

22 Provisions for liabilities and charges

	Restructuring £ million	Share options £ million	Deferred tax £ million	Other £ million	Group Total £ million	Company Total £ million
At 1 April 2001 – as originally reported	46	442	–	394	882	–
Prior period adjustment	–	–	–	(168)	(168)	–
At 1 April 2001 – as restated	46	442	–	226	714	–
Exchange rate adjustment	–	–	–	(6)	(6)	–
Acquisitions	–	–	–	10	10	–
Disposals	(6)	–	–	(32)	(38)	–
Transferred from debtors (notes 9 (b), 18)	–	–	(170)	–	(170)	–
Charged	94	26	188	174	482	–
Released	(10)	(52)	–	(16)	(78)	–
Utilised	(28)	(237)	–	(144)	(409)	–
At 31 March 2002	96	179	18	212	505	–

Other provisions mainly comprise expected cost of maintenance under guarantees, other work in respect of products delivered, losses on contract work in progress and provisions for supplier commitments. The associated outflows are generally expected to occur over the lives of the products and contracts which are long term in nature.

The prior period adjustment is necessary in order to reflect the adoption of Financial Reporting Standard 17 “Retirement benefits”. This is discussed further in note 27.

23 Equity shareholders’ interests

a Share capital

	Number of shares	£
Fully paid ordinary shares of 5p each		
Shares allotted at 1 April 2001	2,785,189,896	139,259,495
Shares allotted under The Managers’ 1984 Share Option Scheme	14,824	741
Shares allotted under The 1992 Savings-Related Share Option Scheme	3,007,670	150,384
Shares allotted under The 1997 Executive Share Option Scheme	62,352	3,118
Shares allotted under Employee Share Purchase Plans	3,326,948	166,347
Shares allotted under The Mariposa 1998 Employee Incentive Plan	411,380	20,569
Shares allotted under other option schemes	394,861	19,743
Shares allotted in respect of businesses acquired	230,889	11,544
Shares allotted at 31 March 2002	2,792,638,820	139,631,941
Unissued ordinary shares	3,207,361,180	160,368,059
Authorised	6,000,000,000	300,000,000

All share issues have been satisfied by cash consideration with the exception of the shares allotted in respect of acquisitions.

b Group reserves

	Shares to be issued £ million	Share premium account	Capital reserves £ million	Revaluation reserve £ million	Profit and loss account £ million	Total £ million
At 1 April 2001 – as previously reported	310	489	375	267	3,042	4,483
Prior period adjustment	–	–	–	–	317	317
At 1 April 2001 – as restated	310	489	375	267	3,359	4,800
Loss retained for the year	–	–	–	–	(5,875)	(5,875)
Exchange differences	–	–	–	–	(66)	(66)
Actuarial loss (note 27)	–	–	–	–	(351)	(351)
Tax credit on STRGL items	–	–	–	–	68	68
(Deducted)/added in the year	(260)	7	–	(30)	9	(274)
Transferred in the year	(5)	4	–	(237)	238	–
At 31 March 2002	45	500	375	–	(2,618)	(1,698)

Notes to the accounts continued

23 Equity shareholders' interests continued

Shares to be issued represents the Marconi ordinary shares to be issued to employees as a result of acquisitions made.

The amount in the profit and loss reserve relating to the defined benefit liability is £126 million (2001 £120 million asset).

Exchange gains of £17 million (2001 £265 million loss) and related tax charges of £nil (2001 credit of £79 million) on borrowings hedged against equity investments denominated in foreign currencies and losses of £1 million (2001 £104 million) and related tax credits of £nil (2001 £31 million) on associated tax equalisation swaps have been taken to Group reserves.

c Company reserves

	Profit and loss account £ million
At 1 April 2001	53
Loss for the year	(67)
At 31 March 2002	(14)

Pursuant to Section 230 of the Companies Act 1985 the Company is not presenting its own profit and loss account in addition to the consolidated profit and loss account. The loss of the Company for the financial year amounted to £67 million (2001 loss £14 million).

24 Cash flow

a Net cash outflow from operating activities

	Year to 31 March 2002		
	Continuing £ million	Discontinued £ million	Total £ million
Group operating (loss)/profit after exceptionals	(6,160)	45	(6,115)
Operating exceptionals (note 6 (a))	5,202	8	5,210
Group operating (loss)/profit before exceptionals	(958)	53	(905)
Depreciation charge	227	18	245
Goodwill amortisation	417	14	431
Decrease in stock	90	5	95
Decrease in debtors	540	32	572
Decrease in creditors	(423)	(46)	(469)
Increase in provisions	31	10	41
	(76)	86	10

	Year to 31 March 2001		
	Continuing £ million	Discontinued £ million	Total £ million
Group operating (loss)/profit after exceptionals	(114)	143	29
Operating exceptionals (note 6 (a))	5	27	32
Group operating (loss)/profit before exceptionals	(109)	170	61
Depreciation charge	184	27	211
Goodwill amortisation	651	20	671
Increase in stock	(746)	(18)	(764)
Increase in debtors	(230)	(77)	(307)
Increase in creditors	42	87	129
Decrease in provisions	(55)	(13)	(68)
	(263)	196	(67)

24 Cash flow continued

b Returns on investments and servicing of finance

	2002 £ million	2001 £ million
Income from loans, deposits and investments	24	27
Interest paid	(286)	(160)
Dividends paid to minority interests	–	(1)
	(262)	(134)

Of the above amount, continuing operations account for an outflow of £261 million (2001 £129 million) and discontinued operations an outflow of £1 million (2001 £5 million).

c Tax repaid/(paid)

	2002 £ million	2001 £ million
UK corporation tax repaid/(paid)	34	(74)
Overseas tax paid	(47)	(63)
	(13)	(137)

The figure for tax paid of £13 million includes net tax repayments of £110 million received during the year to 31 March 2002 (2001 net tax repayments of £nil).

Of the above amount, continuing operations account for an outflow of £9 million (2001 £123 million) and discontinued operations an outflow of £4 million (2001 £14 million).

d Capital expenditure and financial investment

	2002 £ million	2001 £ million
Purchases of tangible fixed assets	(361)	(578)
Purchases less sales of fixed asset investments	(8)	527
Sales of tangible fixed assets	173	17
	(196)	(34)

Sales of tangible fixed assets shown above includes an amount of £116 million in respect of disposals treated as exceptional items in the profit and loss account.

Of the above amount, continuing operations account for an outflow of £173 million (2001 £42 million) and discontinued operations an outflow of £23 million (2001 £8 million inflow).

e Acquisitions and disposals

	2002 £ million	2001 £ million
Investments in subsidiary companies (note 26 (a))	(37)	(388)
Investments in joint ventures	(65)	–
Sales of interests in subsidiary companies and associates (note 26 (b))	1,443	182
Net (cash)/overdraft disposed with subsidiary companies (note 26 (b))	(316)	3
	1,025	(203)

Notes to the accounts continued

24 Cash flow continued

f Net cash inflow from management of liquid resources

Comprising term deposits generally of less than one year and other readily disposable current asset investments

	2002 £ million	2001 £ million
Deposits made with banks and similar financial institutions	(4,241)	(1,325)
Deposits withdrawn from banks and similar financial institutions	4,378	1,433
Purchases of securities issued by banks and other corporate bodies	(51)	(1)
Sales of securities issued by banks and other corporate bodies	100	59
	186	166

g Net cash inflow from financing

	2002 £ million	2001 £ million
Increase/(decrease) in bank loans	1,273	(918)
(Decrease)/increase in debenture loans	(90)	27
(Decrease)/increase in bonds	(209)	1,213
Capital element of finance lease repayments	(2)	(6)
	972	316

25 Analysis of net monetary debt

	At 1 April 2001 £ million	Cash flow £ million	Acquisitions /disposals (excluding cash and overdrafts) £ million	Other non-cash changes £ million	Exchange rate adjustment £ million	At 31 March 2002 £ million
Cash at bank and in hand	259	1,059	–	–	(9)	1,309
Overdrafts	(342)	236	–	–	(1)	(107)
		1,295				
Liquid resources	251	(186)	–	–	–	65
Amounts falling due within one year						
Bank loans	(1,018)	(1,267)	–	–	(3)	(2,288)
Debenture loans	(44)	90	–	(78)	–	(32)
Finance leases	(3)	2	–	(8)	–	(9)
Amounts falling due after more than one year						
Bank loans	(23)	(6)	(3)	–	–	(32)
Debenture loans	(78)	–	–	78	–	–
Bonds	(2,165)	209	–	166	19	(1,771)
Finance leases	(4)	–	–	4	–	–
		(972)				
	(3,167)	137	(3)	162	6	(2,865)

As stated in note 21, the Group repurchased bonds at a discount resulting in a non cash movement of £166 million.

26 Acquisitions and disposals

a Investments in subsidiary companies

During the year all acquisitions were made and accounted for using the acquisition method.

Changes in the structure of the Group are shown in the Directors' Report.

Analysis of fair value of identifiable net assets of subsidiaries acquired in the year

	Book value £ million	Fair value adjustments £ million	Accounting policy adjustments £ million	2002 Total £ million	2001 Total £ million
Tangible fixed assets	3	–	–	3	24
Investments	6	–	(6)	–	–
Inventory	1	(1)	–	–	28
Debtors	2	–	–	2	61
Creditors and provisions	(7)	(1)	–	(8)	(92)
Loan capital	(3)	–	–	(3)	(19)
Finance leases	–	–	–	–	(4)
	2	(2)	(6)	(6)	(2)
Satisfied by:					
Cash paid				23	388
Loan notes issued				–	31
Shares issued				–	455
Shares to be issued				–	71
Deferred consideration				10	327
				33	1,272
Goodwill arising on current year acquisitions				39	1,274
Deferred consideration paid in respect of prior acquisitions				14	–
Adjustment to consideration in respect of prior acquisitions				(77)	–
Additional fair value adjustments in respect of prior acquisitions				14	–
Net (reduction)/addition in goodwill				(10)	1,274

Following the adjustments to consideration on the acquisition of Splice, MSI, Mariposa and Albany Partnership, goodwill has been reduced by £45 million, £19 million, £4 million and £2 million, from £101 million, £510 million, £195 million and £71 million respectively.

Additional consideration paid in respect of Bosch Public Networks during the year increased goodwill to £51 million from £44 million.

The fair value adjustments in respect of prior year acquisitions principally relate to additional provisions for fixed assets and inventory on the acquisition of Systems Management Specialists. These adjustments increased goodwill from £90 million to £104 million.

Notes to the accounts continued

26 Acquisitions and disposals continued

Goodwill arising in the year is attributable to the following:

	2002	2001
	Total	Total
	£ million	£ million
Northwood Technologies Inc.	19	–
Telit Networks S.p.A.	15	–
Metapath Software International, Inc.	–	510
Mariposa Technology, Inc	–	195
Splice Transmissao SA	–	101
Systems Management Specialists, Inc.	–	90
Other	5	334
Goodwill arising on acquisitions in the year	39	1,230
Metapath Software International, Inc.	(19)	–
Mariposa Technology, Inc	(4)	–
Splice Transmissao SA	(45)	–
Bosch Public Networks	7	–
Systems Management Specialists, Inc.	14	–
Albany Partnership	(2)	–
Other	–	44
Adjustments to purchase consideration and fair values in respect of acquisitions in the prior year	(49)	44
Net (reductions in)/additions to goodwill	(10)	1,274

Northwood Technologies Inc. and Telit Networks S.p.A. were acquired on 24 May 2001 and 18 April 2001 respectively.

b Sales of interests in subsidiaries and associates

	Medical	Commerce	Data	Other	2002	2001
	Systems	Systems	Systems	Other	Total	Total
	£ million	£ million	£ million	£ million	£ million	£ million
Net assets sold						
Tangible fixed assets	97	70	10	275	452	23
Investments in joint ventures and associates	7	1	–	89	97	44
Inventory	161	49	21	9	240	45
Debtors	374	82	49	31	536	65
Cash at bank	18	11	10	289	328	–
Overdrafts	(1)	(9)	(2)	–	(12)	(3)
Creditors and provisions	(281)	(94)	(33)	(438)	(846)	(39)
Goodwill	152	79	40	92	363	7
	527	189	95	347	1,158	142
Accounted for by:						
Cash consideration, net of transaction costs paid	729	225	283	206	1,443	182
Deferred consideration and accrued transaction costs	(47)	(7)	(7)	(15)	(76)	–
Shares received	–	–	–	263	263	–
Loan notes	–	–	–	–	–	15
Profit on disposal	155	29	181	107	472	55

The consideration received in respect of the disposal of ipsaris was 77,508,177 shares in Easynet Group Plc, representing a 70.1% holding. This consideration was valued at £235 million.

The consideration received in respect of the disposal of the Marconi Optical Components' business was 12,891,000 shares in Bookham Technology plc, representing a 10% holding. This consideration was valued at £19 million.

Consideration for disposal of 25% of Marconi Communications South Africa was a 30% holding in African Renaissance Holdings Limited. This consideration was valued at £9 million.

The unrealised gain on disposal of ipsaris of £9 million has been taken to the Statement of Total Recognised Gains and Losses in accordance with UITF Abstract 31, "Exchanges of businesses or other non-monetary assets for an interest in a subsidiary, joint venture or associate".

26 Acquisitions and disposals continued

A list of the main undertakings disposed of, and their respective dates of completion, is as follows:

ipsaris	26 July 2001
Marconi Medical Systems	19 October 2001
Marconi Optical Components	1 February 2002
Marconi Commerce Systems	1 February 2002
Marconi Data Systems	5 February 2002
General Domestic Appliances	4 March 2002

27 Post retirement benefits

Marconi operates defined benefit pension plans in the UK, other European countries and the US and post-retirement benefit plans in the US. The most significant plan is the GEC 1972 Plan ("the Plan") in the UK. A full actuarial valuation for the Plan was carried out as at 6 April 1999. A further actuarial investigation was performed for the Plan at 30 September 2001, and this was updated to 31 March 2002 by a qualified independent actuary.

For the US Plans, full valuations were carried out at dates between 1 January 2001 and 31 March 2002 and updated as applicable to 31 March 2002 by independent qualified actuaries.

For the other European unfunded plans, valuations were carried out for accounting purposes at 31 March 2002.

The contributions made to the plans in the accounting period totalled £36 million (2001 £46 million). For the unfunded pension plans and the post retirement medical plans, payments are made when the benefits are provided.

From 6 April 2002, company contributions to the Plan will be 14.2% of pensionable pay. Other than Italy, where approximately 7.4% of pensionable pay is accrued, the Group is not making significant contributions to its funded plans due to the high asset values already accumulated.

The Group operates defined contribution schemes in addition to the defined benefit schemes listed. Contributions to these schemes amounted to £25 million (2001 £20 million).

The major assumptions used by the actuaries to determine the liabilities on a FRS 17 basis for the significant defined benefit plans are set out below:

	At 31 March 2002		At 31 March 2001		At 31 March 2000	
	UK (% pa)	Rest of the World (% pa)	UK (% pa)	Rest of the World (% pa)	UK (% pa)	Rest of the World (% pa)
Average assumptions used:						
Rate of general increase in salaries	4.75%	4.23%	4.50%	4.92%	5.00%	4.63%
Rate of increase in pensions in payment	2.75%	1.50%	2.50%	2.00%	3.00%	2.00%
Rate of increase for deferred pensioners	2.75%	N/A	2.50%	N/A	3.00%	N/A
Rate of credited interest	5.50%	N/A	5.75%	N/A	6.00%	N/A
Discount rate applied to liabilities	6.00%	6.85%	6.00%	7.49%	6.00%	7.64%
Inflation assumption	2.75%	2.25%	2.50%	2.44%	3.00%	2.44%
Expected healthcare trend rates	N/A	6% pre 65, 7.5% post 65 reducing to 5% after 2005	N/A	7% pre 65, 9% post 65 reducing to 5% after 2005	N/A	7% pre 65, 10% post 65 reducing to 5% after 2005

The Plan provides benefits to members on the best of three bases. One of the bases is a money purchase underpin in which credited interest is applied to a percentage of members' contributions. The assumption has been determined as 0.5% less than the discount rate and reflects the Plan Trustee's practice in the long term of declaring credited interest broadly in line with fund returns. The discretionary level of credited interest has been treated as a constructive obligation.

27 Post retirement benefits continued

Pension Plans

The assets in the UK Plan and the expected rates of return were:

	Long term expected rate of return %	Value at 31 March 2002 £ million	Long term expected rate of return %	Value at 31 March 2001 £ million	Long term expected rate of return %	Value at 31 March 2000 £ million
Equities	8.25%	685	8.00%	1,476	8.00%	1,563
Bonds	5.25%	1,322	4.75%	1,050	4.75%	937
Property	6.75%	108	7.00%	153	6.50%	109
Cash	4.00%	384	5.00%	–	6.00%	123
Total market value of assets	5.95%	2,499	6.67%	2,679	6.74%	2,732
Present value of plan liabilities		(2,506)		(2,459)		(2,515)
Net pension (liability)/asset before deferred tax		(7)		220		217
Deferred tax liability		–		(66)		(65)
Net pension (liability)/asset after deferred tax		(7)		154		152

The assets in the overseas plans and the expected rates of return were:

	Long term expected rate of return %	Value at 31 March 2002 £ million	Long term expected rate of return %	Value at 31 March 2001 £ million	Long term expected rate of return %	Value at 31 March 2000 £ million
Equities	10.00%	89	10.00%	336	10.00%	306
Bonds	6.00%	71	6.00%	146	6.00%	133
Other	9.00%	18	9.00%	60	9.00%	54
Total market value of assets	8.30%	178	8.81%	542	8.81%	493
Present value of plan liabilities		(259)		(524)		(443)
Net pension (liability)/asset before deferred tax		(81)		18		50
Deferred tax liability		(9)		(20)		(52)
Net pension (liability)/asset after deferred tax		(90)		(2)		(2)

Other post retirement benefits

Present value of plan liabilities and net pension liability before deferred tax	(38)	(50)	(50)
Deferred tax asset	9	18	18
Net pension liability after deferred tax	(29)	(32)	(32)

Analysis of the amount charged to operating profit

	2002 (£ million)				2001 (£ million)			
	UK Pension Plan	Rest of the world – Pension Plans	Post retirement medical plans	Total	UK Pension Plan	Rest of the world – Pension Plans	Post retirement medical plans	Total
Current service cost	37	16	1	54	46	16	1	63
Past service cost	–	–	–	–	–	2	–	2
(Gain)/loss on settlements	(2)	4	(14)	(12)	–	–	–	–
Loss/(gain) on curtailments	–	–	–	–	–	1	(9)	(8)
Total operating charge	35	20	(13)	42	46	19	(8)	57

27 Post retirement benefits continued

Analysis of the amount credited to other finance income

	2002 (£ million)				2001 (£ million)				Total
	UK Pension Plan	Rest of the world – Pension Plans	Post retirement medical plans	Total	UK Pension Plan	Rest of the world – Pension Plans	Post retirement medical plans	Total	
Expected return on pension scheme assets	174	47	–	221	181	50	–	231	
Interest on pension scheme liabilities	(142)	(36)	(3)	(181)	(147)	(36)	(4)	(187)	
Total finance income	32	11	(3)	40	34	14	(4)	44	
Net income/(cost)	3	9	(10)	2	12	5	(4)	13	

The net income/(cost) represents the operating charge less net finance income.

Analysis of amount recognised in the consolidated statement of total recognised gains and losses (STRGL)

	2002 (£ million)				2001 (£ million)				Total
	UK Pension Plan	Rest of the world – Pension Plans	Post retirement medical plans	Total	UK Pension Plan	Rest of the world – Pension Plans	Post retirement medical plans	Total	
Actual return less expected return on pension scheme assets (gains)/losses	218	59	–	277	139	47	–	186	
Experience (gains) and losses arising on the scheme liabilities	(20)	10	1	(9)	41	9	1	51	
Changes in assumptions underlying the present value of the scheme liabilities (gains)/losses	52	29	2	83	(166)	1	1	(164)	
Actuarial loss recognised in STRGL	250	98	3	351	14	57	2	73	

The main element of the amount recognised in the STRGL in both years has resulted from the difference between the actual rate of return and expected rate of return on the plans' assets. For both years, actual investment returns in the UK and US plans fell well below expected investment returns resulting in substantial asset losses.

The second largest element has been the gains and losses resulting from changes in assumptions underlying the present value of the plans' liabilities. These have resulted principally from the changes in assumptions used at each year end for the Plan. At 31 March 2001, the assumed rates of increase in inflation, salary increases and pension increases fell compared with those used at 31 March 2000. These changes resulted in a decrease in the present value of the liabilities at 31 March 2001 compared with those calculated at 31 March 2000, and this gave rise to a gain over the year. The assumptions were all increased at 31 March 2002, resulting in an increase in the present value of liabilities at 31 March 2002 compared with those calculated at 31 March 2001, and this gave rise to a loss over the year.

Notes to the accounts continued

27 Post retirement benefits continued

Movement in surplus during the year

	2002 (£ million)				2001 (£ million)			
	UK Pension Plan	Rest of the world – Pension Plans	Post retirement medical plans	Total	UK Pension Plan	Rest of the world – Pension Plans	Post retirement medical plans	Total
Surplus/(deficit) at the beginning of the year	220	18	(50)	188	217	50	(50)	217
<i>Movement in year:</i>								
Current service cost	(37)	(16)	(1)	(54)	(46)	(16)	(1)	(63)
Contributions and benefit payments	26	10	5	41	29	17	4	50
Past service costs	–	–	–	–	–	(2)	–	(2)
Settlement gain/(loss)	2	(4)	14	12	–	–	–	–
Curtailment (loss)/gain	–	–	–	–	–	(1)	9	8
Other finance income/(charge)	32	11	(3)	40	34	14	(4)	44
Actuarial loss	(250)	(98)	(3)	(351)	(14)	(57)	(2)	(73)
Foreign exchange	–	(2)	–	(2)	–	13	(6)	7
(Deficit)/surplus at the end of the year	(7)	(81)	(38)	(126)	220	18	(50)	188

The net (deficit) or surplus is analysed by jurisdiction as follows:

	2002 (£ million)				2001 (£ million)			
	UK Pension Plan	Rest of the world – Pension Plans	Post retirement medical plans	Total	UK Pension Plan	Rest of the world – Pension Plans	Post retirement medical plans	Total
Surpluses	–	28	–	28	220	127	–	347
Deficits	(7)	(109)	(38)	(154)	–	(109)	(50)	(159)
Net (deficit)/surplus at the end of the year	(7)	(81)	(38)	(126)	220	18	(50)	188

History of experience gains and losses

	2002				2001			
	UK Pension Plan	Rest of the world – Pension Plans	Post retirement medical plans	Total	UK Pension Plan	Rest of the world – Pension Plans	Post retirement medical plans	Total
Difference between the expected and actual return on scheme assets (gains)/losses:								
amount (£ million)	218	59	–	277	139	47	–	186
percentage of scheme assets (%)	8.7%	33.1%	–	10.3%	5.2%	8.7%	–	5.8%
Experience (gains) and losses on scheme liabilities:								
amount (£ million)	(20)	10	1	(9)	41	9	1	51
percentage of the present value of the scheme liabilities (%)	(0.8)%	3.9%	2.6%	(0.3)%	1.7%	1.7%	2.0%	1.7%
Total amount recognised in statement of total recognised (gains) and losses:								
amount (£ million)	250	98	3	351	14	57	2	73
percentage of the present value of the scheme liabilities (%)	10.0%	37.8%	7.9%	12.5%	0.6%	10.9%	4.0%	2.4%

The assets and liabilities relating to certain of the overseas pension schemes are subject to final adjustment after the separation of the schemes as part of the disposal of the businesses that support them.

28 Other information

a Contingent liabilities

	Group		Company	
	2002 £ million	2001 £ million	2002 £ million	2001 £ million
At 31 March	10	25	4,835	-

Contingent liabilities relate mainly to the cost of legal proceedings, which in the opinion of the Directors, are not expected to have a materially adverse effect on the Group.

The Group is engaged in a number of legal proceedings relating to class shareholder actions, patent and other claims under contracts and in respect of a dispute in relation to the purchase of a shareholding. The Group is vigorously defending these cases, the estimated cost of which is disclosed above, and the Directors currently believe that the claims are unlikely to be settled for amounts resulting in material cash or other asset outflows.

Marconi plc has guaranteed indebtedness and obligations of certain UK subsidiary undertakings including indebtedness related to bond issues, which at 31 March 2002 amounted to £4,835 million (2001 £3,608 million).

At 31 March 2002, the Group had provided third parties with guarantees and performance bonds, the exercise of which is considered to be remote.

b Capital expenditure

	Group		Company	
	2002 £ million	2001 £ million	2002 £ million	2001 £ million
Commitments contracted at 31 March	3	93	-	-

c Operating leases

	Group		Company	
	2002 £ million	2001 £ million	2002 £ million	2001 £ million
Charges in the year				
Land and buildings	39	37	-	-
Other items	12	16	-	-
	51	53	-	-
Amounts payable under operating leases which fall due in the next financial year				
Land and buildings, leases expiring				
Within one year	3	11	-	-
Between two and five years	10	22	-	-
After five years	44	14	-	-
Other items, leases expiring				
Within one year	3	3	-	-
Between two and five years	13	12	-	-
After five years	-	7	-	-
	73	69	-	-

d Fees paid to auditors

	Group		Company	
	2002 £ million	2001 £ million	2002 £ million	2001 £ million
Audit services	2	2	-	-
Audit-related services	4	4	-	-
Tax services and other compliance work	2	1	-	-
Business support and other services	3	2	-	-
	11	9	-	-

All business support and other services were awarded after a competitive tendering process had been undertaken.

Of the amounts shown above, £9.2 million (2001 £8.4 million) was charged to administrative expenditure and £1.4 million (2001 £ nil) against our disposal programme as a non-operating exceptional item. £5.0 million (2001 £2.4 million) of the amounts charged to administrative expenditure were classified as exceptional items associated with the restructuring of the Group's activities. £0.1 million (2001 £0.8 million) was capitalised as part of the investment in newly acquired subsidiaries.

Notes to the accounts continued

29 Financial instruments

Treasury policy and the Group's use of financial instruments are dealt with in the Group Financial Management report. Short-term debtors and creditors have been excluded from all disclosures below except the currency profile.

a Currency and interest rate risk profile of financial liabilities

Financial assets

After taking into account interest rate swaps and forward currency contracts, the interest rate profile of the Group's financial assets at 31 March 2002 and 31 March 2001 were:

	Total	Floating	Fixed	Non-	Average	Fixed rate	Non-interest
	£ million	rate	rate	interest	interest rate	Weighted	bearing
		£ million	£ million	bearing	%	period	weighted
31 March 2002				£ million		years	average
							period years
Sterling	278	278	-	-	-	-	-
US dollars	738	738	-	-	-	-	-
Euro	255	239	-	16	-	-	1.4
Other	119	119	-	-	-	-	-
Total	1,390	1,374	-	16	-	-	1.4
Analysed between							
Cash at bank and in hand (note 19)	1,309	1,309	-	-	-	-	-
Liquid resources (note 19)	65	65	-	-	-	-	-
Long-term debtors and amounts recoverable on contracts	16	-	-	16	-	-	-
	1,390	1,374	-	16			

	Total	Floating	Fixed	Non-	Average	Fixed rate	Non-interest
	£ million	rate	rate	interest	interest rate	Weighted	bearing
		£ million	£ million	bearing	%	period	weighted
31 March 2001				£ million		years	average
							period years
Sterling	241	236	4	1	5.0	0.1	3.2
US dollars	77	44	22	11	5.2	1.0	3.6
Euro	127	120	4	3	3.0	1.0	1.5
Other	91	74	6	11	3.3	0.5	3.8
Total	536	474	36	26	4.6	0.8	3.4
Analysed between							
Cash at bank and in hand (note 19)	259	245	14	-	-	-	-
Liquid resources (note 19)	251	229	22	-	-	-	-
Long-term debtors and amounts recoverable on contracts	26	-	-	26	-	-	-
	536	474	36	26			

29 Financial instruments continued

Financial liabilities

After taking into account interest rate swaps and forward currency contracts, the interest rate profile of the Group's financial liabilities at 31 March 2002 and 31 March 2001 were:

	Total	Floating rate	Fixed rate	Non-interest bearing	Average interest rate	Weighted period	Non-interest bearing weighted average
	£ million	£ million	£ million	£ million	%	years	period years
31 March 2002							
Sterling	683	680	–	3	–	–	1.9
US dollars	2,662	809	1,830	23	7.2	13.5	2.1
Euro	853	403	447	3	6.4	8.0	1.7
Other	70	70	–	–	–	–	–
Total	4,268	1,962	2,277	29	7.0	12.4	2.1
Analysed between							
Borrowings (note 21)	4,239	1,962	2,277	–			
Long-term trade creditors and payments in advance	29	–	–	29			
	4,268	1,962	2,277	29			
Maturity profile of financial liabilities							
In one year or less, or on demand	2,436						
In more than one year, but no more than two years	25						
In more than two years, but no more than five years	286						
In more than five years	1,521						
	4,268						

	Total	Floating rate	Fixed rate	Non-interest bearing	Average interest rate	Weighted period	Non-interest bearing weighted average
	£ million	£ million	£ million	£ million	%	years	period years
31 March 2001							
Sterling	195	147	–	48	–	–	9.2
US dollars	2,172	148	2,024	–	7.3	14.9	–
Euro	1,273	593	674	6	6.2	8.5	1.5
Other	91	76	15	–	10.5	0.4	–
Total	3,731	964	2,713	54	7.0	13.2	8.3
Analysed between							
Borrowings (note 21)	3,677	964	2,713	–			
Long-term trade creditors and payments in advance	54	–	–	54			
	3,731	964	2,713	54			
Maturity profile of financial liabilities							
In one year or less, or on demand	1,407						
In more than one year, but no more than two years	42						
In more than two years, but no more than five years	365						
In more than five years	1,917						
	3,731						

Floating rate borrowings and assets bear interest based on relevant national LIBOR equivalents.

Notes to the accounts continued

29 Financial instruments continued

b Currency profile

At 31 March 2002 and 31 March 2001, after taking into account the effects of currency swaps and forward foreign exchange contracts, the Group's currency exposures, excluding borrowings treated as hedges, were:

31 March 2002

Functional currency of Group operation	Net foreign currency monetary assets/(liabilities)				Total £ million
	Sterling £ million	US dollars £ million	Euro £ million	Other £ million	
Sterling	–	(16)	31	20	35
US dollars	–	–	–	26	26
Euro	17	–	–	15	32
Other	2	3	–	–	5
Total	19	(13)	31	61	98

31 March 2001

Functional currency of Group operation	Net foreign currency monetary assets/(liabilities)				Total £ million
	Sterling £ million	US dollars £ million	Euro £ million	Other £ million	
Sterling	–	6	1	12	19
US dollars	1	–	1	(16)	(14)
Euro	46	–	–	7	53
Other	7	4	4	–	15
Total	54	10	6	3	73

The Group's net monetary debt and net assets by currency at 31 March 2002 and 31 March 2001 were:

31 March 2002

Functional currency of Group operation	Net assets before net monetary debt	Net monetary debt	Net (liabilities)/ assets
	£ million	£ million	£ million
Sterling	(1,244)	(2,928)	(4,172)
US dollars	2,083	52	2,135
Euro	329	17	346
Other	151	(6)	145
Total	1,319	(2,865)	(1,546)

31 March 2001

Functional currency of Group operation	Net assets before net monetary debt	Net monetary debt	Net (liabilities)/ assets
	£ million	£ million	£ million
Sterling	1,139	(3,028)	(1,889)
US dollars	6,124	21	6,145
Euro	597	(184)	413
Other	261	24	285
Total	8,121	(3,167)	4,954

29 Financial instruments continued

c Fair values of financial assets and liabilities

The book values and fair values of the Group's financial assets and liabilities at 31 March 2002 and 31 March 2001 were:

	Book value		Fair value	
	2002	2001	2002	2001
	£ million	£ million	£ million	£ million
Short-term financial liabilities and current portion of long-term borrowings	(2,436)	(1,407)	(2,436)	(1,407)
Long-term borrowings and long-term financial liabilities	(1,832)	(2,324)	(593)	(2,257)
Financial assets	1,390	536	1,389	528
Interest rate swaps	-	-	(1)	(7)
Forward foreign currency contracts	-	-	-	6
Tax equalisation swaps	-	(25)	-	(13)
Equity swaps	(160)	(13)	(160)	(215)

The fair values of the traded outstanding long-term borrowings have been determined by references available from the markets on which the instruments are traded. Forward foreign currency contracts, interest rate swaps and other fair values have been calculated by discounting cash flows at prevailing interest rates.

The book value of the equity swap reflects the existing provisions in respect of the share option scheme exposures to which the swap relates. The fair value includes accrued interest of £40 million which is fully provided for in the book value. The book and fair values are net of collateral paid of £214 million. This treatment reflects the change in circumstances due to share price movements in the year.

d Gains and losses on hedges

The Group enters into forward foreign exchange contracts to eliminate the currency exposure arising on sales and purchases denominated in foreign currencies as soon as there is a firm contractual commitment. It also uses interest rate swaps to manage its interest rate profile.

An analysis of these unrecognised gains and losses is as follows:

	Gains	Losses	Total net
	£ million	£ million	gains/ (losses) £ million
Unrecognised gains and losses on hedges at 1 April 2001	16	(98)	(82)
Gains and losses arising in previous years that were recognised in the year	16	(2)	14
Gains and losses arising before 1 April 2001 that were not recognised in the year	-	(96)	(96)
Gains and losses arising in the year to 31 March 2002 that were not recognised in the year	23	72	95
Unrecognised gains and losses on hedges at 31 March 2002	23	(24)	(1)

Of which:

Gains and losses expected to be recognised in the year to 31 March 2003	1	(1)	-
Gains and losses expected to be recognised in the year to 31 March 2004 or later	22	(23)	(1)

£8 million of the gains and £2 million of the losses unrecognised at 31 March 2001 were expected to have been recognised in the profit and loss account for the year ended 31 March 2002.

The cumulative aggregate gains and losses which are carried forward in the balance sheet pending their inclusion in the profit and loss account total £nil (2001 £25 million), of which £nil (2001 £8 million) is expected to be included in the profit and loss account in the next accounting period. Aggregate gains of £25 million from previous years were recognised in the profit and loss account for the year.

30 Post balance sheet events

On 3 May 2002, the Group placed £850 million of cash in an arrangement with its bankers that restricted the use of that cash to certain limited purposes until 27 May 2002. After this date, cash can be utilised with five business days' notice.

Statistical Information 1998/2002

	2002 £m	2001 £m	2000 £m	1999 £m	1998 £m
Turnover					
– continuing operations and share of joint ventures	3,479	5,181	5,724	4,090	3,768
– discontinued operations	1,088	1,761	–	–	394
– total	4,567	6,942	5,724	4,090	4,162
Operating (loss)/profit					
– continuing operations, excluding goodwill amortisation and exceptional items ⁽¹⁾	(463)	754	750	508	439
– total	(6,293)	57	(115)	448	555
(Loss)/profit before taxation					
– continuing operations, excluding goodwill amortisation and exceptional items	(668)	653	654	576	513
– total	(5,664)	(70)	523	976	794
(Loss)/earnings per share					
– continuing operations, excluding goodwill amortisation and exceptional items ⁽¹⁾	(23.2)p	15.1p	16.9p	13.0p	11.1p
– basic	(210.6)p	(10.4)p	19.4p	22.4p	17.2p
Equity dividends ⁽²⁾	–	148	142	348	311
Per share	–	5.35p	5.20p	13.00p	11.43p
Retained (loss)/profit ⁽³⁾	(5,875)	(435)	380	259	169
Goodwill	877	5,395	4,397	1,220	485
Fixed assets	522	1,142	758	470	398
Investments	250	591	1,626	1,223	1,024
Stocks and contracts in progress	720	1,721	946	616	548
Debtors	1,297	2,683	2,250	1,432	1,253
Net monetary (debt)/funds ⁽⁴⁾	(2,865)	(3,167)	(2,145)	624	1,035
	801	8,365	7,832	5,585	4,743
Liabilities	(2,347)	(3,411)	(3,186)	(2,161)	(2,026)
	(1,546)	4,954	4,646	3,424	2,717
Financed by					
Equity shareholders' interests	(1,558)	4,939	4,630	3,413	2,573
Minority interests	12	15	16	11	144
	(1,546)	4,954	4,646	3,424	2,717

Notes

- 1 Continuing operations, as used in the table above, reflects the historical track record of those businesses, both Group and share of joint ventures, which form part of the Marconi Group as at 31 March 2002. The income received by the Group from its stake in Alstom (formerly GEC Alstom), which was equity accounted until 30 September 1998, and those businesses previously disposed have been excluded.
- 2 The dividends per share for the years ended 31 March 1998 and 31 March 1999 reflect the dividends paid under the GEC distribution policy, which is not comparable as Marconi only merged with the non-defence businesses of GEC.
- 3 The interest, tax and management charges included in the retained profit for the years ended 31 March 1998 and 31 March 1999 reflect the overall historic corporate structure of GEC. These are not necessarily indicative of those which would have been incurred had the MES business been separated prior to 1 April 1997.
- 4 Net monetary (debt)/funds are as described in note 25 to the accounts.
- 5 The figures for 2001, but not for prior years, have been adjusted for discontinued operations, FRS 17 and FRS 19.

Information for Shareholders

Shareholding analysis

Classification of shareholders*	Number of holders	Percentage of total holders	Number of shares	Percentage of issued capital
Individuals				
United Kingdom	172,147	80.6	541,732,080	19.4
Foreign	5,435	2.5	21,564,454	0.8
Institutions/Companies				
United Kingdom	35,051	16.4	2,219,289,296	79.5
Foreign	1,068	0.5	10,052,990	0.3
	213,701	100.0	2,792,638,820	100.0
Banks/Nominees	29,506	13.8	1,979,980,434	70.9
Other Companies	5,895	2.8	237,949,704	8.5
Insurance Companies	439	0.2	8,125,083	0.3
Investment Trusts	218	0.1	2,706,864	0.1
Pension Funds	61	0.0	580,201	0.0
Individuals	177,582	83.1	563,296,534	20.2
	213,701	100.0	2,792,638,820	100.0

Shareholding Range*

1 – 100	8,368	3.9	427,946	0.0
101 – 1,000	91,318	42.7	53,788,893	1.9
1,001 – 5,000	87,183	40.8	208,011,482	7.5
5,001 – 25,000	23,022	10.8	229,585,741	8.2
25,001 – 100,000	2,668	1.3	122,052,267	4.4
100,001 – 500,000	675	0.3	154,042,496	5.5
500,001 – 1,000,000	162	0.1	117,229,838	4.2
1,000,001 – 10,000,000	266	0.1	771,191,418	27.6
10,000,001 – and over	39	0.0	1,136,308,739	40.7
	213,701	100.0	2,792,638,820	100.0

* as at 31 March 2002

Financial Calendar

17 May 2002	Preliminary Statement published for the year ended 31 March 2002.
21 June 2002	Annual Report and Accounts or Summary Financial Statement and letter from the Chairman posted to shareholders.
14 November 2002**	Interim Statement published for the 6 months ending 30 September 2002.
10 December 2002**	Interim Statement posted to shareholders.

** provisional dates

UK Taxation

Income tax on dividends

Dividends are normally paid with a tax credit attaching which, together with the dividend, constitutes an individual shareholder's income for tax return purposes. From 6 April 1999 with the abolition of advance corporation tax (ACT) the rate of tax credit is reduced to 10/90ths. However, as a result of a reduction in the rate of tax on dividend income from 6 April 1999 there should be no increase in the income tax borne by UK resident individual shareholders in respect of dividend income. Tax credits will in general no longer be repayable to UK resident individual shareholders whose tax liability is less than the associated tax credit.

Capital gains tax

The market value of GEC ordinary shares at 31 March 1982 depends on the treatment afforded to the capital repayment of 15 pence per 25 pence share made by GEC in November 1982 and the treatment of proceeds received in respect of the Auction or Exercise of Put Warrants in October 1998.

If the capital repayment in November 1982 has been treated as a part disposal for capital gains purposes, the market value is 163.1 pence per ordinary share of 5 pence each; where the November 1982 capital repayment has been treated as a reduction of a shareholder's capital gains cost, the market value is 160.1 pence per ordinary share of 5 pence each. These market values are adjustable for individuals by the indexation allowance which is only available for periods up to 5 April 1998.

The resultant market values will need adjustment for the treatment of proceeds received in respect of the Auction of Put Warrants or the capital element received on Exercise of Put Warrants.

Former GEC shareholders issued with the Securities Package on completion of the merger of Marconi Electronic Systems with British Aerospace plc (now known as BAE SYSTEMS plc), consisting of Marconi plc ordinary shares, BAE SYSTEMS plc ordinary shares and Capital Amortising Loan Stock (CALs) will need to allocate the base cost of one GEC ordinary share to each element of the Securities Package as follows:

Marconi plc	Ordinary shares	82.7690871%
British Aerospace plc	Ordinary shares	15.8827107%
British Aerospace plc	CALS	1.3482022%

Shareholder Services

The Marconi Registrar

Enquiries concerning shareholdings in Marconi such as a change of address, dividend payments and share certificates should be addressed to:

The Marconi Registrar Telephone: +44 (0)870 702 0118
Computershare Investor Services PLC Facsimile: +44 (0)870 703 6116
P. O. Box 82
The Pavilions
Bridgwater Road
Bristol
BS99 7NH

The Marconi Share Purchase Scheme

The Company has appointed NatWest Stockbrokers Ltd to manage the Marconi Share Purchase Scheme, a facility open to individual Marconi shareholders who wish to acquire additional Marconi shares.

Details can be obtained by writing to or telephoning:

The Marconi Share Purchase Scheme
NatWest Stockbrokers Corporate and Employee Services
55 Mansell Street
London
E1 8AN Telephone: +44 (0)870 600 2050

American Depository Shares (ADSs)

The Company has appointed The Bank of New York as its Depository in respect of its ADS programme. The contact details for The Bank of New York are as follows:

The Bank of New York Telephone: 1 888 269 2377
101 Barclay Street (US callers – toll free)
New York +1 (908) 769 9835
N.Y. 10286 Facsimile: +1 (212) 815 4023
USA

ADS holders may obtain a copy of the Company's annual report and accounts from The Bank of New York.

Share price information

The Marconi share and ADS prices are available on the Company's website (www.marconi.com), such share and ADS prices quoted being subject to a 20 minute delay. The share price can also be obtained in the UK on Ceefax, Teletext and the FT Cityline service, telephone number 0906 843 3141 (calls charged at 60 pence per minute).

Individual Savings Account (ISA) and share dealing service

The Company has appointed Barclays Stockbrokers to manage the Company's ISA (limit £7,000 for year ending 5 April 2003) and to provide shareholders and prospective shareholders with a share dealing service.

Details can be obtained by writing to or telephoning:

Barclays Stockbrokers Telephone: 0845 601 5000 (ISA)
Client Support Department 0845 702 3021 (share dealing service)
Tay House
300 Bath Street
Glasgow
G2 4LH

Calls are charged at local rates, you can only use these numbers if you are calling from the UK. For clients' security all calls may be recorded and randomly monitored.

Barclays Stockbrokers is a member of the London Stock Exchange and regulated by the Securities and Futures Authority.

General enquiries

For enquiries relating to matters not mentioned above, please write to:

The Secretary
Marconi plc
One Bruton Street
London
W1J 6AQ

or telephone during normal office hours on +44 (0)20 7493 8484

Website

Further information about Marconi can be found at www.marconi.com

Unsolicited mail

Marconi, like other companies, is obliged by law to make its share register available upon request to other organisations provided that the organisations concerned pay the appropriate statutory fee. If shareholders wish to restrict the receipt of unsolicited mail they may like to write to:

The Mailing Preference Service
Freepost 22
London
W1E 7EZ

who can help shareholders have their names removed from certain kinds of lists.

Marconi

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