–	**40**	40	**–**	–	–	–
Sir Roger Hurn	115	7	–	**122**	295	**–**	–	–	–
Lord Simpson	355	152	–	**507**	1,002	**235**	425	300	–
J C Mayo	162	443	–	**605**	833	**644**	408	600	428
R I Meakin	300	209	–	**509**	519	**314**	314	375	463
	2,462	1,237	248	**3,947**	3,827	**1,489**	1,480	1,275	891

Notes

1 Other benefits include the payment of a non-pensionable earnings supplement in relation to a Funded Unapproved Retirement Benefit Scheme ("FURBS").

2 Executive Directors receive certain taxable benefits, including an allowance under the Group's car scheme.

3 The fees of non-executive Directors are determined by the Board; the basic fee paid during the year was £33,000 per annum with a further £7,000 per annum paid to the Chairmen of the Audit Committee and the Remuneration Committee. With effect from 1 April 2002, the fees of non-executive Directors were reduced to £30,000 per annum. No additional fees will be paid to the Chairmen of Board Committees.

4 Non-executive Directors do not have service contracts and do not participate in any of the incentive arrangements open to executive Directors or the Group's pension scheme.

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

6 The bonus paid to Mr Donovan related to recruitment and retention arrangements established upon joining the Company and before he became a Director.

7 Pension contributions include contributions by the Company to all pension schemes.

8 The Company's wholly owned subsidiary, Marconi Corporation plc (formerly The General Electric Company, p.l.c. – "GEC") paid the sum of £341,644 during the year by way of company pension to Lord Weinstock, an obligation which commenced in 1996 upon Lord Weinstock's retirement from GEC.