Reserves are adjusted to include the differences arising from the restatement to year-end rates of exchange of profits and losses and the translation of the net assets of overseas subsidiaries, joint ventures and associates from rates prevailing at the beginning of the year. All other exchange gains and losses are included in profit on ordinary activities before taxation.

Financial instruments
The Group uses financial instruments, including interest rate and currency swaps, solely for the purposes of raising finance for its operations and managing interest and currency risks associated with the Group's underlying business activities. There is no trading activity in financial instruments.

Foreign exchange transaction exposures
The Group hedges actual foreign exchange exposure as soon as there is a firm contractual commitment. Forward contracts are used to hedge the exposure. Amounts are included in the accounts at the forward exchange contract rate. If the contract ceases to be a hedge any subsequent gains or losses are recognised through the profit and loss account.

Balance sheet translation exposures
A large proportion of the Group's net assets are denominated in overseas currencies. Where appropriate, the Group hedges these balance sheet translation exposures by borrowing in relevant currencies and markets, and by the use of currency swaps. Currency swaps are used only as balance sheet hedging instruments, and the Group does not hedge the currency translation of its profit and loss account. Exchange gains or losses arising on the hedging borrowings and on the notional principal of currency swaps during their life and at termination or maturity, together with the tax thereon, are dealt with as a movement in reserves, where the conditions for offset are met.

Interest rate risk exposure
The Group hedges its exposure to movements in interest rates associated with its borrowing primarily by means of interest rate swaps and forward rate agreements.

Tangible fixed assets
Property, plant, machinery, fixtures, fittings, tools and equipment are recorded at cost and depreciated on a straight-line basis over their estimated useful lives. Freehold land does not bear depreciation where the original cost of purchase was separately identified.

Tangible fixed assets are depreciated using the following rates:

Freehold buildings	– 2 per cent to 4 per cent per annum
Leasehold property	– over the period of the lease or 50 years for long leases
Plant and machinery	– 10 per cent per annum on average
Fixtures, fittings, tools and equipment	– 10 per cent per annum

Leased assets
Assets held under finance lease are included in tangible fixed assets and the present values of lease commitments are included under creditors. Operating lease payments are charged to the profit and loss account as incurred.

Goodwill
Purchased goodwill is capitalised and amortised on a straight-line basis over its estimated useful economic life. Each acquisition is separately evaluated for the purposes of determining the useful economic life, up to a maximum of 20 years. The useful economic lives are reviewed annually and revised if necessary.

Research and development
Expenditure incurred in the year is charged against profit unless specifically chargeable to and receivable from customers under agreed contract terms.

Stocks and contracts in progress
Stocks and contracts in progress are valued at the lower of cost, including appropriate overheads, and estimated net realisable value. Provisions are made for any losses incurred or expected to be incurred on uncompleted contracts. Profit on long-term contracts in progress is taken when a sale is recorded on part-delivery of products or part-performance of services, provided that the outcome of the contract can be assessed with reasonable certainty. Advance payments received from customers are shown as creditors unless there is a right of set-off against the value of work undertaken. Progress payments received are deducted from the value of the work carried out, any excess being included with payments received in advance.

Taxation
Taxation on profit on ordinary activities is that which has been paid or becomes payable in respect of the profits for the year. Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income or expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

2 Accounting policies continued

Investments
Joint ventures comprise long-term investments where control is shared under a contractual arrangement. The sector analysis of turnover, profit and net assets includes the Group's share of the results and net assets of joint ventures.

Associates consist of long-term investments in which the Group holds a participating interest and over which it exercises significant influence. Investments in joint ventures and associates, other than Easynet Group Plc, are stated at the amount of the Group's share of net assets, including goodwill, at 31 March derived from audited or management accounts made up to that date. Easynet Group Plc's results are included for the period to 31 December. Profit before taxation includes the Group's share of joint ventures and associates.

Other unlisted fixed asset investments and the Company's investment in shares in Group companies are stated at cost less provision for impairment in value. Listed fixed asset investments are stated at market value. Current asset investments are stated at the lower of cost and net realisable value except dated listed securities which are stated at market value.

Investments in the Company's own shares, held within the GEC Employee Share Trust and the Marconi Employee Trust, are included on the Group balance sheet at cost, less provision for impairment.

Pensions and other post retirement benefits
The operating cost of providing pensions and other post retirement benefits, as calculated periodically by independent actuaries, is charged to the Group's operating profit or loss in the period that those benefits are earned by employees. The financial return expected on the schemes' assets is recognised in the period in which they arise as part of finance income and the effect of the unwinding of the discounted value of the schemes liabilities is treated as part of finance costs. The changes in value of the schemes' assets and liabilities are reported as actuarial gains or losses as they arise in the consolidated statement of total recognised gains and losses. The pension schemes' surpluses, to the extent they are considered recoverable, or deficits are recognised in full and presented in the balance sheet net of any related deferred tax.

Share options
In accordance with UITF Abstract 17, "Employee share schemes", the costs of awarding shares under employee share plans are charged to the profit and loss account over the period to which the performance criteria relate.

3 Changes in accounting policy

Since the last annual report, the Directors have changed three accounting policies. The format of the profit and loss account has been amended to improve the clarity and transparency of financial reporting. This is discussed further in note 5 to the Accounts.

Financial Reporting Standard ("FRS") 19 "Deferred tax" has been adopted. This changes the basis of measurement of deferred tax assets and liabilities and the movements reported in the performance statements (profit and loss account and consolidated statement of total recognised gains and losses). The adoption of this accounting standard has had no effect on reported assets or liabilities nor the amounts recorded in the performance statements in respect of prior years.

FRS 17 "Retirement benefits" has been adopted in full replacing Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for pension costs" and Urgent Issues Task Force abstract ("UITF") 6 "Accounting for post-retirement benefits other than pensions". This changes the measurement basis of the pension surplus or deficit and the amounts charged or credited to the performance statements. The effect of these changes on the reported results for the years ended 31 March 2002 and 2001 are highlighted below:

	2002		2001	
		SSAP 24 &		SSAP 24 &
	FRS 17	**UITF 6**	FRS 17	UITF 6
	£ million	**£ million**	£ million	£ million
(Charged)/credited to the profit and loss account				
Operating profit	**(42)**	**(52)**	(57)	(4)
Financial income	**40**	**–**	44	–
Net charge before tax	**(2)**	**(52)**	(13)	(4)
(Charged)/credited to the consolidated statement of total recognised gains and losses (STRGL)				
Actuarial loss	**(351)**	**–**	(73)	–
Tax on items charged to the STRGL	**68**	**–**	38	–

The loss after taxation for the year under FRS 17 is £5,874 million (2001 £282 million) compared to £5,924 million (2001 £266 million) under SSAP 24 and UITF 6.

4 Principal activities, (loss)/profit contributions, markets and net assets employed

Analysis of results and net assets by class of business

	(Loss)/profit		Turnover		Net assets	
		2001		2001		2001
	2002	(restated)	**2002**	(restated)	**2002**	(restated)
	£ million	£ million	**£ million**	£ million	**£ million**	£ million
Network equipment	**(461)**	448	**1,762**	3,318	**592**	1,961
Network services	**35**	102	**969**	1,016		
Mobile	**(6)**	13	**369**	331	**223**	127
Other (including intra-activity sales)	**(64)**	(15)	**(25)**	(39)	**8**	35
	(496)	548	**3,075**	4,626	**823**	2,123
Capital	**(40)**	16	**404**	555	**42**	(3)
Continuing operations	**(536)**	564	**3,479**	5,181	**865**	2,120
Discontinued operations	**73**	190	**1,088**	1,761	**–**	522
	(463)	754	**4,567**	6,942	**865**	2,642
Goodwill and goodwill amortisation	**(433)**	(673)			**877**	5,413
Operating exceptional items (note 6 (a))	**(5,216)**	(32)				
	(6,112)	49				
Associates	**(181)**	8			**137**	45
Operating (loss)/profit	**(6,293)**	57				
Non-operating exceptional items (note 6 (b))	**667**	(18)				
Net interest payable and interest bearing assets and liabilities	**(238)**	(150)			**(2,810)**	(2,817)
Net finance income	**200**	41				
Unallocated net liabilities					**(615)**	(329)
	(5,664)	(70)			**(1,546)**	4,954

Goodwill arising on acquisitions is amortised over a period not exceeding 20 years. Separate components of goodwill are identified and amortised over the appropriate useful economic life. The remaining goodwill on the balance sheet will be amortised over an average period of approximately 7 years.

Comparative figures have been restated to reflect the changes in the Group structure during the year to 31 March 2002. Currently, the net assets of Network equipment and Network services cannot be separately identified as the same assets are, generally, used to generate sales in each of these segments. The results of these segments are separately reportable.

The Marconi share of joint ventures' profit, turnover and net assets are included under Capital.

Sales by Group companies to joint ventures and associates amounted to £40 million (2001 £60 million). Purchases from joint ventures and associates amounted to £14 million (2001 £1 million).

The contribution of subsidiaries acquired in the year ended 31 March 2002 was £12 million to turnover and £1 million to operating profit before goodwill amortisation and operating exceptional items.

Assets and liabilities arising out of the Retirement Benefit Plan are treated as unallocated net liabilities.

It is not practical to disclose on a segmental basis, goodwill and goodwill amortisation as any allocation would be arbitrary.

4 Principal activities, (loss)/profit contributions, markets and net assets employed continued

Analysis of turnover by class of business

	To customers in the United Kingdom		To customers overseas	
	2002	2001	**2002**	2001
	£ million	£ million	**£ million**	£ million
Network equipment	**347**	971	**1,415**	2,347
Network services	**367**	354	**602**	662
Mobile	**44**	47	**325**	284
Other (including intra-activity sales)	**1**	8	**(26)**	(47)
	759	1,380	**2,316**	3,246
Capital	**277**	351	**127**	204
Continuing operations	**1,036**	1,731	**2,443**	3,450
Discontinued operations	**48**	46	**1,040**	1,715
	1,084	1,777	**3,483**	5,165

Analysis of turnover by territory of destination

	Turnover	
	2002	2001
	£ million	£ million
United Kingdom	**1,084**	1,777
The Americas	**1,760**	2,852
Rest of Europe	**1,151**	1,677
Africa, Asia and Australasia	**572**	636
	4,567	6,942

Analysis of operating (loss)/profit before goodwill amortisation and exceptional items, turnover and net assets by territory of origin

	(Loss)/profit		Turnover		Net assets	
	2002	2001	**2002**	2001	**2002**	2001
	£ million	£ million	**£ million**	£ million	**£ million**	£ million
United Kingdom	**(249)**	349	**1,328**	2,286	**293**	953
The Americas	**(166)**	155	**1,842**	2,927	**154**	944
Rest of Europe	**(28)**	223	**1,079**	1,334	**386**	665
Africa, Asia and Australasia	**(20)**	27	**318**	395	**32**	80
	(463)	754	**4,567**	6,942	**865**	2,642

5 Group operating (loss)/profit

	Year to 31 March 2002			
	Continuing	**Discontinued**	**Exceptional items**	**Total**
	£ million	**£ million**	**£ million**	**£ million**
Turnover	**3,222**	**1,088**	**–**	**4,310**
Cost of sales	**(2,500)**	**(753)**	**(830)**	**(4,083)**
Gross profit	**722**	**335**	**(830)**	**227**
Selling and distribution expenses	**(484)**	**(106)**	**–**	**(590)**
Administrative expenses – other	**(234)**	**(74)**	**(703)**	**(1,011)**
Research and development	**(575)**	**(53)**	**–**	**(628)**
Goodwill amortisation	**(417)**	**(14)**	**–**	**(431)**
Goodwill impairment	**–**	**–**	**(3,677)**	**(3,677)**
Administrative expenses – total	**(1,226)**	**(141)**	**(4,380)**	**(5,747)**
Other operating income/(expense)	**24**	**(29)**	**–**	**(5)**
Operating (loss)/profit	**(964)**	**59**	**(5,210)**	**(6,115)**

5 Group operating (loss)/profit continued

	Year to 31 March 2001 (restated)			
	Continuing £ million	Discontinued £ million	Exceptional items £ million	Total £ million
Turnover	4,892	1,761	–	6,653
Cost of sales	(3,021)	(1,209)	–	(4,230)
Gross profit	1,871	552	–	2,423
Selling and distribution expenses	(579)	(179)	–	(758)
Administrative expenses – other	(282)	(99)	(32)	(413)
Research and development	(549)	(77)	–	(626)
Goodwill amortisation	(651)	(20)	–	(671)
Administrative expenses – total	(1,482)	(196)	(32)	(1,710)
Other operating income/(expense)	81	(7)	–	74
Operating (loss)/profit	(109)	170	(32)	29

As discussed further in note 26, Marconi disposed of Medical, Data and Commerce Systems during the year and it is these that are shown as discontinued operations in the note above.

Exceptional items are shown in further detail in note 6.

For the year ended 31 March 2002 the Directors have altered the presentation of the Group profit and loss account (down to operating (loss)/profit) from a format 2 layout (which classifies expenditure by type) to a format 1 layout, (which classifies expenditure by function) both formats being defined by the Companies Act 1985. Accordingly the format 2 profit and loss disclosures have been restated for the year ended 31 March 2001.

The Directors believe that format 1 profit and loss disclosures more accurately reflect the management of the business, improve users' understanding of the accounts, and aid comparison with the Group's competitors.

6 Exceptional items

The Directors have provided against several categories of asset and provided for additional liabilities incurred due to the downturn in the performance of several of the Group's businesses. In addition, the Group has incurred restructuring costs and charges associated with implementing new IT systems across the Group. These (charges)/credits have been analysed as follows:

a Operating exceptionals

	2002 £ million	2001 £ million
Stock write-downs and related costs	**(672)**	–
Restructuring costs	**(158)**	–
Included in cost of sales	**(830)**	–
Impairment of goodwill and tangible fixed assets	**(3,831)**	–
Restructuring and systems implementation costs	**(399)**	(32)
Provisions for doubtful debts	**(150)**	–
Included in administrative expenses	**(4,380)**	(32)
Group operating exceptionals	**(5,210)**	(32)
Share of joint ventures' operating exceptionals	**(6)**	–
Total operating exceptionals	**(5,216)**	(32)

6 Exceptional items continued

a Operating exceptionals continued

	2002 £ million	2001 £ million
Network equipment and services	(1,312)	(29)
Mobile	(39)	(6)
Other	(104)	30
Goodwill impairment	(3,544)	–
	(4,999)	(5)
Capital	(70)	–
Goodwill impairment	(133)	–
Continuing operations	(5,202)	(5)
Discontinued operations	(14)	(27)
	(5,216)	(32)
United Kingdom	(823)	26
The Americas	(407)	(18)
Rest of Europe	(282)	(28)
Africa, Asia and Australasia	(27)	(12)
	(1,539)	(32)
Goodwill impairment	(3,677)	–
	(5,216)	(32)

In addition, the Group has recorded its share of the operating exceptional charges (£173 million) of its associate, Easynet Group Plc. During the year to 31 December 2001, Easynet Group Plc impaired the carrying value of its fixed assets and goodwill and incurred restructuring and reorganisation costs.

b Non-operating exceptionals

	2002 £ million	2001 £ million
Gain on disposal of discontinued operations	358	–
Gain/(loss) on disposal of fixed assets and investments in continuing operations	18	(38)
Merger/demerger items	291	20
Included in non-operating exceptional items	667	(18)
Gain on repurchase of bonds	166	–
Included in net finance income	166	–

The release of provisions relating to demerger share options arises due to the significant reduction in Marconi's share price and comprises two elements. £247 million relates to a provision created in respect of the Marconi Launch Share Plan which has been released from shares to be issued within equity shareholders' (deficit)/funds. A further £44 million has been released from provisions for liabilities and charges that related to provisions in respect of other option schemes created at the time of the MES business separation.

Merger/demerger receipts for the year ended 31 March 2001 represents a further settlement of the MES Transaction in the year.

There were no material non-operating exceptionals relating to discontinued operations incurred prior to disposal.

The gains on the repurchase of bonds and the sale of subsidiaries are discussed further in notes 21 and 26 respectively.

6 Exceptional items continued

c Exceptional cash flows	2002 £ million	2001 £ million
Operating		
Restructuring and systems implementation costs	**(350)**	–
Other	**(18)**	(39)
	(368)	(39)
Non-operating		
Merger/demerger receipts	**–**	(56)
Disposal of tangible fixed assets	**116**	–
Sales of interests in subsidiary companies and associates	**1,443**	–
Repurchase of bonds	**(209)**	–
	1,350	(56)

Non-operating exceptional cash flows from the disposal of tangible fixed assets are included in note 24 (d). Non-operating exceptional cash flows from the sales of interests in subsidiary companies and associates are included in note 24 (e). Repurchase of bonds is covered in notes 21 and 25.

7 Net interest payable

	2002 £ million	2001 £ million
Interest receivable		
Loans and deposits	**31**	27
Other	**9**	9
Interest receivable – total	**40**	36
Income from fixed asset investments		
Listed investments	**2**	18
Unlisted investments	**–**	5
Income from fixed asset investments – total	**2**	23
Interest payable		
Bank loans and overdrafts	**(281)**	(187)
Loan capital	**(1)**	(3)
Other	**–**	(20)
Interest payable – total	**(282)**	(210)
Net interest payable – Group	**(240)**	(151)
Share of net income receivable of joint ventures and associates	**2**	1
Net interest payable	**(238)**	(150)

8 Net finance income

	2002 £ million	2001 (restated) £ million
Financing costs		
Syndicated loan fees	**(5)**	(3)
Interest on pension scheme liabilities (note 27)	**(181)**	(187)
Finance leases	**(1)**	–
Financing costs – total	**(187)**	(190)
Finance income		
Exceptional gain on the repurchase of bonds (note 21)	**166**	–
Expected return on pension scheme assets (note 27)	**221**	231
Finance income – total	**387**	231
Net finance income	**200**	41

As discussed in note 21, the Group repurchased bonds issued by Marconi Corporation plc with a fair value (after unamortised discount) of £375 million.

9 Tax

a Tax charge/(credit) on (loss)/profit on ordinary activities

	2002 £ million	2001 (restated) £ million
Current taxation		
Corporation tax 30% (2001 30%)	**–**	256
Double taxation relief	**–**	(105)
UK (over)/under provision in respect of prior years	**(18)**	1
Overseas tax	**51**	96
Overseas (over)/under provision in respect of prior years	**(15)**	1
Joint ventures and associates	**4**	10
	22	259
Deferred taxation		
Changes arising from:		
Timing differences – origination and reversal	**67**	12
Estimated recoverable amount of deferred tax assets	**121**	(59)
	188	(47)
Total	**210**	212

Included in the tax on (loss)/profit are the following amounts relating to exceptional items:

	2002 £ million	2001 £ million
Operating exceptionals	**(67)**	(11)
Non-operating exceptionals	**298**	28
	231	17

b Deferred taxation assets/(liabilities)

	Group £ million	Company £ million
At 1 April 2001 – as previously reported	195	–
Prior period adjustment	(25)	–
At 1 April 2001 – as restated	170	–
Charged to the profit and loss account	(188)	–
At 31 March 2002	**(18)**	–

	Group		Company	
	2002 £ million	2001 (restated) £ million	**2002 £ million**	2001 £ million
Tax effect of timing differences on:				
Provisions and accruals for liabilities and charges	**(12)**	195	**–**	–
Accelerated capital allowances	**(6)**	(25)	**–**	–
	(18)	170	**–**	–

Deferred tax liability balances and asset balances are shown in provisions (note 22) and debtors (note 18) respectively.

No provision is made for any taxation that may arise if reserves of overseas subsidiaries were distributed as such distributions are not expected to occur in the foreseeable future.

Included in the net deficit or surplus in respect of retirement benefits (note 27) is a net deferred tax liability of £68 million in respect of the year to 31 March 2001. No net deferred tax has been recognised in respect of retirement benefits for the year to 31 March 2002.

9 Tax continued

c Reconciliation of current taxation charge for the period

	Group	
	2002	2001
	£ million	£ million
Loss before tax	**(5,664)**	(70)
Tax credit on loss at a standard rate of 34% (2001 34%)	**1,926**	24
Non deductible goodwill impairment, amortisation and other similar items	**(1,503)**	(229)
Tax losses and other deferred tax items not recognised in current tax	**(478)**	(46)
Over / (under) provision in prior years	**33**	(2)
Other	**–**	(6)
Current tax charge for the year	**(22)**	(259)

The standard rate is calculated based on the locally enacted statutory rates in the jurisdictions in which the Group operates.

d Factors that may affect future tax charges

Deferred tax assets totalling £596 million (2001 £147 million) have not been recognised in respect of operating losses, pension scheme deficits and exceptional expenditure as the Group is not sufficiently certain that it will be able to recover those assets within a relatively short period of time.

10 Equity minority interests

Equity minority interests represent the share of the profits less losses on ordinary activities attributable to the interests of equity shareholders in subsidiaries which are not wholly owned by the Group.

11 Equity dividends

During the year to 31 March 2002, no dividends were declared. In the year to 31 March 2001 £148 million of dividends were declared with £52 million (1.9 pence per share) being an interim dividend and £96 million (3.45 pence per share) as the final dividend.

12 (Loss)/earnings per share

Basic and diluted (loss)/earnings per share are calculated by reference to a weighted average of 2,789.6 million ordinary shares (2001 2,757.7 million ordinary shares) in issue during the year.

The effect of share options is anti-dilutive for each period presented and has therefore been excluded from the calculation of diluted weighted average number of shares.

An adjusted basic (loss)/earnings per share has been presented in order to highlight the underlying performance of the Group, and is calculated as set out in the reconciliation of (loss)/earnings per share excluding goodwill amortisation and exceptional items below.

	2002		2001 (restated)	
	(Loss)/ earnings £ million	**(Loss)/ earnings per share pence**	(Loss)/ earnings £ million	(Loss)/ earnings per share pence
Loss and basic loss per share	**(5,875)**	**(210.6)**	(287)	(10.4)
Exceptional items (note 6)				
Operating exceptionals	**5,216**	**187.0**	32	1.2
Group share of associates' operating exceptionals	**173**	**6.2**	–	–
Non-operating exceptionals	**(667)**	**(23.9)**	(18)	(0.7)
Gain on repurchase of bonds	**(166)**	**(6.0)**	–	–
Taxation arising on goodwill amortisation and exceptional items (note 9 (a))	**231**	**8.3**	17	0.6
Goodwill amortisation	**440**	**15.8**	673	24.4
	(648)	**(23.2)**	417	15.1

13 Directors and employees

a Directors' remuneration

Details of Directors' remuneration specified for audit by the UK Listing Authority are given in the Report to Shareholders by the Board on Directors' Remuneration.

b Average monthly number of employees by sector

	Number ('000)	
	2002	2001
Networks equipment	**19**	24
Networks services	**8**	9
Mobile	**5**	4
Other	**–**	1
	32	38
Capital	**3**	3
Continuing operations	**35**	41
Discontinued operations	**10**	11
Group employees	**45**	52
Share of joint venture employees	**3**	4
Group and share of joint venture employees	**48**	56

c Staff costs

	2002 £ million	2001 (restated) £ million
Wages and salaries	**1,295**	1,423
Social security costs	**156**	164
Amounts charged to operating expenses	**67**	77
Amounts included in net finance income (note 27)	**(40)**	(44)
Amounts recognised in the Statement of Total Recognised Gains and Losses (note 27)	**351**	73
Other pension costs	**378**	106
	1,829	1,693
United Kingdom	**942**	584
The Americas	**483**	637
Rest of Europe	**357**	397
Africa, Asia and Australasia	**47**	75
	1,829	1,693

Included within the staff costs for the year ended 31 March 2002 are £11 million (2001 £16 million) of expense related to ongoing remuneration costs regarding share option schemes (see note 22).

13 Directors and employees continued

d Share options

At 31 March 2002 options were still outstanding in respect of the Company's ordinary shares of 5 pence under the Company's options schemes:

	Number of shares	Amount of shares £ million	Subscription price	Date normally exercisable
The Employee 1992 Savings-Related Share Option Scheme	3,872,995	0.2	203-273p	2001-2003
The 1984 Managers' Share Option Scheme	881,056	–	183-266p	2001-2004
The 1997 Executive Share Option Scheme	12,004,398	0.6	311-384p	2001-2008
The Marconi UK Sharesave Plan	3,939,944	0.2	538-748p	2003-2006
The Marconi International Sharesave Plan	1,387,869	0.1	737p	2004-2006
The Marconi Launch Share Plan	39,080,650	2.0	–	2002-2006
The Marconi 1999 Stock Option Plan	122,015,797	6.1	35-1009p	2002-2010
The MSI 1995 Stock Option Plan	207,083	–	3-274p	2001-2008
The MSI 1999 Stock Option Plan	3,185,332	0.2	212-957p	2001-2010
The MSIH Stock Option Plan	992,487	–	212-930p	2001-2005
The Mariposa Technology, Inc 1998 Employee Incentive Plan	1,616,115	0.1	9-56p	2001-2010
The Marconi Restricted Share Plan	4,689,574	0.2	0-947p	2001-2004
The Phantom Option Scheme	72,753,885	3.6	5-1250p	2001-2009
Long Term Incentive Plan	772,188	–	–	2001-2003

The Directors' interests as defined by the Companies Act 1985 (which includes trustee holdings and family interests incorporating holdings of minor children) in shares in the Company and its subsidiaries are set out in the Report to Shareholders by the Board on Directors' Remuneration.

14 Goodwill

	Cost £ million
At 1 April 2001	7,313
Acquisitions (note 26 (a))	39
Adjustments in respect of prior-year acquisitions (note 26 (a))	(49)
Disposals	(505)
Exchange rate adjustment	14
At 31 March 2002	**6,812**

	Amortisation £ million
At 1 April 2001	(1,918)
Charged to profit and loss account	(431)
Impairment	(3,677)
Disposals	142
Exchange rate adjustment	(51)
At 31 March 2002	**(5,935)**

Net book value at 31 March 2002	**877**
Net book value at 31 March 2001	5,395

The impairment loss has been calculated using forecast cash flows adjusted by a 15% discount rate.

15 Tangible fixed assets

Group	Freehold property £ million	Leasehold property Long £ million	Leasehold property Short £ million	Plant and machinery £ million	Fixtures, fittings, tools and equipment £ million	Payments on account and assets under construction £ million	Total £ million
Cost at 1 April 2001	284	20	48	737	709	197	1,995
Exchange rate adjustment	(3)	–	(1)	(10)	(4)	(1)	(19)
Reclassification	14	(4)	(21)	(40)	51	–	–
Additions	13	1	2	128	84	124	352
Businesses acquired	1	–	–	1	1	–	3
Completed construction	1	–	–	26	19	(46)	–
Disposals	(63)	(3)	(2)	(65)	(106)	–	(239)
Businesses disposed	(87)	(3)	(19)	(257)	(158)	(234)	(758)
Cost at 31 March 2002	**160**	**11**	**7**	**520**	**596**	**40**	**1,334**
Depreciation at 1 April 2001	62	3	13	365	410	–	853
Exchange rate adjustment	(1)	–	–	(7)	(2)	–	(10)
Reclassification	10	(1)	(5)	(14)	10	–	–
Charged to profit and loss account	6	1	5	96	137	–	245
Impairment of fixed assets	1	–	–	116	37	–	154
Disposals	(15)	–	–	(41)	(68)	–	(124)
Businesses disposed	(26)	(1)	(10)	(180)	(89)	–	(306)
Depreciation at 31 March 2002	**37**	**2**	**3**	**335**	**435**	**–**	**812**
Net book value at 31 March 2002	**123**	**9**	**4**	**185**	**161**	**40**	**522**
Net book value at 31 March 2001	222	17	35	372	299	197	1,142

The net book value of tangible fixed assets of the Group includes an amount of £6 million (2001 £4 million) in respect of assets held under finance leases, on which the depreciation charge for the year was £2 million (2001 £1 million).

Some assets have been reclassified during the year to reflect a more appropriate categorisation of items previously aggregated in the financial statements.

16 Fixed asset investments

a Joint ventures, associates and other

Group	Joint ventures & associates: Shares Cost less amounts written off £ million	Goodwill Cost less amortisation £ million	Share of post acquisition reserves £ million	Loans £ million	Other investments: Cost or valuation £ million	Provisions £ million	Investment in own shares £ million	Total £ million
At 1 April 2001	77	18	22	16	562	(112)	8	591
Additions	302	72	–	–	80	–	24	478
Disposals and repayments	(60)	(16)	(32)	(14)	(321)	–	(32)	(475)
Profits less losses retained	–	(9)	(179)	–	–	–	–	(188)
Deficit on valuation of listed investments	–	–	–	–	–	(156)	–	(156)
At 31 March 2002	**319**	**65**	**(189)**	**2**	**321**	**(268)**	**–**	**250**

Additions during the year consisted mainly of Easynet Group Plc (£235 million) and Ultramast Ltd (£65 million).

Market values

Listed fixed asset investments are stated at market value, as follows:

	2002 £ million	2001 £ million
Alstom – listed overseas	**–**	236
Other investments – listed in the United Kingdom	**19**	20
Other investments – listed overseas	**–**	73

16 Fixed asset investments continued

The Group has not provided for tax which could arise if these investments were realised at the values stated. The Group estimates that the tax charge arising would be £nil (2001 £6 million).

On 19 June 2001, the Company sold its remaining investment in Alstom.

On 26 September 2001, the Company sold its remaining investment in Lagardère SCA.

On 1 February 2002, the Group acquired an approximate 10% shareholding in Bookham Technology plc.

At 15 May 2002 the market value of the investments shown above was, in aggregate, £15 million.

Associated Companies	Class of shares		Number held	Country of Incorporation
Easynet Group Plc (71.9%)	Ordinary shares of 4 pence		30,940,597	Great Britain
	Convertible ordinary shares of 4 pence		48,553,661	
	Equity share	71.9%		
	Voting share	49.9%		
Plessey Holdings Ltd (50.0%)	'G' ordinary shares of £1		265,000,500	Great Britain
	'S' ordinary shares of £1		–	
	Equity and voting share	50.0%		

Easynet Group Plc's year end is 31 December 2001. As it is a company quoted on the London Stock Exchange, its results have been accounted for under the equity accounting method for the period from acquisition (26 July 2001) to 31 December 2001. Easynet is a network-based provider of broadband services and internet solutions.

On 22 May 2000, the rights of former employees of GEC to exercise options and receive a securities package from the GEC Special Purpose Trust lapsed. During the year ended 31 March 2002, the Company disposed of the assets of the GEC Special Purpose Trust, which comprised 4,259,775 Marconi shares, 1,832,588 BAE SYSTEMS plc shares and £582,839 of BAE SYSTEMS plc Capital Amortising Loan Stock ("CALS"), for aggregate consideration of £7 million. The trust has no remaining investments at 31 March 2002, and will be wound up during the next financial year.

The Marconi Employee Trust ("MET"), a discretionary trust for certain employees and former employees of Marconi plc and its subsidiaries, was established on 1 December 1999. The trust acquires shares in order to satisfy entitlements under certain share option schemes. The MET held assets of 3,918,574 Marconi plc ordinary 5p shares at 31 March 2002, with a market value of £0.3 million. Dividends receivable by MET from the Company have been waived.

The GEC Employee Share Trust ("EST"), a discretionary trust for certain employees and former employees of Marconi plc and its subsidiaries, was established on 19 January 1995. The trust acquires shares in order to satisfy entitlements under certain share option schemes. The EST held assets of 1,188,414 Marconi plc ordinary 5p shares at 31 March 2002, with a market value of £0.1 million. Dividends receivable by EST from the Company have not been waived.

The GEC Special Purpose Trust, the Marconi Employee Trust and the GEC Employee Share Trust have been consolidated. All operating expenses incurred are charged to the Group profit and loss account.

b Shares in Group companies

Company	Cost £ million
At 1 April 2001	439
Additions	255
Impairments	(92)
At 31 March 2002	**602**

16 Fixed asset investments continued

The Group's most significant operating subsidiaries (by class of business) are:

Core businesses	Country of Incorporation
Networks Equipment and Services	
Marconi Communications Ltd.	Great Britain
Marconi Communications S.p.A.	Italy
Marconi Communications Inc.	USA
Marconi Communications GmbH.	Germany
Mobile Communications	
Marconi Mobile S.p.A.	Italy
Capital	
Marconi Applied Technologies Ltd	Great Britain
Other	
Marconi Corporation plc	Great Britain

The above list of subsidiaries includes those businesses that had a material effect on the consolidated results to 31 March 2002.

17 Stocks and contracts in progress

	Group		Company	
	2002	2001	**2002**	2001
	£ million	£ million	**£ million**	£ million
Raw materials and bought out components	**203**	637	**–**	–
Work in progress	**241**	477	**–**	–
Payments on account	**(3)**	(4)	**–**	–
Long-term contract work in progress	**83**	80	**–**	–
Finished goods	**196**	531	**–**	–
	720	1,721	**–**	–

18 Debtors

	Group		Company	
		2001		
	2002	(restated)	**2002**	2001
	£ million	£ million	**£ million**	£ million
Amounts falling due within one year				
Trade debtors	**979**	2,096	**–**	–
Amounts recoverable on contracts	**–**	37	**–**	–
Amounts owed by joint ventures and associates	**26**	28	**–**	–
Other debtors	**96**	146	**–**	6
Prepayments and accrued income	**102**	79	**–**	–
Amounts owed by group undertakings	**–**	–	**275**	520
	1,203	2,386	**275**	526
Amounts falling due after more than one year				
Trade debtors	**16**	20	**–**	–
Amounts recoverable on contracts	**–**	6	**–**	–
Other debtors	**71**	87	**–**	–
Prepayments and accrued income	**7**	14	**–**	–
Deferred taxation (notes 9 (b) and 22)	**–**	170	**–**	–
	1,297	2,683	**275**	526

19 Current asset investments and cash at bank and in hand

	Group		Company	
	2002	2001	**2002**	2001
	£ million	£ million	**£ million**	£ million
Dated securities at market value				
Listed securities – cost £nil (2001 £25 million)	**–**	26	**–**	–
Other investments at lower of cost and market value where listed in the United Kingdom and overseas				
Market value of listed investments was £2 million (2001 £30 million)	**59**	30	**–**	–
Investments	**59**	56	**–**	–
Cash at bank and in hand	**1,330**	454	**1**	141
	1,389	510	**1**	141
Divided between				
Cash and bank deposits repayable on demand (note 29)	**1,309**	259	**1**	141
Liquid resources (note 29)	**65**	251	**–**	–
Other investments	**15**	–	**–**	–
	1,389	510	**1**	141

The total restricted cash was £61 million (2001 £47 million) of which £25 million (2001 £nil) reflects cash collateral placed against bonding facilities, £17 million (2001 £25 million) reflects cash in the captive insurance company and £19 million (2001 £22 million) reflects cash deposited against secured loans in Italy.

20 Creditors

	Group		Company	
	2002	2001 (restated)	**2002**	2001
	£ million	£ million	**£ million**	£ million
Amounts falling due within one year				
Bank loans and overdrafts				
Repayable on demand	**2,351**	342	**–**	–
Other	**44**	1,018	**–**	–
Debenture loans	**32**	44	**–**	–
Obligations under finance leases	**9**	3	**–**	–
	2,436	1,407	**–**	–
Payments received in advance	**101**	185	**–**	–
Trade creditors	**512**	963	**–**	–
Amounts owed to joint ventures and associates	**9**	9	**–**	–
Current taxation	**290**	164	**–**	–
Other taxation and social security	**15**	107	**–**	–
Other creditors	**423**	363	**–**	–
Accruals and deferred income	**282**	626	**–**	–
Amounts owed to Group undertakings	**–**	–	**207**	19
Proposed dividend	**–**	96	**–**	96
	4,068	3,920	**207**	115
Amounts falling due after more than one year				
Bank loans and overdrafts	**32**	23	**–**	–
Debenture loans	**–**	78	**–**	–
Bonds	**1,771**	2,165	**–**	–
Obligations under finance leases	**–**	4	**–**	–
	1,803	2,270	**–**	–
Payments received in advance	**29**	53	**–**	–
Trade creditors	**–**	1	**–**	–
Other creditors	**70**	250	**–**	–
	1,902	2,574	**–**	–

21 Borrowings

	Group 2002 £ million	Group 2001 £ million	Company 2002 £ million	Company 2001 £ million
Bank loans and overdrafts				
Secured	**31**	–	**–**	–
Unsecured	**2,396**	1,383	**–**	–
Debenture loans				
Secured	**–**	33	**–**	–
Unsecured	**32**	89	**–**	–
Bonds	**1,771**	2,165	**–**	–
Obligations under finance leases	**9**	7	**–**	–
	4,239	3,677	**–**	–
Less amounts falling due within one year	**(2,436)**	(1,407)	**–**	–
	1,803	2,270	**–**	–
Analysis of repayments of long-term borrowings				
Bank loans				
Between one and two years	**6**	23	**–**	–
Between two and five years	**14**	–	**–**	–
In more than five years	**12**	–	**–**	–
Bonds				
Between one and two years	**–**	10	**–**	–
Between two and five years	**262**	358	**–**	–
In more than five years	**1,509**	1,879	**–**	–
	1,803	2,270	**–**	–
Debenture loans and bonds				
Repayable at par wholly within five years (average rate 5.6 per cent)	**262**	354	**–**	–
Repayable at par wholly after five years (average rate 7.5 per cent)				
Bonds	**1,509**	1,855		
Other	**–**	78	**–**	–
	1,509	1,933	**–**	–

Bonds

During the year ended 31 March 2002, the Group repurchased €67.9 million of euro bonds with a coupon rate of 5.625 per cent per annum maturing on 30 March 2005, €256.7 million of euro bonds with a coupon rate of 6.375 per cent per annum maturing on 30 March 2010, $131 million of US dollar bonds with a coupon rate of 7.75 per cent per annum maturing 15 September 2010 and $130.1 million of US dollar bonds with a coupon rate of 8.375 per cent per annum maturing 15 September 2030.

The Group recognised an exceptional gain within finance income on these repurchases of £166 million.

Security

The secured loans are all secured upon cash balances with the respective banks.

Maturity

The material payment obligations greater than five years are all payable wholly at maturity, of which £450 million refer to Marconi's 6.375% eurobond due 2010, £530 million refer to Marconi's 7.75% yankee bond due 2010, and £529 million refer to Marconi's 8.375% yankee bond due 2030.

More analysis of the maturity of the Group's debt is given in note 29.

Borrowing facilities

The Group has no undrawn committed borrowing facilities. The undrawn facilities available at 31 March 2002 were:

	Group 2002 £ million	Group 2001 £ million
Expiring in one year or less	–	1,679
Expiring in more than one year but not more than five years	–	1,788
	–	3,467