

M 2003 PLC  
Form 20-F  
September 30, 2005

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**As filed with the Securities and Exchange Commission on September 30, 2005**

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 20-F**

**(Mark One)**

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
OR**
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the fiscal year ended March 31, 2005  
OR**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
OR**
- SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
Date of event requiring this shell company report \_\_\_\_\_**

**If this is an annual report, indicate by check mark whether the registrant is a shell  
company (as defined in Rule 12b-2 of the Exchange Act). Yes  No**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 333-12430

**M (2003) plc**  
Formerly Marconi plc  
*(Exact name of Registrant as specified in its charter)*

**ENGLAND AND WALES**  
*(Jurisdiction of incorporation or organization)*  
**8 Salisbury Square**  
**London EC4Y 8BB**  
**United Kingdom**  
*(Address of principal executive office)*

Securities registered or to be registered pursuant to Section 12(b) of the Act:  
None

Securities registered or to be registered pursuant to Section 12(g) of the Act:  
American Depositary Shares evidenced by American Depositary Receipts, each American Depositary Share  
representing 2 ordinary shares, nominal value 5 pence per share

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of March 31, 2005:

2,793,011,951 Ordinary Shares of 5p each

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

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

ITEM 17  ITEM 18

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

YES  NO

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

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**PRESENTATION OF FINANCIAL AND OTHER INFORMATION**

On May 19, 2003, M (2003) plc (then known as Marconi plc) and Marconi Corporation plc concluded the financial restructuring of the Marconi group. The financial restructuring was effected through separate schemes of arrangement under the U.K. Companies Act 1985 for each of M (2003) plc and Marconi Corporation plc. As a result of the restructuring, the shares that M (2003) plc held in Marconi Corporation plc were cancelled. Marconi Corporation plc became the new parent holding company of the Marconi group and M (2003) plc ceased to be a member of the Marconi group. On October 21, 2003, Marconi plc changed its name to M (2003) plc. M (2003) plc no longer conducts any business and does not intend to revive any business operations. In this annual report, the terms we , us , our , Marconi , the company refer to M (2003) plc and, prior to May 19, 2003, its subsidiaries and joint ventures, as the context requires.

**Under the terms of the M (2003) plc scheme of arrangement, all of our assets, other than those necessary to fund the administration of the scheme and the company will be distributed to scheme creditors in accordance with the scheme of arrangement. The Directors expect to dissolve M (2003) plc at approximately the same time as the completion of these distributions to scheme creditors. While M (2003) plc shares, and ADRs representing M (2003) plc shares, remain outstanding following the effectiveness of the financial restructuring, the Directors believe that there will be no circumstances under which any additional value will be returned to shareholders of M (2003) plc. As that is the case, the Directors believe M (2003) plc shares and ADRs are worthless.**

M (2003) plc is incorporated as a public limited company under the laws of England and Wales. We state our financial statements in United Kingdom (U.K.) pounds sterling. In this annual report, references to pounds sterling, pounds or £ and to pence or p are to the currency of the United Kingdom, references to euro or € are to the common legal currency of the members of the European monetary union, and references to United States (U.S.) dollars, U.S.\$ or \$ are to the currency of the United States of America.

Our fiscal year ends on March 31. Unless otherwise specified, all references in this annual report to our fiscal year refer to a twelve-month financial period ending March 31. For example, fiscal 2005 represents the fiscal year beginning on April 1, 2004 and ending on March 31, 2005.

The consolidated financial statements contained in this annual report have been prepared in accordance with accounting principles generally accepted in the United States, known as U.S. GAAP.

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

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**PART I**

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

This item is not applicable.

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

This item is not applicable.

**Item 3: *Key Information***

**SELECTED CONSOLIDATED FINANCIAL DATA**

The selected historical consolidated financial information presented below as at and for each of the five years ended March 31, 2001 through 2005, has been derived from our audited consolidated financial statements prepared in accordance with U.S. GAAP.

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

**Table of Contents****SELECTED CONSOLIDATED FINANCIAL DATA (continued)**

	2005 £000	2004 £000	2003 £000	2002 £000	2001 £000
<b>STATEMENT OF OPERATIONS DATA:</b>					
Revenues					
Network Equipment		100,000	1,131,000	1,812,000	3,268,000
Network Services		68,000	743,000	969,000	1,016,000
Other			22,000	465,000	637,000
Total		168,000	1,896,000	3,246,000	4,921,000
Operating loss <sup>(1)</sup>	(1,284)	(58,000)	(608)	(6,392)	(52)
Other income/(expense), net <sup>(2)</sup>	361	2,335,000	(295)	23	310
Income/(loss) from continuing operations before income taxes, minority interest and cumulative effect of changes in accounting principles	(923)	2,277,000	(903)	(6,369)	258
Income/(loss) from continuing operations before cumulative effects of changes in accounting principles	(1,108)	2,276,000	(756)	(6,094)	101
Cumulative effects of changes in accounting principles <sup>(3)</sup>				(240)	
Net income/(loss)	(1,108)	2,276,000	(807)	(6,150)	180
Cash dividends declared per common share <sup>(4)</sup>					
£ per share					£0.05
\$ equivalent per share					\$0.08
<b>BALANCE SHEET DATA:</b>					
Total assets	8,266	8,961	3,111	4,925	11,683
Net assets/(liabilities)	8,266	8,961	(2,500)	(1,493)	4,805
Capital stock	799,000	799,000	1,220	1,203	946
Shares issued and outstanding (millions)	2,793,011	2,793,011	2,793,011	2,793,011	2,785,000

Notes:

(1) For fiscal 2002, operating loss is reflected after business restructuring and asset impairment charges of £5,319 million.

- (2) For fiscal 2004, other income/(expense), net includes a gain on financial restructuring of £2,183 million and a gain on settlement of equity forward contracts of £123 million. For fiscal 2002, other income/expense, net includes a gain on early retirement of debt of £166 million. This reclassification has been made on adoption of SFAS 145, *Recission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections*.
- (3) We adopted EITF 00-19, *Accounting for Derivative Instruments Indexed to, and Potentially Settled in, the Company's Own Stock*, in fiscal 2002. The value of such instruments, as of the implementation date, was recorded as a cumulative effect of a change in accounting principles of £240 million in fiscal 2002.
- (4) Dividend payments were made out of net income, which included income from discontinued operations.



**Table of Contents****EXCHANGE RATE INFORMATION**

The Noon Buying Rate for pounds sterling expressed in U.S. dollars per pounds sterling on September 27, 2005 was £1.00 = U.S.\$1.7677.

The following table sets forth the high and low noon buying rate for pounds sterling expressed in U.S. dollars per pound sterling for each of the previous six months:

<b>2005</b>	<b>High</b>	<b>Low</b>
April	1.9197	1.8733
May	1.9048	1.8205
June	1.8368	1.7930
July	1.7753	1.7303
August	1.8148	1.7695
September (through 27)	1.8420	1.7677

The following table sets forth the average noon buying rate for pounds sterling expressed in U.S. dollars per pound sterling for each of the five most recent fiscal years, based on the noon buying rate on the last business day of each month.

<b>Fiscal Year Ended March 31,</b>	<b>Average</b>
2001	1.4737
2002	1.4320
2003	1.5541
2004	1.8400
2005	1.8506

**RISK FACTORS**

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

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

Under the terms of the M (2003) plc scheme of arrangement, all of our assets, other than those necessary to fund the administration of the scheme and the Company, will be distributed to scheme creditors in accordance with the scheme of arrangement. The Directors expect to dissolve M (2003) plc at approximately the same time as the completion of these distributions to scheme creditors. While M (2003) plc shares, and ADRs representing M (2003) plc shares, remain outstanding following the effectiveness of the financial restructuring, the Directors believe that there will be no circumstances under which any additional value will be returned to shareholders of M (2003) plc. As that is the case, we believe M (2003) plc shares and ADRs are worthless.

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**Item 4: Information on the Company**

**HISTORY AND DEVELOPMENT OF THE COMPANY**

M (2003) plc, formerly Marconi plc, is a public limited company incorporated and domiciled in England and Wales and operating under the U.K. Companies Act 1985. M (2003) plc was incorporated as a public limited company in England in 1999. The address and telephone number of its registered office are 8 Salisbury Square, London EC4Y 8BB, United Kingdom and +44 (0)24 7656 5606.

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

On October 21, 2003, Marconi plc changed its name to M (2003) plc.

**Financial Restructuring**

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

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

**Cash:** £340 million in cash;

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

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

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

In addition, Marconi Corporation plc issued 5 million ordinary shares, representing 0.5% of its issued ordinary share capital upon consummation of the financial restructuring, and warrants to subscribe for up to 50 million additional ordinary shares, equal to 5% of its issued ordinary share capital upon consummation of the financial restructuring, to shareholders of M (2003) plc. In connection with the restructuring Marconi

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Corporation plc listed its ordinary shares on the London Stock Exchange and established an ADR program in respect of those shares.

In connection with the financial restructuring, our ordinary shares were delisted from the London Stock Exchange. Under the terms of the M (2003) plc scheme of arrangement, all of our assets, other than those necessary to fund the administration of the scheme and the Company, will be distributed to scheme creditors in accordance with the scheme of arrangement. The Directors expect to dissolve M (2003) plc at approximately the same time as the completion of these distributions to scheme creditors. While M (2003) plc shares, and ADRs representing M (2003) plc shares, remain outstanding following the effectiveness of the financial restructuring, the Directors believe that there will be no circumstances under which any additional value will be returned to shareholders of M (2003) plc. As that is the case, the Directors believe M (2003) plc shares and ADRs are worthless.

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

On May 6, 2004, the M (2003) plc scheme supervisors authorized a further distribution to creditors as a consequence of the settlement of a Marconi Corporation plc scheme claim, referred to as the Millionerrors claim. At the time of this distribution, the prevailing share price and exchange rate resulted in the distribution of consideration approximately equivalent to 2 pence per pound of admitted claims.

### **BUSINESS OVERVIEW**

Until the effectiveness on May 19, 2003 of the schemes of arrangement of M (2003) plc and Marconi Corporation plc, M (2003) plc was the parent company of Marconi Corporation plc and its subsidiaries, which operated (and continues to operate) the business of the Marconi group. As a result of the effectiveness of the M (2003) plc and Marconi Corporation plc schemes of arrangement, we ceased to be a member of the Marconi group and ceased our business operations. The business of the Marconi group continues to be operated by Marconi Corporation plc, the current parent holding company of the Marconi group, and its subsidiaries.

As a consequence of the schemes of arrangement, we no longer conduct any business, and we do not intend to revive any business operations.

Prior to May 19, 2003, we, through our former Marconi group subsidiaries, were a global vendor of telecommunications equipment and services. A description of the business that we used to conduct is contained in our previous annual reports on Form 20-F filed with the Securities and Exchange Commission. Our only remaining, dormant and non trading, subsidiaries are listed in Note 23 of the Notes to the Consolidated Financial Statements included in this annual report.

### **PROPERTY, PLANT AND EQUIPMENT**

Our registered office is located at 8 Salisbury Square, London EC4Y 8BB, United Kingdom. We currently have no property, plant or equipment.

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

On May 19, 2003, the Marconi group concluded its financial restructuring, which was effected through two separate schemes of arrangement under the U.K. Companies Act 1985. As a result of the restructuring, we ceased to be a member of the Marconi group and ceased business operations. See the additional discussion of our financial restructuring in *History and Development of the Company Financial Restructuring*. Because the financial restructuring occurred approximately seven weeks into fiscal 2004, and because we ceased business operations thereafter, any discussion of our results or of specific financial statement line items between fiscal 2005 and fiscal 2004 and between fiscal 2004 and fiscal 2003 is not meaningful.

In connection with the financial restructuring of the Marconi Group, the shares that M (2003) plc held in Marconi Corporation plc were cancelled, and M (2003) plc divested fully of its interests in the Marconi Group for nil proceeds. This resulted in a gain of £3,281 million on the transfer of ownership of the Marconi Group being equivalent to its consolidated net liabilities. On the same date the scheme of arrangement of Marconi Corporation plc came into effect resulting in an £804 million receivable from the Marconi Group being waived by M (2003) plc and its subsidiary undertakings reducing the net gain to £2,477 million. This has been accounted for by a gain of £2,183 million recorded in the consolidated statement of operations within other income and a credit of £294 million recorded in the consolidated statement of shareholders' equity relating principally to the minimum pension liability.

Expenses incurred by the Scheme Supervisors in the administration of the scheme post May 19, 2003 to March 31, 2004 were approximately £0.3 million. Expenses incurred by the Scheme Supervisors in fiscal 2005 were approximately £0.5 million.

Because the financial restructuring was implemented by way of two separate schemes of arrangement under section 425 of the U.K. Companies Act 1985, the gain on financial restructuring described above will not give rise to any taxable amounts.

**Pursuant to the M (2003) plc scheme of arrangement, the remaining assets of M (2003) plc will be distributed to scheme creditors, and it is intended that M (2003) plc will be dissolved. There will be no circumstances under which any value will be returned to shareholders under the terms of the scheme.**

The company has no external sources of liquidity. The company has cash on hand sufficient to meet our anticipated ongoing administrative costs for the foreseeable future. Under the terms of the M (2003) plc scheme of arrangement, all of our assets, other than those necessary to fund the administration of the scheme and the Company, will be distributed to scheme creditors in accordance with the scheme of arrangement. The Directors expect to dissolve M (2003) plc at approximately the same time as the completion of these distributions to our scheme creditors. The Directors therefore believe that there will be no future circumstances under which the Company will have any internal sources of liquidity other than the cash currently on hand.

At March 31, 2005, our cash and cash equivalents totalled £8 million, as compared to £9 million at March 31, 2004. All of our debts were compromised at the time of the financial restructuring of the Marconi group, and we have incurred no new debt since that time.

As at March 31, 2005, we had no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources.

We have no contractual obligations of the type requiring tabular disclosure under Item 5.F.

**Table of Contents****Item 6: Directors, Senior Management and Employees****DIRECTORS AND SENIOR MANAGEMENT****Directors**

The current members of our board of directors are:

Name	Age	Title
John Jameson White	67	Chairman
Christopher James Shaw	52	Director
Richard Anthony Robinson	57	Director

The business address of John White, Christopher Shaw and Richard Robinson is 8 Salisbury Square, London EC4Y 8BB, United Kingdom.

**John Jameson White** was appointed Chairman of our board of directors in August 2003. Mr. White, who is a solicitor, became a partner with the law firm CMS Cameron McKenna in 1964 having joined the firm in 1957. During his period with the firm, he became the first Chairman of the CMS European Banking Group.

**Christopher James Shaw** was appointed to our board of directors in August 2003. Mr. Shaw became a licensed insolvency practitioner in 1987. He has worked for KPMG LLP since May 1989 as a senior manager in their corporate recovery department, primarily on members' voluntary liquidations.

**Richard Anthony Robinson** was appointed to our board of directors in September 2003. He is a Chartered Accountant and is currently working as a consultant. Previously he held various finance appointments within Marconi Corporation plc (previously The General Electric Company, p.l.c.) between 1987 to 1991 and from 1993 to 2003, latterly as VP Corporate Finance. He spent 2 years working for Guinness PLC between 1991 and 1993. He is also a Director of Plessey Holdings Ltd, Osram AS and Torro Advisors Ltd.

**Executive Officers**

**Kevin David Smith** was appointed company secretary in August 2003. Mr. Smith is a chartered secretary and was previously company secretary at Kalamazoo Computer Group plc.

**COMPENSATION**

The names of our current directors appear in the table at the beginning of this section. The following table shows emoluments paid or payable to all directors of the company as a group for the period to March 31, 2005.

	2005 £ 000	2004 £ 000
Directors' emoluments	48	338
Amounts receivable under long-term incentive schemes		
Company contributions to money purchase pension schemes		61
Amounts paid to third parties in respect of directors' services		7

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest paid director was £23,834 (March 31, 2004: £113,000 to a former director). None of the directors received any compensation in fiscal 2005 in respect of any pension or defined benefit scheme.

**Table of Contents****BOARD PRACTICES****General**

Our board currently comprises a chairman and two directors, one of whom acts as the company's Chief Financial Officer. The board also acts as the company's audit committee. There are no other board committees.

The board meets as and when circumstances require to discharge its statutory and regulatory obligations and to consider matters relating to the company's scheme of arrangement.

The periods during which the current directors have served are given above, in Directors and Senior Management . Each director was originally appointed for a term of two years, and, upon the agreement of the rest of the board, each of the directors' appointments was recently renewed for a further year on identical terms. The directors' service contracts provide that upon termination, the directors are not entitled to any fee, compensation or other payment in respect of the period after the termination date.

**EMPLOYEES**

All of our former employees were transferred to Marconi Corporation plc as a result of our restructuring on May 19, 2003. The company currently has no employees.

**SHARE OWNERSHIP**

The following table shows the interests of directors in ordinary shares of 5 pence each in M (2003) plc:

	On			At
	Appointment	Acquired	Disposed	March 31, 2005
R A Robinson	11,442	nil	nil	11,442
C J Shaw	nil	nil	nil	nil
J J White	nil	nil	nil	nil

R A Robinson had the following interests in share options as a result of his previous employment within the Marconi Group. There are no circumstances under which any value will be attributable to these share options:

	On				At
Plan	Appointment	Granted	Exercised	Lapsed	March 31, 2005
The Marconi Launch Plan	1,000	nil	nil	nil	1,000
The Marconi Long Term Incentive Plan	15,164	nil	nil	nil	15,164
Total	16,164	nil	nil	nil	16,164

**Item 7: Major Shareholders and Related Party Transactions****MAJOR SHAREHOLDERS**

Trading in our shares on the London Stock Exchange ceased on May 16, 2003, and our shares were subsequently delisted.

As at September 16, 2005, there were 742 registered holders of our American depositary receipts. Each ADR issued represents two ordinary shares. Of these registered ADR holders, 716 have addresses in the United States. One of the registered ADR holders is The Depository Trust Company, which represents the total number of ADRs held in book-entry form. The ADR holders collectively held 98,775,470 ADRs, or approximately 7.1% of our total issued share capital as at September 16, 2005.



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To our knowledge, there are no holders of 5% or more of the ordinary shares in M (2003) plc as at September [28], 2005.

To our knowledge, we are not owned or controlled, directly or indirectly, by another corporation, by any foreign government or by any other natural or legal person or persons, severally or jointly.

To our knowledge, other than our recent restructuring described herein, there are no arrangements the operation of which may at a subsequent date result in us undergoing a change in control.

**RELATED PARTY TRANSACTIONS**

Since the completion of our financial restructuring in May, 2003, we have not entered into any transactions with related parties.

**Item 8: *Financial Information***

**LEGAL PROCEEDINGS**

Under the M (2003) plc scheme of arrangement, any and all legal claims against M (2003) plc as at March 27, 2003, whether liquidated or unliquidated, or actual or contingent, were compromised. Therefore, there are no circumstances under which any of these claims will result in liability for M (2003) plc. Certain of these claims, however, may result in payments by the M (2003) plc scheme of arrangement. Where such a claim is pending or threatened and may have or has had in the recent past, including at least the 12 months immediately preceding the date of this annual report, a significant effect on the financial position of the scheme as a whole, this is set out below. Where a liquidated sum is claimed, a de minimis figure of £5 million has been applied in determining which claims may have a significant effect. The figures given are the full amounts claimed by the claimants in each case, which may be much greater than the amounts the claimants realistically believe they can recover. We and our other former group companies intend to defend claims vigorously. While we believe that we have meritorious defenses, the duration and outcome of the litigation are not predictable at this point.

The following represents the largest recent or outstanding claims made against us:

Systems Management Specialists, Inc., or SMS, is a defendant in a demand for arbitration brought by Esprit de Corp, or Esprit, in April 2002. This action relates to two outsourcing agreements entered into by Esprit and SMS in 1995 and 1999; Esprit alleges that SMS breached its obligations under the agreements and is seeking damages in range of U.S.\$8.8-U.S.\$18.2 million. M (2003) plc was originally a party to the arbitration demand under a legal theory alleging that SMS and M (2003) plc are alter egos of one another. In April 2002, M (2003) plc filed a complaint for declaratory and injunctive relief in the U.S. District Court for the Central District of California, to enjoin Esprit's attempt to proceed in arbitration against M (2003) plc. In June, 2002, Esprit and M (2003) plc filed a joint stipulation to stay and enjoin the arbitration preceding as to M (2003) plc. In July 2002, M (2003) plc filed a motion to dismiss Esprit's claims and a motion to stay the federal court proceeding until after the arbitration between SMS and Esprit concluded. The Court denied M (2003) plc's motion to dismiss, but granted M (2003) plc's motion to stay, and, therefore, Esprit will be permitted to proceed on its claims against M (2003) plc only after the arbitration between SMS and Esprit is completed, and only to the extent Esprit prevails on any of its claims in the arbitration against SMS. The parties had agreed to conduct the arbitration hearing between October 13-24, 2003, and significant discovery had taken place. Beginning in September 2003, the parties reached a settlement in principle in the U.S.\$710,000-U.S.\$725,000 range, payable to Esprit in exchange for a full release and settlement of the actions. Effective September 29, 2004, the parties executed a Settlement Agreement, settling the case for U.S.\$725,000 and such amount was paid by SMS to Esprit.



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Marconi Corporation plc and Marconi Commerce Systems Inc., or MCSI, are defendants in an action brought by a former employee, Larry Anthony Gillus, or Gillus. The complaint alleges that Gillus suffered racial discrimination and subsequent retaliatory action whilst employed by Gilbarco, subsequently known as MCSI, which has now been sold to subsidiaries of Danaher Corporation plc. A second claim has been brought against M (2003) plc and MCSI for retaliation and intentional infliction of emotional distress alleged to have occurred after he brought the original action. Additionally, on September 10, 2003, the Court granted plaintiff's motion to add a breach of employment contract claim and injunctive relief. Gillus' counsel has in the past stated that he is seeking a total of U.S.\$19 million in respect of both claims. Potential liabilities in respect of the claim against Marconi Corporation plc and M (2003) plc were compromised pursuant to its restructuring. As a result, on November 5, 2003, Gillus voluntarily dismissed without prejudice Marconi Corporation plc and M (2003) plc from the cases. Discovery was commenced and completed with respect to the remaining defendants. The case was settled for U.S.\$400,000 at mediation on December 7, 2004. A Settlement Agreement and Release was executed on January 18, 2005.

Marconi Corporation plc, M (2003) plc, Marconi Inc. and Marconi Data Systems Inc. are defendants in an action brought by a former employee, Thomas Edeus, or Edeus. The complaint asserts three causes of action; firstly that Edeus was unlawfully deprived of benefits to which he was entitled under Marconi Data Systems Inc.'s United States severance plan; secondly for failure to provide Edeus with a summary plan description relating to the severance plan; and thirdly for age discrimination in employment. The plaintiff has purported to have made out claims in various specified amounts totaling over U.S.\$901,000, some of which may be in the alternative, and also unspecified punitive damages, liquidated damages and front and back pay, making the impact of this claim on us and the former group difficult to assess. An answer and affirmative defenses have been filed on behalf of all defendants. On June 5, 2003, the court entered an order providing as follows:

Plaintiff having advised the court that one or more defendants [sic] are in Bankruptcy, this action is placed on the court's [suspense] calendar pending disposition of the bankruptcy case. Plaintiff is directed to file a notice for hearing a motion to reinstate upon disposition of the bankruptcy proceedings. Potential liabilities in respect of the claim against Marconi Corporation plc and M (2003) plc were compromised pursuant to our restructuring. The M (2003) plc and Marconi Corporation plc bankruptcy case in the New York courts resulted in a permanent injunction. The bankruptcy case was closed on February 14, 2005 and this does not affect the permanent injunction that applies to Edeus' claim.

In April 2002, 11 former employees of Ten Square Inc. brought a claim against directors of their company for fraud in reducing their compensation package before liquidating the company and restarting it under a different name. The claim was for a total of \$2,160,050.91. The plaintiffs alleged that M (2003) plc was a director of Ten Square Inc. although in fact M (2003) plc only had a right to appoint a director, a right M (2003) plc had not recently exercised. Marconi Ventures was also named as a plaintiff on September 9, 2002. The plaintiffs did not serve proceedings upon M (2003) plc and on October 24, 2002 an order for the dismissal of the claim against M (2003) plc and Marconi Ventures was entered. However, M (2003) plc was named in the second amended complaint which was filed on December 24, 2002. M (2003) plc is aware of the action but has not been served and is not yet a party to it. Potential liabilities in respect of the claim against M (2003) plc have been compromised pursuant to the M (2003) plc scheme of arrangement.

Since March 27, 2003, we are not and have not been engaged in, nor, so far as we are aware, do we have pending or threatened by or against us, any additional legal or arbitration proceedings which may have or have had a significant effect on our financial position as a whole.

**Table of Contents****DIVIDEND POLICY**

As a result of its scheme of arrangement, M (2003) plc shall not be making any dividends or distributions to its shareholders. See Key Information Risk Factors As a result of our restructuring, we have ceased business operations and shall dispose of our remaining assets for the benefit of our creditors .

**SIGNIFICANT CHANGES**

There has been no significant change in our financial position since March 31, 2005.

**Item 9: The Offer and Listing****STOCK PRICE HISTORY/ MARKETS**

From November 30, 1999, the ordinary shares of M (2003) plc were listed on the London Stock Exchange. On May 16, 2003, trading in the ordinary shares of M (2003) plc on the London Stock Exchange ceased and delisting followed. On October 17, 2000, the ADRs of M (2003) plc were added to quotation on the NASDAQ National Market, and on July 3, 2002, they were removed from quotation on the NASDAQ National Market and began trading on the over-the-counter bulletin board in the United States. The following table summarizes information regarding prices and trading of the M (2003) plc ordinary shares on the London Stock Exchange and the ADRs on the NASDAQ National Market and the over-the-counter bulletin board for the periods indicated:

	London Stock Exchange (Sterling pence)		ADRs (US dollars)	
	High	Low	High	Low
<b>Fiscal Year</b>				
April 1, 2000 to March 31, 2001	1250.00	340.00		
April 1, 2001 to March 31, 2002	424.00	6.25	12.85	0.18
April 1, 2002 to March 31, 2003	12.55	1.27	0.44	0.04
April 1, 2003 to March 31, 2004	1.80(*)	0.60(*)	0.18	0.03
April 1, 2004 to March 31, 2005			0.08	0.00
<b>Fiscal Quarter</b>				
April 1, 2003 to June 30, 2003	1.80(*)	0.60(*)	0.09	0.03
July 1, 2003 to September 30, 2003			0.18	0.07
October 1, 2003 to December 31, 2003			0.12	0.04
January 1, 2004 to March 31, 2004			0.08	0.03
April 1, 2004 to June 30, 2004			0.08	0.01
July 1, 2004 to September 30, 2004			0.02	0.01
October 1, 2004 to December 31, 2004			0.05	0.00
January 1, 2005 to March 31, 2005			0.01	0.00
<b>Month</b>				
April 2005			0.00	0.00
May 2005			0.00	0.00
June 2005			0.00	0.00
July 2005			0.00	0.00
August 2005			0.00	0.00
September 2005 (through September 16)			0.00	0.00

\* To May 16, 2003, which was the last day of dealings in M (2003) plc shares

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**Item 10: Additional Information**

**MEMORANDUM AND ARTICLES OF ASSOCIATION**

Please see our annual report on Form 20-F for the period to March 31, 2003 for a description of our memorandum and articles of association.

**MATERIAL CONTRACTS**

During the past two years, we have not entered into any material contracts.

**EXCHANGE CONTROLS**

There are currently no decrees or regulations under the laws of the United Kingdom restricting the import or export of capital or affecting the remittance of dividends or other payments to holders of M (2003) plc ordinary shares or American depositary shares who are non-residents of the United Kingdom. However, as explained elsewhere in this document, there will be no future remittances as dividends under any circumstances.

**TAXATION**

**United States Federal Income Taxation**

**Prospective and existing holders should be aware that the Directors' opinion is that under no circumstances will any Shareholders or ADR holders ever receive any payments out of M (2003) plc's assets.**

The following summary describes material U.S. federal income tax consequences that may be relevant to the acquisition, ownership and disposition of our ordinary shares and/or ADRs. This summary addresses only U.S. federal income tax considerations for holders that hold our ordinary shares and/or ADRs as capital assets. This summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to acquire our ordinary shares and/or ADRs. In particular, this summary does not address tax considerations applicable to holders that may be subject to special tax rules including, without limitation, the following: (a) financial institutions; (b) insurance companies; (c) dealers or traders in securities, currencies or notional principal contracts; (d) tax-exempt entities; (e) persons that will hold our ordinary shares and/or ADRs as part of a hedging or conversion transaction or as a position in a straddle or as part of a synthetic security or other integrated transaction for U.S. federal income tax purposes; (f) persons that have a functional currency other than the U.S. dollar; (g) persons that own (or are deemed to own) 10% or more (by voting power) of our share capital; (h) regulated investment companies; (i) persons who hold our ordinary shares and/or ADRs through partnerships or other pass-through entities; (j) real estate investment trusts; and (k) S corporations. Further, this summary does not address alternative minimum tax consequences.

This summary is based on the Internal Revenue Code of 1986, as amended, U.S. Treasury regulations and judicial and administrative interpretations thereof, in each case as in effect and available on the date of this document. All of the foregoing is subject to change, which change could apply retroactively and could affect the tax consequences described below.

**Prospective holders should consult their own tax adviser with respect to the U.S. federal, estate, state, local, gift and other tax consequences of acquiring, owning and disposing of our ordinary shares and/or ADRs.**

**U.S. Holders should also review the discussion below under United Kingdom Taxation for the U.K. tax consequences to a U.S. holder of our ordinary shares and/or ADRs.**

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For purposes of this summary a U.S. holder is a beneficial owner of our ordinary shares and/or ADRs that is, for U.S. federal income tax purposes: (a) a citizen or resident of the United States; (b) a corporation created or organized in or under the laws of the United States or any state thereof, including the District of Columbia; (c) an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or (d) a trust if (i) a court within the United States is able to exercise primary supervision over its administration and (ii) one or more U.S. persons have the authority to control all of the substantial decisions of such trust. If a partnership holds our ordinary shares or ADRs, the consequences to a partner will generally depend upon the status of the partner and upon the activities of the partnership. A partner of a partnership holding our ordinary shares or ADRs should consult its tax adviser. A Non-US holder is a beneficial owner of our ordinary shares or ADRs that is not a U.S. holder.

***Distributions***

Subject to the discussion *Passive Foreign Investment Company Considerations*, the gross amount of any distribution that is actually or constructively received by a U.S. holder with respect to our ordinary shares and/or ADRs will be a dividend included in gross income of a U.S. holder as ordinary income. Dividends paid on our ordinary shares and/or ADRs generally will constitute income from sources outside the United States and will not be eligible for the dividends received deduction to United States corporate shareholders. The amount of any distribution of property other than cash will be the fair market value of the property on the date of the distribution.

The gross amount of any distribution paid in foreign currency will be included in the gross income of a U.S. holder in an amount equal to the U.S. dollar value of the foreign currency calculated by reference to the exchange rate in effect on the date received by the U.S. holder, regardless of whether the foreign currency is converted into U.S. dollars. If the foreign currency is converted into U.S. dollars on the date of receipt, a U.S. holder generally should not be required to recognize foreign currency gain or loss in respect of the dividend. If the foreign currency received as a dividend is not converted into U.S. dollars on the date of receipt, a U.S. holder will have a basis in the foreign currency equal to its U.S. dollar value on the date of receipt. Any gain or loss on a subsequent conversion or other disposition of the foreign currency will be treated as ordinary income or loss, and will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

Subject to the discussion under *Backup Withholding and Information Reporting*, a Non-U.S. holder generally will not be subject to U.S. federal income or withholding tax on dividends received on our ordinary shares and/or ADRs unless that income is effectively connected with the conduct by that Non-U.S. holder of a trade or business within the United States.

However, we do not expect to pay a dividend in the foreseeable future.

***Sale or Other Disposition of Marconi plc Shares and/or ADRs***

Subject to the discussion *Passive Foreign Investment Company Considerations*, a U.S. holder will generally recognize a gain or loss for U.S. federal income tax purposes upon the sale or exchange of our ordinary shares and/or ADRs in an amount equal to the difference between the U.S. dollar value of the amount realized from such sale or exchange and the U.S. holder's tax basis in those ordinary shares or ADRs, as the case may be. That gain or loss will be a capital gain or loss and will be long-term capital gain (taxable at a reduced rate for individuals, trusts or estates) if our ordinary shares or ADRs, as appropriate, were held for more than one year. Any such gain or loss would generally be treated as from sources within the United States. The deductibility of capital losses is subject to significant limitations.

A U.S. holder that receives foreign currency on the sale or other disposition of our ordinary shares and/or ADRs will realize an amount equal to the U.S. dollar value of the foreign currency on the date of sale (or in the case of cash basis and electing accrual basis taxpayers, the U.S. dollar value of the foreign currency on settlement date). If a U.S. holder receives foreign currency upon a sale or exchange of our ordinary shares and/or ADRs, gain or loss, if any, recognized on the subsequent sale, conversion or disposition of that foreign currency will be ordinary income or loss, and will generally be income or loss

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from sources within the United States for foreign tax credit limitation purposes. However, if such foreign currency is converted into U.S. dollars on the date received by the U.S. holder, a cash basis or electing accrual U.S. holder should not recognize any gain or loss on such conversion.

Subject to the discussion under Backup Withholding and Information Reporting, a Non-U.S. holder generally will not be subject to U.S. federal income or withholding tax on any gain realized on the sale or exchange of our ordinary shares and/or ADRs unless: (a) that gain is effectively connected with the conduct by that Non-U.S. holder of a trade or business in the United States, or (b) in the case of any gain realized by an individual Non-U.S. holder, that holder is present in the United States for 183 days or more in the taxable year of the sale or exchange and certain other conditions are met.

*Passive Foreign Investment Company Considerations*

A corporation organized outside the United States generally will be classified as passive foreign investment company, or a PFIC, for U.S. federal income tax purposes in any taxable year in which either: (a) at least 75% of its gross income is passive income, or (b) on average at least 50% of the gross value of its assets is attributable to assets that produce passive income or are held for the production of passive income. Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions. In determining whether it is a PFIC a foreign corporation is required to take into account a pro rata portion of the income and assets of each corporation in which it owns, directly or indirectly, at least a 25% interest.

Based on our current assets it is likely that we were characterized as a PFIC for U.S. federal income tax purposes for the taxable year ended 31 March, 2005. Because this is a factual determination made annually at the end of the taxable year, there can be no assurance that we will not be considered a PFIC for any future taxable year. If we were a PFIC in any year, special, possibly materially adverse, consequences would, as discussed below, result for U.S. holders.

If we are a PFIC in any year during which a U.S. holder owns our ordinary shares and/or ADRs the U.S. holder will be subject to additional taxes on any excess distributions received from us and any gain realized from the sale or other disposition of our ordinary shares and/or ADRs (whether or not we continue to be a PFIC). A U.S. holder has an excess distribution to the extent that distributions on our ordinary shares and/or ADRs during a taxable year exceed 125% of the average amount received during the three preceding taxable years (or, if shorter, the U.S. holder's holding period). To compute the tax on the excess distributions or any gain, (a) the excess distribution or the gain is allocated ratably over the U.S. holder's holding period, (b) the amount allocated to the current taxable year and any year before we became a PFIC is taxed as ordinary income in the current year, and (c) the amount allocated to other taxable years is taxed at the highest applicable marginal rate in effect for each year and an interest charge is imposed to recover the deemed benefit from the deferred payment of the tax attributable to each year.

Some of the rules with respect to distributions and dispositions described above may be avoided if a U.S. holder makes a valid mark-to-market election (in which case, subject to certain limitations, the U.S. holder would essentially be required to take into account the difference, if any, between the fair market value and the adjusted tax basis of our ordinary shares or ADRs, as the case may be, at the end of a taxable year as ordinary income (or, subject to certain limitations, ordinary loss), in calculating its income for such year). In addition, gains from an actual sale or other disposition of our ordinary shares or ADRs will be treated as ordinary income, and any losses will be treated as ordinary losses to the extent of any mark-to-market gains for prior years. A mark-to-market election is only available to U.S. holders in any tax year that the PFIC stock is considered regularly traded on a qualified exchange within the meaning of applicable U.S. Treasury regulations. PFIC stock is regularly traded if, among other requirements, it is traded on at least 15 days during each calendar quarter. **Prospective holders should consult their own tax advisers as to whether our ordinary shares and/or ADRs would qualify for the mark-to-market election and whether such election is advisable.**

The foregoing rules with respect to distributions and dispositions may be avoided if a U.S. holder is eligible for and timely makes a valid QEF election (in which case the U.S. holder would be required to

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include in income on a current basis its pro rata share of our ordinary income and net capital gains). In order to be able to make the QEF election, we would be required to provide a U.S. holder with certain information. We may decide not to provide the required information.

Each U.S. holder of our ordinary shares and/or ADRs must make an annual return on IRS Form 8621, reporting distributions received and gains realized with respect to each PFIC in which it holds a direct or indirect interest.

**Holders are urged to consult their own tax advisers regarding whether an investment in our ordinary shares or ADRs will be treated as an investment in PFIC stock and the consequences of an investment in a PFIC.**

**Backup Withholding and Information Reporting**

Backup withholding and information reporting requirements may apply to certain payments to U.S. holders of dividends on our ordinary shares and/or ADRs and to the proceeds of a sale or redemption of our ordinary shares or ADRs. We, our agent, a broker, or any paying agent, as the case may be, may be required to withhold tax from any payment that is subject to backup withholding at a maximum rate of 28% of such payment if the U.S. holder fails (a) to furnish the U.S. holder's taxpayer identification number, (b) to certify that the U.S. holder is not subject to backup withholding or (c) to otherwise comply with the applicable requirements of the backup withholding rules. The backup withholding rate may be subject to change each year. Certain U.S. holders, including, among others, corporations, are not subject to the backup withholding and information reporting requirements. Non-U.S. holders who hold our ordinary shares or ADRs through a U.S. broker or agent or through the U.S. office of a non-U.S. broker or agent may be required to comply with applicable certification procedures to establish that they are not U.S. holders in order to avoid the application of such information reporting requirements and backup withholding. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a holder generally may be claimed as a credit against such holder's U.S. federal income tax liability provided that the required information is furnished timely to the IRS.

*Prospective holders should consult their own tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining this exemption.*

**United Kingdom Taxation**

The following summary describes certain U.K. tax consequences for certain holders of our ordinary shares and/or ADRs. It is intended to apply only to U.S. holders (as defined in the section above under "United States Federal Income Taxation") who are not also residents of the U.K. for U.K. tax purposes or carrying on a business in the U.K. through a branch, agency or permanent establishment and who hold our ordinary shares and/or ADRs as investments. It may not apply to certain classes of holders, such as dealers in securities.

This summary is based on current U.K. law and H.M. Revenue & Customs (**HMRC**) practice at the date hereof and on the terms of the double tax treaty concluded between the governments of the U.S. and the U.K. on July 24, 2001 and amended by a protocol agreed on July 12, 2002 and which came into force on March 31, 2003 (the **Treaty**). If you are in doubt as to whether you are entitled to benefits under the Treaty, you should consult your own tax advisers.

This summary is not intended to be comprehensive, and prospective holders of our ordinary shares and ADRs are recommended to consult their professional advisers to determine their tax position.

*Taxation of dividends*

Under current U.K. taxation legislation, no tax is required to be withheld at source from cash dividends paid on our ordinary shares and/or ADRs. U.S. shareholders are not entitled to any U.K. tax credit (or to any payment from HMRC in respect of any tax credit) on dividends paid on our ordinary shares and/or ADRs. However, we do not expect to pay a dividend in the foreseeable future.

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*Taxation of capital gains*

A U.S. shareholder who is not resident, and in the case of an individual also not ordinarily resident, in the U.K. for U.K. tax purposes will not be liable for U.K. taxation on capital gains realized on the disposal of his or her shares or ADRs unless at the time of the disposal:

the U.S. shareholder carries on a trade, profession or vocation in the U.K. through a permanent establishment; and

the shares or ADRs are or have been used, held or acquired for the purposes of the trade, profession, vocation or permanent establishment.

A U.S. shareholder who is an individual and who has ceased to be resident or ordinarily resident for tax purposes in the U.K. on or after March 17, 1998 and continues not to be resident or ordinarily resident in the U.K. for a period of less than five years of assessment and who disposes of his shares or ADRs during that period may also be liable on his return to the U.K. to U.K. tax on capital gains, subject to any available exemption or relief, even though he or she is not resident or ordinarily resident in the U.K. at the time of the disposal. There are special rules for individuals who leave the U.K. part way through a year of assessment. Pursuant to the Finance Act 2005, these rules also apply to an individual who is resident or ordinarily resident in the U.K. but falls to be regarded as resident outside the U.K. for the purposes of any double tax treaty (a **Treaty Non-Resident**) and who becomes Treaty Non-Resident on or after March 16, 2005.

*U.K. stamp duty and stamp duty reserve tax (SDRT)*

U.K. stamp duty or SDRT is payable upon the transfer or issue of shares to, or to a nominee or agent of, a person whose business is or includes issuing depositary receipts or providing clearance services. For this purpose, the current rate of stamp duty and SDRT is 1.5%, rounded up, in the case of stamp duty, to the nearest £5. The rate is applied, in each case, to the amount or value of the consideration or, in some circumstances, to the value of the shares.

Provided that the instrument of transfer is not executed in the U.K. and remains at all subsequent times outside the U.K., no U.K. stamp duty will be payable on the transfer of ADRs. An agreement to transfer ADRs will not give rise to a liability to SDRT.

The purchase of shares, as opposed to ADRs, may give rise to a charge to U.K. stamp duty or SDRT at the rate of 0.5%, rounded up, in the case of stamp duty, to the nearest £5. The rate is applied to the price payable for the shares at the time of the transfer or agreement to transfer. SDRT is generally the liability of the purchaser. It is customarily also the purchaser who pays U.K. stamp duty.

**DOCUMENTS ON DISPLAY**

We are subject to the informational requirements of the Securities Exchange Act of 1934 and file reports and other information with the Securities and Exchange Commission. You may read and copy all or any portion of the reports and their exhibits at the public reference facilities maintained by the Securities and Exchange Commission at 100 F Street, NE, Washington, D.C. 20549. Copies of such material may also be obtained at prescribed rates by writing to the Public Reference Section of the Securities and Exchange Commission at 100 F Street, NE, Washington, D.C., 20549. You may obtain more information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The Securities and Exchange Commission also maintains a web site that contains reports and information about issuers, like us, who file electronically with the SEC. The address of that web site is [www.sec.gov](http://www.sec.gov).

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**Item 11: *Quantitative and Qualitative Disclosures about Market Risk***

Since the conclusion of the financial restructuring of the Marconi group on May 19, 2003, M (2003) plc has not had any material exposure to market risk.

**Item 12: *Description of Securities other than Equity Securities***

This item is not applicable.



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**PART II**

**Item 13: *Defaults, Dividend Arrearages and Delinquencies***

Since our financial restructuring, we have had no defaults, arrearages or delinquencies.

**Item 14: *Material Modifications to the Rights of Security Holders and Use of Proceeds***

Since our financial restructuring, neither we nor anyone else have taken any actions that would have modified or qualified the rights evidenced by any class of our registered securities.

**Item 15: *Controls and Procedures***

Under the supervision of and with the participation of our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness and design and operation of our disclosure controls and procedures as of March 31, 2005. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of that date. Since the date of the evaluation, there have been no significant changes in our internal controls or in other factors that could significantly affect the controls. Therefore, no corrective actions were taken.

**Item 16A: *Audit Committee Financial Expert***

We consider Richard Anthony Robinson to be the financial expert serving on our audit committee as defined by Item 16A(b). Mr. Robinson is an independent non-executive director.

**Item 16B: *Code of Ethics***

We have not adopted a code of ethics as defined by the instructions to Item 16B. Since we no longer conduct any business and do not intend to revive any business operations, we do not believe that a code of ethics is necessary.

**Item 16C: *Principal Accountant Fees and Services***

**Audit and audit-related fees**

Audit and audit-related fees consist of professional services rendered by our principal accounting firm, Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively Deloitte & Touche ) for the audits of the consolidated financial statements of the Company, statutory audits, income tax provision procedures and other work in connection with documents filed with the SEC. Our audit and audit related fees were £35,000 in fiscal 2005 (2004: £75,000).

**Tax fees**

Tax fees charged by Deloitte and Touche. £nil for each fiscal 2005 and fiscal 2004.

**Other**

Fees for other services were £nil in each of fiscal 2005 and fiscal 2004.

**Pre approval procedures for Services**

All audit and non-audit services performed by the auditors are pre-approved by the Company's audit committee, following a competitive tender where appropriate, in accordance with the committee's auditors' independence policy.

**Item 16E: *Purchases of Equity Securities by the Issuer and Affiliated Purchasers***

During fiscal 2005, neither we nor any affiliated purchaser made any purchases of any class of our equity securities that is registered pursuant to section 12 of the Exchange Act.

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**PART III**

**Item 17: *Financial Statements***

Financial statements are being furnished pursuant to the instructions of Item 18 of Form 20-F.

**Item 18: *Financial Statements***

M (2003) plc is furnishing consolidated financial statements beginning at page F-1.

**Item 19: *Exhibits***

- 1.1\*\* Memorandum and Articles of Association of M (2003) plc
- 2.1 Specimen ordinary share certificate of M (2003) plc
- 2.2 Deposit Agreement dated as of September 6, 2000 Between M (2003) plc and The Bank of New York, as depositary, and Owners and beneficial holders of American Depositary Receipts
- 2.3 American Depositary Receipt of M (2003) plc (included in Exhibit 2.2)
- 2.4 Marconi Corporation plc and M (2003) plc s Proposals in Relation to Schemes of Arrangement under Section 425 of the UK Companies Act 1985, dated March 31, 2003 between Marconi Corporation plc, M (2003) plc and their respective scheme creditors
- 12.1\* Certification required by Rule 13a-14(a) or Rule 15d-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 12.2\* Certification required by Rule 13a-14(a) or Rule 15d-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 13.1\* Certification pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\* Filed with this annual report.

\*\* Incorporated by reference to the Annual Report on Form 20-F (File No. 0-30294) filed with the SEC on September 28, 2001.

Incorporated by reference to the Registration Statement on Form 20-F (File No. 0-30924) filed with the SEC on September 5, 2000.

Incorporated by reference to the Report under cover of Form 6-K (File No. 0-30924) furnished to the SEC on March 31, 2003.

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**SIGNATURES**

The registrant hereby certifies that it meets all the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

M (2003) plc  
By: /s/ K D SMITH

Name: Kevin David Smith  
Title: Company Secretary  
Date: September 30, 2005

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Consolidated financial statements as of March 31, 2005 and 2004 and  
for the three years ended March 31, 2005**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the board of directors and shareholders of M (2003) plc:

We have audited the accompanying consolidated balance sheets of M (2003) plc and its subsidiaries and joint ventures (together the Company ) as of March 31, 2005 and 2004 and the related consolidated statements of operations, cash flows, other comprehensive income/(loss), and shareholders' equity for each of the three fiscal years in the period ended March 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three fiscal years in the period ended March 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

Our audits also comprehended the transactions of certain pounds sterling amounts into US Dollars and, in our opinion, such transactions have been made in conformity with the basis described in note 2. Such US dollar amounts are presented solely for the convenience of readers in the United States of America.

Deloitte & Touche LLP  
Birmingham, England  
30 September 2005

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**M (2003) plc and subsidiaries**  
**CONSOLIDATED BALANCE SHEETS**

	2005 U.S.\$ 000	March 31, 2005 £ 000	2004 £ 000
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	15,366	8,130	8,871
Prepaid expenses and other current assets	257	136	90
<b>Total current assets</b>	<b>15,623</b>	<b>8,266</b>	<b>8,961</b>
<b>TOTAL ASSETS</b>	<b>15,623</b>	<b>8,266</b>	<b>8,961</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>			
Current liabilities			
Accrued expenses and other current liabilities	783	414	1
<b>Total current liabilities</b>	<b>783</b>	<b>414</b>	<b>1</b>
Shareholders' equity/(deficit)			
Ordinary shares, £0.05 par value; Authorized: 6,000,000,000 shares in 2005 and 2004; Issued and outstanding: 2,793,011,951 shares in 2005 and 2004			
	264,600	139,651	139,651
Additional paid-in capital	1,245,510	659,349	659,349
Accumulated deficit	(1,495,270)	(791,148)	(790,040)
<b>Total shareholders' equity</b>	<b>14,840</b>	<b>7,852</b>	<b>8,960</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>15,623</b>	<b>8,266</b>	<b>8,961</b>

See notes to consolidated financial statements.

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**M (2003) plc and subsidiaries**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Fiscal Year Ended March 31,			
	2005 U.S.\$ 000	2005 £ 000	2004 £ 000	2003 £ 000
<b>Revenue:</b>				
Network equipment			100,000	1,131,000
Network services			68,000	743,000
Other				22,000
<b>Total Revenue</b>			<b>168,000</b>	<b>1,896,000</b>
Direct costs			138,000	1,522,000
Gross margin			30,000	374,000
<b>Operating expenses:</b>				
Selling, general and administrative	2,363	1,284	49,000	356,000
Research and development			31,000	290,000
Amortization of goodwill and intangibles			6,000	44,000
Business restructuring charges			2,000	230,000
Impairment of long-lived assets				69,000
Gain on disposal of businesses, net				(5,000)
Other income				(2,000)
<b>Total operating (income)/expenses</b>	<b>2,363</b>	<b>1,284</b>	<b>88,000</b>	<b>982,000</b>
<b>Operating income/(loss)</b>	<b>(2,363)</b>	<b>(1,284)</b>	<b>(58,000)</b>	<b>(608,000)</b>
<b>Other income/(expense):</b>				
Loss on sale of investments, net				(5,000)
Impairment of investments				(40,000)
Gain on financial restructuring			2,183,000	
Gain on settlement of equity forward contracts			123,000	
Other Income				34,000
Interest income	664	361	29,000	45,000
Interest expense				(329,000)
<b>Income/(loss) from continuing operations before income taxes, minority interests</b>	<b>(1,699)</b>	<b>(923)</b>	<b>2,277,000</b>	<b>(903,000)</b>
Income tax charge	(340)	(185)	(1,000)	209,000
Equity in net loss of affiliates				(62,000)
<b>(Loss) from continuing operations</b>	<b>(2,039)</b>	<b>(1,108)</b>	<b>2,276,000</b>	<b>(756,000)</b>
<b>Discontinued operations:</b>				
Loss from discontinued operations, net of tax of £nil (2004, £nil, and 2003, £2)				(74,000)
				23,000

Gain on sale of discontinued operations, net  
of tax of £nil

Net (loss)/income	(2,039)	(1,108)	2,276,000	(807,000)
Earnings per share basic				
Income/(loss) from continuing operations			0.92	(0.27)
Loss from discontinued operations				(0.3)
Gain on sale of discontinued operations				0.1
Net income/(loss)			0.92	(0.29)
Earnings per share diluted				
(Income/loss) from continuing operations			0.92	(0.27)
Loss from discontinued operations				(.03)
Gain on sale of discontinued operations				0.01
Net income/(loss)			0.92	(0.29)

See notes to consolidated financial statements.

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**M (2003) plc and subsidiaries**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Fiscal year ended March 31,			
	2005 U.S.\$ 000	2005 £ 000	2004 £ 000	2003 £ 000
<b>Cash flows from operating activities:</b>				
Net income/(loss)	(2,039)	(1,108)	2,276,000	(807,000)
Adjustments to reconcile net income/(loss) to net cash used in operating activities of continuing operations:				
Loss from discontinued operations				74,000
Gain on sale of discontinued operations				(23,000)
Cash paid on settlement of equity forward contracts			(35,000)	
Loss on disposal of businesses and properties				3,000
Gain on financial restructuring			(2,183,000)	
Gain I settlement of equity forward contracts			(123,000)	
Loss on sale of investments in affiliates				5,000
Stock compensation			9,000	14,000
Impairment of long-lived assets				69,000
Impairment of investments				40,000
Depreciation and amortization			16,000	169,000
Provision for doubtful accounts				(10,000)
Provision for allowance for inventory write off				25,000
Other income				(34,000)
Profit on disposal of property, plant and equipment				(9,000)
Change in current and deferred taxes				(177,000)
Equity in net loss of affiliates				62,000
Cash paid for restructuring			(20,000)	
Net cash provided by/(used) in discontinued operations			2,000	(80,000)
Changes in operating assets and liabilities, net of the effect of acquisitions:				
Accounts receivable	(85)	(46)	100,000	137,000
Inventories			1,000	228,000
Prepaid expenses and other assets				(21,000)
Accounts payable			(26,000)	(175,000)
Accrued expenses and other liabilities	760	413	(29,000)	(154,000)
Net cash used in operating activities	(1,364)	(741)	(12,000)	(664,000)

See notes to consolidated financial statements.



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	Fiscal year ended March 31,		
	2005	2005	2003
	U.S.\$ 000	£ 000	£ 000
<b>Cash flows from investing activities:</b>			
Maturities and sales of debt and marketable equity securities		(209,000)	
Purchases of debt and marketable equity securities			(20,000)
Purchases of property, plant and equipment		(5,000)	(35,000)
Proceeds from the sale of property, plant and equipment			30,000
Cash (outflow)/received from disposals		(568,000)	436,000
Cash element of scheme consideration		(333,000)	
Collateralised cash			
Net cash provided used in investing activities		(1,115,000)	411,000
<b>Cash flows from financing activities:</b>			
Short-term debt repayments, net		(22,000)	(30,000)
Term loan repayments, net		(1,000)	(45,000)
Restricted cash transferred to secured accounts		964,000	(692,000)
Net cash used in financing activities		941,000	(767,000)
Effects of exchange rate changes on cash and cash equivalents			(28,000)
Net decrease in cash and cash equivalents		(186,000)	(1,048,000)
Cash and cash equivalents, beginning of year		195,000	1,243,000
Cash and cash equivalents, end of year		9,000	195,000
<b>Supplemental disclosure of cash flow activity:</b>			
Cash payments for interest		(1,000)	134,000
Cash repayment for income taxes		(1,000)	(31,000)

See notes to consolidated financial statements.

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**M (2003) plc and subsidiaries**  
**CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME/(LOSS)**

	Fiscal year ended March 31,			
	2005 U.S.\$ 000	2005 £ 000	2004 £ 000	2003 £ 000
<b>Other comprehensive income:</b>				
Net loss	(2,039)	(1,108)	2,276,000	(807,000)
<b>Other comprehensive income/(loss):</b>				
Unrealized gains on derivative Instruments				22,000
Accumulated translation adjustments, (net of income tax and reclassification adjustments)				62,000
Minimum pension liability, (net of income tax of £nil)			295,000	(295,000)
<b>Other comprehensive income/(loss)</b>	<b>(2,039)</b>	<b>(1,108)</b>	<b>2,571,000</b>	<b>(1,018,000)</b>
<b>Disclosure of tax and reclassification amounts:</b>				
Unrealized gains on derivative instruments, net of tax of £1			1,000	22,000
Less: reclassification adjustment for loss included in net loss, net of tax of £nil			(1,000)	
Unrealized gains on derivative Instruments				22,000
Accumulated translation adjustments, net of tax of £nil			(14,000)	62,000
Less: reclassification adjustment for gains included in net income/(loss), net of tax of £nil			14,000	
Net translation adjustments				62,000

See notes to consolidated financial statements.

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**M (2003) plc and subsidiaries**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY/(DEFICIT)**

	Ordinary shares		Additional paid-in capital	Retained earnings/ (deficit)	Accumulated other comprehensive income/(loss)	Treasury shares	Total
	Shares	Amount £000	£000	£000	£000	£000	£000
As of March 31, 2002	2,792,638,820	139,651	1,063,349	(2,634,000)	(71,000)		(1,502,000)
Net loss				(807,000)			(807,000)
Issuance of ordinary shares under share option plan	461,777						
Acquisition and retirement of ordinary shares	(88,646)						
Fair value movements on derivative instruments					22,000		22,000
Stock-based compensation			14,000				14,000
Shares issued by equity method investee			3,000				3,000
Translation adjustments					62,000		62,000
Minimum pension liability					(295,000)		(295,000)
As of March 31, 2003	2,793,011,951	139,651	1,080,349	(3,441,000)	(282,000)		(2,503,000)
Net income				2,275,960			2,275,960
Capital contribution for stock based compensation			(46,000)				(46,000)
Transfer on Financial Restructuring			(375,000)	375,000			
Translation adjustments					(12,000)		(12,000)
Elimination upon financial restructuring					294,000		294,000
	2,793,011,951	140,000	659,000	(790,040)			8,960

As of March 31,  
2004

Net loss				(1,108)	(1,108)
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As of March 31,  
2005

2,793,011,951	139,651	659,349	(791,148)	7,852
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See notes to consolidated financial statements.

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**M (2003) plc and subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Nature of Business and basis of preparation:*****Nature of business***

Until May 19, 2003, the Company was the ultimate holding company for the Marconi Group. Through its subsidiaries the Marconi Group was a multi-regional vendor of telecommunications equipment and services and was organized into two main divisions: Core and Capital. The Core business included the provision of optical networks, broadband routing and switching, broadband access, outside plant and power, other network equipment and associated installation, maintenance and other value-added services. The Marconi Group's customers included telecommunications companies and providers of internet services for their public networks and some large corporations, government departments and agencies, utilities and educational institutions for their private networks. The Capital business comprised certain non-core businesses that were managed for value and ultimately for disposal. These included an investment in Easynet Group plc as well as a number of other minor activities, investments and assets with whom the Company had a base of installed equipment.

On May 19, 2003, M (2003) plc (the Company) and its former subsidiary Marconi Corporation plc concluded a financial restructuring (the Financial Restructuring), which was effected through two separate schemes of arrangement under the U.K. Companies Act 1985 as described in note 3. Since the Financial Restructuring the Group consists of the Company and its non-trading and dormant subsidiaries listed in note 23. Therefore the Company and Group have no trading or business activities.

As explained in note 3, the remaining assets of the Company will be distributed over time to its creditors, following which it is intended that the Company and its subsidiaries will be liquidated or dissolved.

The name of the Company was changed from Marconi plc to M (2003) plc on October 21, 2003.

***Basis of preparation***

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As explained in note 3, following the Financial Restructuring of May 19, 2003 and pursuant to the Company's Scheme of Arrangement, the remaining assets of the Company will be distributed over time to its creditors in order to settle liabilities as they are incurred. Following this it is intended that the Company will be liquidated or dissolved, however this is not expected to occur within the next twelve months.

**2. Summary of significant accounting policies*****Basis of consolidation***

The accompanying consolidated financial statements include the accounts of M (2003) plc and its subsidiaries that are more than 50% owned and controlled. Investments in affiliates in which the Company exercises significant influence but not control (generally those with a 20-50% ownership interest) are accounted for under the equity method of accounting. Investments in non-listed entities in which the Company has less than a 20% ownership interest are accounted for under the cost method. All intercompany balances and transactions have been eliminated upon consolidation.

***Use of estimates***

The preparation of the consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for, but not limited to, the accounting for

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doubtful accounts, inventory reserves, depreciation and amortization, sales returns, warranty costs, taxes, certain accruals, payables, long-term contract profit estimates, employee benefits, long-lived asset impairment calculations and contingencies. Actual results could differ from these estimates.

**Income taxes**

The Company recognizes deferred tax assets and liabilities using enacted tax rates to calculate temporary differences between the tax basis of assets and liabilities and the financial statement carrying amounts. The Company recognizes a valuation allowance against such deferred tax assets when it is more likely than not that such assets will not be recovered. During the fiscal year 2003 all deferred tax assets, without offsetting liabilities in the same jurisdiction, were fully reserved.

**Foreign currency**

The consolidated financial statements are presented in U.K. pounds sterling. The functional currency of each of M (2003) plc's subsidiaries is the local currency in which each subsidiary is located. Transactions in currencies other than the functional currency are translated at the exchange rate in effect at the date of each transaction. Differences in exchange rates during the period between the date a transaction denominated in a foreign currency is consummated and the date on which it is either settled or translated are recognized in the statement of operations.

Net income and cash flows of non-U.K. pounds sterling subsidiaries and equity investments are translated at the average rates of exchange during the year. The assets and liabilities of such entities are translated at year-end rates of exchange. Translation adjustments are included in other comprehensive income/(loss), as a separate component of shareholders' equity/(deficit). Key exchange rates relative to U.K. pounds sterling used are as follows:

	Average rates			Year-end rates	
	Fiscal year ended March 31,			As of March 31,	
	2005	2004	2003	2005	2004
U.S. Dollar	1.84	1.70	1.55	1.89	1.84
Euro	1.47	1.44	1.55	1.45	1.50

**Revenue**

The Company recognizes revenue under Statement of Position (SOP) 81-1, *Accounting for Performance of Construction-Type and certain Production-Type Contracts*, SOP 97-2, *Software Revenue Recognition* and SEC Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements* depending upon the terms of the contract.

Revenue from product sales of hardware and software is recognized when: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; customer acceptance has occurred; the price to the buyer is fixed or determinable; and collectability is reasonably assured.

Revenue from services is recognized at time of performance and acceptance by the customer.

Revenue from multiple element contracts is allocated based on the relative fair value of each individual element.

Revenues and estimated profits on long-term contracts are recognized under the percentage-of-completion method of accounting using a cost-to-cost methodology. Profit estimates are revised periodically based on the latest available information. When estimates of total contract revenues and costs indicate a loss, a provision for the entire amount of the contract loss is recognized in the period in which the loss becomes evident.

Revenue is reported net of sales returns and allowances, early settlement discounts, sales rebates settled by credit notes, volume discounts and commissions earned by distributors.



**Table of Contents*****Impairment or disposal of long-lived assets***

The Company evaluates the carrying value of long-lived assets whenever events or changes in circumstances indicate that the carrying value of the asset may be impaired. An impairment loss is recognized when estimated future cash flows, on an undiscounted basis, expected to result from the use of the asset, including its disposition, is less than the carrying value of the asset. The impairment loss is calculated by comparing the carrying value of the asset with its fair value, which is usually estimated using discounted cash flows expected to be generated from the assets.

During fiscal 2005 tangible fixed assets were impaired by £nil (2004, £nil and 2003, £69 million).

Long-lived assets are classified as held-for-sale when certain criteria are met, which include: management commitment to a plan to sell the assets; the availability of the assets for immediate sale in their present condition; whether an active program to locate buyers and other actions to sell the assets has been initiated; whether the sale of the assets is probable and their transfer is expected to qualify for recognition as a completed sale within one year; whether the assets are being marketed at reasonable prices in relation to their fair value; and how unlikely it is that significant changes will be made to the plan to sell the assets. The Company measures long-lived assets to be disposed of by sale at the lower of carrying amount and fair value less cost to sell. Fair value is determined using quoted market prices or the anticipated cash flows discounted at a rate commensurate with the risk involved.

The Company classifies an asset or asset group that will be disposed of other than by sale as held and used until the disposal transaction occurs. The asset or asset group continues to be depreciated based on revisions to its estimated useful life until the date of disposal or abandonment.

***Equity forward contracts***

The Company has, in the past, issued share options to employees under a number of different option plans, collectively known as the ESOP. Under these plans, options may be satisfied by way of a transfer of existing Company ordinary shares acquired in the market by an employee trust or other vehicle, or, under some of the plans only, by an issue of new Company shares.

From January 2000, in order to hedge part of the potential cost of the plans estimated at that time, the independent trustee of the Marconi Employee Trust (MET), Bedell Crislin Trustees Limited ( BCTL ), entered into swap contracts with three financial institutions (the ESOP Derivative Banks) to purchase a total of 40 million shares in the future at prices which were fixed at the date of contract.

At March 31, 2003, the purchase of 38.5 million shares under these contracts was outstanding. The maximum exposure under the contracts was £337 million, plus accrued finance charges. Certain contracts require BCTL to deposit cash collateral with the relevant ESOP Derivative Banks if the share price falls to certain levels stipulated in those contracts. Prior to the financial restructuring the Company funded the provision of this collateral. The carrying value of the contracts at March 31, 2003 was £158 million.

An agreement was reached to settle these contracts and they were closed out on May 19, 2003. The agreed settlement amount was £35 million which resulted in a gain of £123 million recorded in the consolidated statement of operations as part of the gain on disposal of businesses.

At March 31, 2005 £nil (2004 £nil and 2003 £27 million) of cash balances was held in escrow with respect to these equity forward contracts.

***Fair value hedges***

Prior to the financial restructuring, as part of its overall risk management strategy, the Company used derivatives to convert its fixed-rate debt into variable-rate debt, and to hedge its foreign currency firm commitments. These derivatives were typically designated as fair value hedges, to manage the interest rate risk or foreign currency risk of the hedged item accordingly. The carrying amount of the hedged item is adjusted for gains or losses attributable to the hedged risk. This unrealised gain or loss is offset by changes in the fair value of the derivative. All hedging ineffectiveness is included in earnings in the current period.

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Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, the derivative is terminated or sold, or on the sale or early termination of the hedged item.

For fiscal 2004 and 2003, the ineffective portion of all the Company's fair value hedges was immaterial as the terms of the hedging instruments match the terms of the underlying hedged items. The Company does not exclude any components of the derivative gains and losses from the assessment of hedge effectiveness. The amount recognized in earnings for hedged firm commitments that no longer qualified for fair value hedges was immaterial.

***Net investment hedges***

The Company's policy has been to finance its activities in the same currencies as those used for its foreign investments in order to hedge foreign currency exposure of net investments in foreign operations. This policy has been implemented either by financing in the related currency or using derivatives, such as currency swaps, which provide a synthetic effect of a foreign currency loan, thereby reducing the exchange risk. As a result of the Financial Restructuring, which became effective May 19, 2003, the Company does not have any borrowings. For further information on the Company's Financial Restructuring, refer to note 3.

For fiscal 2005, £nil (2004, £nil and 2003, £169 million) of net gains related to non-derivative instruments used as net investment hedges were included as a cumulative translation adjustment in the statement of comprehensive income/ (loss). These net gains principally offset the net losses recorded on the respective net investments in foreign currencies being hedged. The hedge instruments used by the Company did not result in any material ineffectiveness. Their notional amounts were similar to the net investments being hedged as of the beginning of each quarter, and the currencies of the hedging instrument and hedged item were the same.

***Cash flow hedges***

The Company has used interest rate swaps to hedge the uncertainty of future cash flows due to its floating rate debt, and foreign currency forward exchange contracts that expire in less than twelve months to hedge against the effect that fluctuation in exchange rates may have on cash flow associated with forecasted purchases.

Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge or the derivative is terminated or sold. On the sale or early termination of the hedged item, gains and losses are immediately reclassified to other (income)/expense.

For fiscal 2005 and 2004, the total ineffectiveness of all cash flow hedges was immaterial since most of the terms of the hedging instruments match the terms of the underlying hedged items. The reclassification of gains and losses into earnings from accumulated other comprehensive income as a result of the discontinuance of cash flow hedges because management estimated that it was still probable that original forecasted transactions would occur by the end of the originally specified time period or within an additional two months thereafter was also immaterial.

For those hedging relationships that are designated as cash flow hedges the respective effective portion of the gain or loss recorded in other comprehensive income until it is necessary to be adjusted against net income in order to offset the respective change in expected future cash flows on the hedged transaction.

For fiscal 2003 the total amount of losses in accumulated other comprehensive income of £23 million (£1 million related to tax) was reclassified into earnings during the year because, as a consequence of the Financial Restructuring which occurred on May 19, 2003 it was no longer probable at March 31, 2003 that the forecasted transactions would occur.

***Pension and other post-retirement benefits***

The Company accounts for its defined benefit pension plans and its non-pension post-retirement benefit plans using actuarial models required by SFAS 87, *Employers' Accounting for Pensions*, and SFAS 106,

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*Employers Accounting for Post-retirement Benefits Other Than Pensions*, respectively. These models use an attribution approach that generally spreads individual events over the service lives of the employees in the plan. Examples of events are plan amendments and changes in actuarial assumptions such as discount rate, rate of compensation increases and mortality. The principle underlying the required attribution approach is that employees render service over their service lives on a relatively smooth basis and, therefore, the income statement effects of pensions or non-pension post-retirement benefit plans are earned in, and should follow, the same pattern.

One of the main components of the net periodic pension calculation is the expected long-term rate of return on plan assets. The required use of expected long-term rate of return on plan assets may result in recognized pension income that is greater or less than the actual returns of those plan assets in any given year. Over time, however, the expected long-term returns are designed to approximate the actual long-term returns and, therefore, result in a pattern of income and expense recognition that more closely matches the pattern of the services provided by the employees. Differences between actual and expected returns (to the extent that they exceed 10% of the market value of assets at the start of the period) are recognized in the net periodic pension calculation over the remaining average service lifetimes of active members.

The Company uses long-term historical actual return information, the mix of investments that comprise plan assets, and future estimates of long-term investment returns by reference to external sources to develop its expected return on plan assets.

The discount rate assumptions used for pension and non-pension post-retirement benefit plan accounting reflect the rates available on high-quality fixed-income debt instruments on March 31 of each year. The rate of compensation increase is another significant assumption used in the actuarial model for pension accounting and is determined by the Company based upon its long-term plans for such increases. For retiree medical plan accounting, the Company reviews external data and its own historical trends for health care costs to determine the health care cost trend rates.

If the unfunded accumulated benefit obligation exceeds the fair value of the plan assets, the Company recognizes an additional minimum liability that is at least equal to the unfunded accumulated benefit obligation. Where an additional minimum liability is recognized an intangible asset is recognized up to the amount of any unrecognized prior service cost and the balance is recognized through other comprehensive income.

***Product warranty***

Provisions for estimated expenses related to product warranties are made at the time products are sold. These estimates are established using historical information on the nature, frequency, and average cost of warranty claims. Management actively studies trends of warranty claims and takes action to improve equipment quality and minimize warranty claims. Management believes that the warranty reserve is appropriate; however, actual claims incurred could differ from the original estimates, requiring adjustments to the reserve.

***Stock based compensation***

Prior to the Financial Restructuring on May 19, 2003, the Company had nine plans under which it granted options. The Company accounted for employee share plans under Accounting Principles Board Opinion ( APB ) No. 25, *Accounting for Stock Issued to Employees*. No compensation cost was recognized for ordinary shares and share options issued under fixed plans with a price equal to fair market value. For fixed plans, the measurement date was the grant date. The Company recognized compensation cost for all ordinary shares and stock options issued with an exercise price below fair market value at the grant date and for plans subject to variable accounting. For variable plans, the compensation cost was re-measured on the basis of the current market value of M (2003) plc stock at the end of each reporting period. For ordinary options, such expense was recognized over the vesting period of the options. The Company recognized compensation expense for plans with performance conditions if achievement of these conditions became probable.

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At the date of the Financial Restructuring, options outstanding under certain plans lapsed as the employees were no longer employed by a group company. For the remaining share options issued under variable plans, the compensation cost has been re-measured on the basis of a £nil value of M (2003) plc stock at March 31, 2005 because the Company's shares were delisted as part of the restructuring. The full expense has been recognized in the prior year rather than over the vesting period as there are no circumstances under which it is expected that any value will be attributable to these share options.

The Company recognized compensation expense in fiscal 2005 of £nil (2004 £9 million, 2003, £14 million), related to stock options issued below fair market value and those plans, which are variable. Had compensation cost for the employee share plans been determined consistent with the fair value methodology of SFAS 123, *Accounting for Stock-Based Compensation*. No Share options were granted in the fiscal years 2005, 2004 and 2003.

Under SFAS 123, the fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2005	March 31, 2004	2003
Risk-free interest rate	n/a	n/a	n/a
Expected life (years)	n/a	n/a	n/a
Assumed volatility	n/a	n/a	n/a
Expected dividends			

No stock options were granted during fiscal 2005, 2004 or 2003.

**Other comprehensive income/(loss)**

Comprehensive income/ (loss) represents the net income/ (loss) for the period plus the results of certain shareholders equity/ (deficit) changes that are not reflected in the consolidated statements of operations.

The accumulated balances of other comprehensive income/ (loss) are as follows:

	Net unrealized gains/(losses) on investments £ 000	Accumulated translation adjustments £ 000	Net unrealized gains/(losses) on derivative instruments £ 000	Minimum pension liability adjustment £ 000	Accumulated other comprehensive income/(loss) £ 000
As of March 31, 2003		14,000	(1,000)	(295,000)	(282,000)
Movement for the year		(12,000)			(12,000)
Eliminated on financial restructuring		(2,000)	1,000	295,000	294,000
As of March 31, 2004 and March 31, 2005					

**Earnings per share**

Earnings per share (EPS) are computed in accordance with SFAS 128, Earnings per Share. Basic EPS is computed by dividing consolidated net income by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is computed by dividing consolidated net income by the sum of the weighted average number of

shares outstanding and the weighted average number of potentially dilutive common shares, based on the assumed exercise of dilutive share options under the Company's stock option plans. Such potentially dilutive common shares are excluded when the effect would be to reduce a loss per share.

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***Recently issued accounting pronouncements not yet adopted***

There are no recently issued accounting pronouncements that have yet to be adopted that management believe could have a material impact on the groups financial position and results of operations.

***Non-statutory accounts***

The accompanying financial statements do not comprise statutory accounts within the meaning of Section 240 of the Companies Act 1985. The Company's statutory accounts for fiscal 2005 prepared in accordance with generally accepted accounting principles in the United Kingdom (U.K. GAAP) will be delivered to the Registrar of Companies for England and Wales.

The auditors' report on those accounts was unqualified and did not contain a statement under Section 237(2) or 237(3) of the Companies Act 1985.

**3. Financial restructuring**

Until May 19, 2003, M (2003) plc (the Company, formerly known as Marconi plc) was the ultimate holding company for the Marconi Group.

On May 19, 2003, M (2003) plc and its then subsidiary Marconi Corporation plc concluded a financial restructuring (the Financial Restructuring), which was effected through two separate schemes of arrangement under the U.K. Companies Act 1985. Under the schemes of arrangement Marconi Corporation plc issued new share capital and cancelled the old shares held by the Company. Therefore the Company ceased to be the ultimate holding company of the Marconi Group on May 19, 2003 and from that date ceased to operate any trading activities. Consequently, the entities included in the consolidated financial statements presented in this document for the period after May 19, 2003 are the Company and its non-trading and dormant subsidiaries listed in note 23. Trading in the Company's shares on the London Stock Exchange ceased on May 16, 2003 and the Company's shares were subsequently delisted.

The name of the Company changed from Marconi plc to M (2003) plc on October 21, 2003.

At the date of the Financial Restructuring, as a result of the shares the Company held in Marconi Corporation plc being cancelled, the Company divested fully of its interests in the Marconi Group for nil proceeds. This resulted in a gain of £3,404 million on the transfer of ownership of the Marconi Group being equivalent to its consolidated net liabilities. On the same date the scheme of arrangement of Marconi Corporation plc came into effect resulting in an £804 million receivable from the Marconi Group being waived by the Company and its subsidiary undertakings. The net gain of £2,600 million was recorded in the consolidated statement of operations within operating income.

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The gain was calculated as follows:

	£ 000
Net (liabilities)/ assets sold	
Tangible fixed assets	251,000
Investments in joint ventures, affiliates and other investments	35,000
Goodwill	645,000
Intangibles, net	95,000
Inventory	237,000
Debtors	526,000
Net cash/ (overdrafts)	1,117,000
Borrowings (excluding overdrafts)	(4,770,000)
Accounts payable and other liabilities	(1,081,000)
Capital lease obligations	(5,000)
Finance lease creditors	(3,000)
Minority Interests	(3,000)
Retirement benefit deficit	(334,000)
	(3,281,000)
Accounted for by:	
Amounts waived on Scheme of Arrangement	804,000
Elimination of amounts included in shareholders' equity	
Minimum pension liability	295,000
Accumulated translation adjustments	(2,000)
Net unrealised gains on derivative instruments	1,000
Gain on Financial Restructuring	2,183,000

The Financial Restructuring was implemented by way of two separate schemes of arrangement under section 425 of the U.K. Companies Act 1985. As a result, the gain described above will not give rise to any taxable amounts.

Pursuant to the Company's Scheme, the remaining assets of the Company will be distributed over time to its creditors, following which it is intended that the Company and its remaining subsidiaries will be liquidated or dissolved. There will be no circumstances under which any value will be returned to shareholders under the terms of the Company's Scheme.

On the date of the financial restructuring, a further gain of £123 million was realised on the settlement of equity forward contracts outstanding and was recorded in the consolidated statement of operations within other income. See note 2 and note 18 for further discussion of these equity forward contracts.

Expenses incurred by the Scheme Supervisors in the administration of the Scheme post May 19, 2003 to March 31, 2004 were approximately £0.3 million and for the year ended March 31, 2005 were approximately £0.5 million.

**Table of Contents****4. Balance sheet information**

	March 31,	
	2005	2004
	£ 000	£ 000
<i>Accounts receivable, net:</i>		
Accounts receivable	136	90
Allowance for doubtful accounts		
Total	136	90
<i>Accrued expenses and other current liabilities:</i>		
Accrued income and other taxes	185	
Accrued expenses	229	1
Total	414	1

Depreciation expense for fiscal 2005 was £nil (2004, £10 million and 2003, £125 million). During fiscal 2005 the Company capitalized £nil (2004, £nil and 2003, £0.44 million) in interest expense related to construction in progress.

During fiscal 2003 the Company disposed of land and buildings with a net book value of £6 million for sales proceeds of £17 million. The Company subsequently leased back 40% of these land and buildings under a 10-year sale and leaseback agreement. The Company accounted for the 40% leased back as a financing transaction. The lease agreement was eliminated upon the financial restructuring.

During fiscal 2003 in conjunction with the business restructuring and site rationalizations described in note 6, Business restructuring charges, the Company impaired property, plant and equipment by £69 million.

On May 19, 2003 the company underwent the financial restructuring described in note 3. At the same date the Company divested fully of its interests in the Marconi Group. It is anticipated that the funds in hand (and any other assets) at March 31, 2005 will be used to comply with the terms of the M (2003) plc scheme of arrangement, and which primarily relate to scheme expenses and complying with the Company's statutory obligations. In the event that any of the funds (or any assets) are not used they will be returned to scheme creditors with the result that under no circumstances will any of the funds (or other assets) ever become available to pay any further dividends or distributions to shareholders.

**5. Debt and credit facilities*****Short-term debt***

Prior to the financial restructuring the Company's short-term borrowings consisted primarily of bank loans and overdrafts and were unsecured.

Under the Company's 1998 syndicated credit agreement, a group of banks committed a maximum of 4.5 billion (approximately £2.8 billion) at March 31, 2001 on an unsecured, revolving basis until March 25, 2003. Effective March 22, 2002, the undrawn portion of this facility was cancelled and the facility was placed on demand. Under the terms of this agreement, borrowings bore interest of 0.175% per annum over London inter-bank offered rate (LIBOR). As of March 31, 2003, the average interest rate was 6.36%.

No undrawn amounts were available to the Company under outstanding credit facilities at March 31, 2005 or March 31, 2004.

**6. Business restructuring charges**

In September 2001, following the sudden and significant downturn in trading in the global telecommunications markets, the results of an operational review that had three main objectives were announced. The original objectives



were to reorganize the group into two main reporting divisions: Core and  
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Capital, to reduce group indebtedness from £4.4 billion at August 31, 2001 to between £2.7 billion and £3.2 billion by March 31, 2002 and to reduce the annual operating cost base. These objectives were later revised to reflect further operating cost base reductions during fiscal 2004.

When management reviews the operating income performance of the segments described in note 10, Segment and related information disclosures, management uses U.K. GAAP operating profit/(loss) before goodwill and intangible asset amortization, in process research and development write-offs, U.K. GAAP operating exceptional items, gains and losses on business disposal and the impact of less than 50% owned affiliates. This measure allocated to those segments does not include business restructuring charges, which relate to the reorganization of the business as a whole. A segmental allocation of restructuring charges is impracticable. Consequently, a segmental analysis has not been provided.

The following tables show the activity by statement of operations heading and the balances remaining in other liabilities at March 31, 2005 and 2004 following the implementation of actions required to achieve these objectives.

Balance at	Charged during	Utilized during		Balance at
March 31,	fiscal	Net cash	Non cash	March 31,
2004	2005	payments	movement	2005
£ 000	£ 000	£ 000	£ 000	£ 000

*Direct costs:*

Manufacturing outsourcing

Onerous contracts

*Business restructuring costs:*

Employee severance

Site rationalization

Contractual commitments and other restructuring

Advisor fees

Total

Balance at	Charged during	Utilized during		Balance at
March 31,	fiscal	Net cash	Non cash	March 31,
2003	2004	payments	movement	2004
£ 000	£ 000	£ 000	£ 000	£ 000

*Direct costs:*

Manufacturing outsourcing

8,000

(1,000)

(7,000)

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Onerous contracts	6,000	(2,000)		(4,000)
	14,000	(3,000)		(11,000)
<i>Business restructuring costs:</i>				
Employee severance	10,000	4,000	(12,000)	(2,000)
Site rationalization	46,000	1,000	(2,000)	(45,000)
Contractual commitments and other restructuring	3,000			(3,000)
Advisor fees	10,000		(6,000)	(4,000)
	69,000	5,000	(20,000)	(54,000)
Total	83,000	2,000	(20,000)	(65,000)

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	Balance at March 31, 2002 £ 000	Charged during fiscal 2003 £ 000	Utilized during fiscal 2003		Balance at March 31, 2003 £ 000
			Net cash payments £ 000	Non cash movement £ 000	
<i>Direct costs:</i>					
Inventory write-downs and related costs	40,000		20,000	20,000	
Manufacturing outsourcing	31,000	21,000	21,000	23,000	8,000
Onerous contracts	31,000	5,000	30,000		6,000
	102,000	26,000	71,000	43,000	14,000
<i>Business restructuring costs:</i>					
Employee severance	30,000	128,000	148,000		10,000
Site rationalization	40,000	36,000	30,000		46,000
Contractual commitments and other restructuring	13,000			10,000	3,000
Systems implementation	24,000	(7,000)	17,000		
Advisor fees		73,000	63,000		10,000
	107,000	230,000	258,000	10,000	69,000
<b>Total</b>	<b>209,000</b>	<b>256,000</b>	<b>329,000</b>	<b>53,000</b>	<b>83,000</b>

**Inventory write-downs and related costs**

In fiscal 2003 the remaining balance of £40 million was utilized in respect of inventory write-downs for obsolescence and slow-moving provisions against a number of product lines, predominantly optical networking products.

**Manufacturing outsourcing**

In fiscal 2003, the charge of £21 million represents additional net costs to Jabil Circuit Inc. arising in the year as a result of the decision to outsource certain manufacturing operations. In fiscal 2004, £1 million was credited to restructuring costs relating to the outsourcing of certain manufacturing operations. The remaining balance was transferred out of the group as part of the Financial Restructuring at May 19, 2003.

**Onerous contracts**

The charge of £5 million in respect of onerous contracts in fiscal 2003 represents certain liabilities to which the Company was committed as a result of the operational restructuring. This includes liabilities relating to equipment leasing contracts and supply contracts under which we had agreed to purchase minimum volumes of goods and services offering no economic value to our business as a result of its reduced size. In fiscal 2004 £2 million was released to the statement of operations in relation to onerous contracts. The remaining balance was transferred out of the group as part of the Financial Restructuring at May 19, 2003.

**Employee severance**

As a consequence of the objective to reduce the annual operating cost base, the Company recorded a charge of £128 million during fiscal 2003 associated with redundancy payments for approximately 7,500 employees. The Company recorded a charge of £237 million to reflect the charges. The Company made cash payments of £148 million in fiscal 2003, associated with voluntary redundancy payments for approximately 10,000 employees. In fiscal 2004, a

charge of £4 million was recorded as part of the group's cost reduction actions and payments of approximately £12 million were made. The remaining balance was transferred out of the group as part of the Financial Restructuring at May 19, 2003.

**Table of Contents****Site rationalization**

The charge of £36 million in respect of site rationalization in fiscal 2003 represents additional costs associated with closing and consolidating various sites around the world as part of the business restructuring. These site closures and consolidations were all commenced prior to December 15, 2002. In fiscal 2004, a charge of £1 million was recorded as part of the group's cost reduction actions and payments of approximately £2 million were made. The remaining balance was transferred out of the group as part of the Financial Restructuring at May 19, 2003.

**Contractual commitments and other restructuring**

During fiscal 2002 a charge of £46 million was recorded in respect of other costs associated with the restructuring program. Payments of £26 million were made during fiscal 2002 and an additional non-cash charge of £7 million recorded, leaving a balance at March 31, 2002 of £13 million. Of this balance, costs of £10 million have been charged during fiscal 2003 and a balance of £3 million remains at March 31, 2003. In fiscal 2004, the remaining balance was transferred out of the group as part of the Financial Restructuring at May 19, 2003.

**Systems implementation**

During fiscal 2002 the Group planned to implement a new global information technology system. In light of the revised trading outlook and the continued focus on cost reduction, the implementation was terminated. The £73 million charge in fiscal 2002 represents £43 million of capitalised external consultancy costs associated with the implementation, £24 million of hardware and software costs expensed, and £6 million of other associated costs of the project. Payments of £49 million were made in fiscal 2002. During fiscal 2003, the Company revised its previous estimate of the overall costs leading to the release of £7 million from the amounts accrued in fiscal 2002. Payments of £17 million were made in fiscal 2003.

**Advisor fees**

The charge of £73 million in fiscal 2003 in respect of advisor fees represents charges from the Company's external advisors with respect to services rendered in fiscal 2003 related to the Financial

Restructuring payments of £63 million were made during fiscal 2003 and a balance of £10 million remained at March 31, 2003. In fiscal 2004, payments of approximately £6 million were made and the remaining balance was transferred out of the group as part of the Financial Restructuring at May 19, 2003.

**7. Goodwill**

When management reviews the operating income performance of the segments described in note 10, Segment and related information disclosures, management uses the U.K. GAAP operating profit/(loss) before goodwill and intangible asset amortization, in process research and development write-offs, U.K. GAAP operating exceptional items, gains and losses on business disposal and the impact of less than 50% owned affiliates. This measure allocated to those segments does not include goodwill amortization charges. A segmental allocation of goodwill is impracticable. Consequently, a segmental analysis has not been provided.

The changes in the carrying amount of goodwill for the year ended March 31, 2005, are as follows:

	Cost £ 000	Accumulated amortization £ 000	Total £ 000
Balance at March 31, 2003	1,880,000	(1,223,000)	657,000
Goodwill disposed of	(1,877,000)	1,223,000	(654,000)
Translation adjustment	(3,000)		(3,000)

Balance at March 31, 2004 and 2005

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In accordance with SFAS 142, goodwill is no longer subject to amortization, rather, it is subject to at least an annual assessment of impairment, applying a fair-value based test. The Company completed the SFAS 142 transitional impairment test during the second quarter of fiscal 2003 and concluded that there was no impairment of recorded goodwill. The assessment measured the amount by which the carrying amounts of the goodwill and intangible assets exceeded the present value of expected future cash flows from operations.

The total goodwill balance at May 19, 2003 was disposed of as part of the Financial Restructuring described in Note 3.

**8. Intangible assets**

Amortization of intangibles for fiscal 2005 was £nil (2004, £6 million and 2003, £44 million). All intangible assets were disposed of as part of the Financial Restructuring described in Note 3.

**9. Pension plans and other post-retirement plans**

***Pension plans***

On May 19, 2003 the Company and its then subsidiary, Marconi Corporation plc, entered into schemes of arrangement as described in note 3. As a result of this, the pension schemes are not part of the M (2003) plc Group as at March 31, 2005. Further, the pension schemes have always been, and remain, liabilities of the Marconi Group.

Prior to May 19, 2003, the Marconi businesses previously held by the Group operated defined benefit pension plans in the UK, US and Europe, and post retirement benefit plans in the US. The most significant pension plan was the GEC 1972 Plan (the UK Plan ) in the UK, a defined benefit plan.

The assets of the Plan were held separately from the assets of the Group, were administered by trustees and were managed professionally.

The benefits offered to specific employees vary based upon the location of and past business decisions made by a specific business unit, as well as local statutory requirements. Defined benefit pension plans, that generally provide benefits to eligible individuals, after minimum service requirements are met, are based on years of credit service and average earnings of the employee. Defined contribution plans, that provide benefits to eligible employees, are based on the value of contributions paid into the applicable plan adjusted for investment returns.

The Company funded its defined benefit pension obligations at a level, which met or exceeded local legal requirements. Funded pension plan assets were primarily invested in equity and debt securities.

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Data with respect to benefit obligations, excluding those related to discontinued operations is as follows:

	Pension benefits U.K. plans		Pension benefits Overseas plans	
	2005 £ 000	2004 £ 000	2005 £ 000	2004 £ 000
<b>Change in benefit obligations:</b>				
Benefit obligation at beginning of year		2,444,000		245,000
Service cost		5,000		
Interest income		(1,000)		
Benefits paid		(1,000)		(1,000)
Divestitures		(2,447,000)		(244,000)
<b>Benefit obligations at end of year</b>				
<b>Change in plan assets:</b>				
Fair value of plan assets at beginning of year		2,237,000		134,000
Benefits paid		(1,000)		(1,000)
Divestitures		(2,236,000)		(133,000)
Fair value of plan assets at end of year				
Amounts recognized in the consolidated balance sheet consist of:				
Accumulated other comprehensive income				
<b>Net amount recognized</b>				

At May 19, 2003, the actuarial assumptions used were unchanged from March 31, 2003. The actuarial assumptions used to develop the periodic benefit cost and funded status was as follows:

	Pension benefits U.K. plans			Pension benefits Overseas plans		
	2005 %	2004 %	2003 %	2005 %	2004 %	2003 %
<b>Weighted average assumptions:</b>						
Discount rate for pension Expense		5.3	5.3		6.7	6.7
Discount rate for year end disclosure		5.3	5.3		6.0	6.0
Expected return on plan Assets		5.7	5.7		8.5	8.5
Rate of compensation increases		4.5	4.5		4.4	4.4
Rate of pension increases		2.5	2.5		0.5	0.5

The table below presents data with respect to net periodic benefit expense/(income) excluding those related to discontinued operations:

	Pension benefits U.K. plans			Pension benefits Overseas plans		
	2005	2004	2003	2005	2004	2003



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	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Components of net periodic Benefit						
Expense/(income):						
Service cost		4,000	26,000			7,000
Interest cost		1,000	138,000			14,000
Expected return on plan Assets			(138,000)			(13,000)
Amortization of unrecognized transition liability			3,000			
Net periodic benefit expense of defined benefit plans		5,000	29,000			8,000
Net curtailment loss						3,000
Net periodic benefit expense		5,000	29,000			11,000

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At March 31, 2004 the projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for pension plans which have an accumulated benefit obligation in excess of plan assets were £nil (2003, £2,689 million, £2,618 million, and £2,371 million respectively).

***Other post-retirement benefits***

At March 31, 2005 no active employees and no retired employees (2004, no active employees and no retired employees; 2003, no active employees and 1,730 retired employees) of companies in the United States of America and Canada were entitled to health care benefits after retirement.

All of the other post retirement plans are unfunded. The benefit cost charges and provisions for the liability are as follows:

	Post retirement Benefits March 31,	
	2005	2004
	£ 000	£ 000
Change in benefit obligations:		
Benefit obligations at beginning of year		29,000
Businesses disposed		(28,000)
Foreign currency exchange rate changes		(1,000)
Benefit obligations at end of year		
Funded status		
Unrecognized net actuarial gain		
Unrecognized prior service cost		
Net accrued benefit cost		

Data with respect to net periodic benefit cost is as follows:

	Post retirement benefits March 31,		
	2005	2004	2003
	£ 000	£ 000	£ 000
Components of net periodic benefit (income)/expense:			
Interest cost			2,000
Amortization of net gain			(1,000)
Net curtailment gain			(5,000)
Net periodic benefit income of other post-retirement plans			(4,000)

Different assumptions were made in relation to the cost of retiree health care benefits. For the majority of plans, the assumptions were as follows:

In fiscal 2004 and 2003, an annual rate of increase per capita in the cost of retiree health care benefits of 12% for 2003 (decreasing gradually over the following years to 6% in 2012) was assumed for all employees and retirees. The annual rate of increase in the cost of prescription drugs of 15% in 2003 (decreasing gradually over the following years to 6% in 2012) was assumed for all employees and retirees.

An increase or decrease of one percentage point in such assumed rates would have resulted in no change to the benefit obligation at March 31, 2005 and the service and interest cost components of the net periodic benefit cost for the year then ended.

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***Defined contribution plans***

The former U.S. subsidiaries of the Company operate 401(k) plans for eligible employees who contribute a percentage of their pre-tax compensation with the Company matching these contributions up to prescribed limits. For fiscal 2005, the matching contributions were £nil (2004, £1 million and 2003, £7 million).

**10. Segment and related information disclosures**

The Company's reportable segments for trading activities prior to the Financial Restructuring on May 19, 2003 have been determined based upon the nature of the products and services that were offered to its customers, which were managed separately and were comprised of the following:

The Network Equipment segment developed, manufactured, sold and supported optical networks, transmission systems and network management software for customers in the carrier network market. It also provided to customers in the carrier network market a broad range of access products. In addition, it supplied customers in both the carrier and the enterprise network markets a broad range of high-performance, high-capacity broadband switches, which select paths for sending large amounts of voice and data traffic through a network

The Network Services segment provided a broad range of support services to the communications industry worldwide tailored to suit customers' needs. It supported both the Company's products and those of other network equipment manufacturers.

The Other segment contains the Company's other investments and businesses not included in other segments.

Management referred to Network Equipment and Network Services in aggregate as the Core division and Other as the Capital division.

***Segmental performance***

Revenues and operating profits are measured on a segmental basis in accordance with U.K. GAAP for 2003. In 2004 all revenues and operating profits were analyzed as discontinued operations in the UK GAAP accounts but have been analyzed consistently with prior years below. The principal measurement differences between U.K. GAAP and U.S. GAAP as related to the information reported on a segmental basis are the result of differences in the accounting for pensions and post-retirement benefits, reorganization costs, goodwill and employee share options.

Capital employed is also reported under U.K. GAAP. It is not practicable to identify the total capital employed of network equipment and network services separately as the same assets are, generally, used to generate sales in each of these segments. The operating results of these segments are separately reportable.

Management uses the U.K. GAAP operating (loss)/profit before goodwill and intangible asset amortization, in-process research and development write-offs, U.K. GAAP exceptional items, gains and losses on business disposals and the impact of 50% or less owned affiliates as its measure of segment profitability. In the tables below, this measure is referred to as segment operating (loss)/profit.

The following tables present the Company's revenues, operating (loss)/income before exceptional items, goodwill amortization and other items, and other financial data from the Company's reportable segments

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presented in accordance with U.K. GAAP and then reconciled to U.S. GAAP financial information consolidated totals:

*Analysis of reportable segments (U.K. GAAP)*

As of and For the Year Ended March 31, 2005	Revenues £ 000	Segment operating (loss)/profit £ 000	Capital employed <sup>(2)</sup> £ 000
Network equipment			
Network services			
Other (including intra activity sales)		(226)	
Segment total U.K. GAAP		(226)	

As of and For the Year Ended March 31, 2004	Revenues £ 000	Segment operating (loss)/profit £ 000	Capital employed <sup>(2)</sup> £ 000
Network equipment	100,000	(28,000)	
Network services	68,000	4,000	
Other (including intra activity sales)		(14,000)	
Segment total U.K. GAAP	168,000	(38,000)	

As of and For the Year Ended March 31, 2003	Revenues £ 000	Segment operating (loss)/profit £ 000	Capital employed <sup>(2)</sup> £ 000
Network equipment	1,131,000	(259,000)	220,000
Network services	743,000	52,000	
Capital (net of intra segment revenue of £32)	40,000	(107,000)	(27,000)
Discontinued <sup>(1)</sup>	88,000	(2,000)	
Segment total U.K. GAAP	2,002,000	(316,000)	193,000

(1) For fiscal 2003 discontinued operations relate to mobile.

(2) Included in capital employed are the following: property, plant and equipment, inventory, accounts receivable, prepaid expense and other current assets, other non-current assets, accounts payable, accrued liabilities, non-current liabilities and other liabilities.



**Table of Contents*****Analysis of revenue by product (U.K. GAAP)***

	2005 £ 000	2004 £ 000	2003 £ 000
<b>Network Equipment:</b>			
Optical Networks		35,000	439,000
BBRS		9,000	142,000
European Access		19,000	258,000
North American Access		13,000	95,000
Outside Plant & Power		18,000	140,000
Other Network Equipment		6,000	57,000
<b>Total</b>		<b>100,000</b>	<b>1,131,000</b>
<b>Network Services:</b>			
IC&M		35,000	370,000
VAS		33,000	373,000
<b>Total</b>		<b>68,000</b>	<b>743,000</b>
<b>Total Network Equipment and Network Services revenues</b>		<b>168,000</b>	<b>1,874,000</b>
Total capital revenue			40,000
Total discontinued			88,000
<b>Total revenues</b>		<b>168,000</b>	<b>2,002,000</b>

***Reconciliation of U.K. GAAP segmental information to U.S. GAAP Revenue***

	2005 £ 000	2004 £ 000	2003 £ 000
Revenue in accordance with U.K. GAAP		168,000	2,002,000
Discontinued operations:			
Mobile			(106,000)
Revenue in accordance with U.S. GAAP		168,000	1,896,000

**Table of Contents***Operating (loss)/income*

	2005 £ 000	2004 £ 000	2003 £ 000
Segmental operating loss per U.K. GAAP	(226)	(38,000)	(316,000)
Amortization expense		(13,000)	(104,000)
Share of associates operating loss)			(89,000)
Operating exceptional items		(2,000)	(358,000)
<b>U.K. GAAP operating loss</b>	<b>(226)</b>	<b>(53,000)</b>	<b>(867,000)</b>
Joint ventures and associates operating loss			129,000
U.K. GAAP operating loss of discontinued operations			70,000
<b>U.S. GAAP adjustments:</b>			
Share option plans		(9,000)	(14,000)
Pension and other post-retirement benefits		(3,000)	11,000
Goodwill and intangible asset amortization and impairment			
Charges		7,000	37,000
Gain on disposal of businesses			5,000
Restructuring costs			18,000
Other	(1,108)		3,000
<b>U.S. GAAP operating income/(loss)</b>	<b>(1,334)</b>	<b>(58,000)</b>	<b>(608,000)</b>
Loss on investments, net			(45,000)
Gain on financial restructuring		2,183,000	
Gain on settlement of equity forward contracts		123,000	
Other income			34,000
Interest income	411	29,000	45,000
Interest expense			(329,000)
<b>U.S. GAAP income/(loss) from continuing operations before income taxes, minority interests and cumulative effects of changes in accounting principles</b>	<b>(923)</b>	<b>2,277,000</b>	<b>(903,000)</b>

*Capital employed/total assets*

	2005 £ 000	2004 £ 000
<b>Total U.K. GAAP segment capital employed</b>		
<b>U.K. GAAP capital employed</b>		
<b>U.S. GAAP adjustments:</b>		
Provisions for restructuring not included in U.S. GAAP capital employed	7,852	8,960
<b>Total U.S. GAAP assets</b>	<b>7,852</b>	<b>8,960</b>

*U.K. U.S. GAAP adjustments*



The following describes the significant U.K. GAAP to U.S. GAAP adjustments as they relate to segment information.

*Pension and other post-retirement benefits*

Under both U.K. GAAP and U.S. GAAP pension costs are provided for so as to provide for future pension liabilities. However, there are differences in the prescribed methods of valuation, which give rise to GAAP adjustments to the pension cost and obligation or prepayment. Furthermore, under U.K. GAAP the notional interest cost associated with the pension and post-retirement benefit obligation is classified as interest expense, whereas under U.S. GAAP it is classified with employee costs.

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**Table of Contents***Derivatives*

Under U.S. GAAP, the carrying amounts of certain hedged items are adjusted for gains or losses attributable to the hedged risk. This unrealized gain is offset by changes in the fair value of the derivative. Additionally, on the sale or early termination of the hedged items, gains and losses are immediately reclassified to other (income)/expense. Under U.K. GAAP, these gains and losses are amortized until the date of termination.

**Revenue by geography (U.S. GAAP)**

Revenue to unaffiliated customers by geographic region is as follows:

	Year ended March 31,		
	2005 £ 000	2004 £ 000	2003 £ 000
<b>Revenue by territory of destination:</b>			
United Kingdom		42,000	500,000
Other		58,000	668,000
Total Europe, Middle East, Africa (EMEA)		100,000	1,168,000
United States		50,000	519,000
Central and Latin America (CALA)		5,000	62,000
Other			15,000
Total the Americas		55,000	596,000
Asia Pacific (APAC)		13,000	132,000
Total external revenue		168,000	1,896,000

	Year ended March 31,		
	2005 £ 000	2004 £ 000	2003 £ 000
<b>Revenue by territory of origin:</b>			
United Kingdom		58,000	692,000
Italy		19,000	230,000
Other		21,000	219,000
Total Europe, Middle East, Africa (EMEA)		98,000	1,141,000
United States		58,000	534,000
Central and Latin America (CALA)		4,000	57,000
Other			18,000
Total the Americas		62,000	609,000
Asia Pacific (APAC)		8,000	146,000

Total external revenue	168,000	1,896,000
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No other individual country contributed more than 10% of revenue in any of the years reported.

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**Table of Contents****Revenue by product (U.S. GAAP)**

Revenue by product is as follows:

	Year ended March 31,		
	2005 £ 000	2004 £ 000	2003 £ 000
Optical networks		35,000	439,000
Access systems		50,000	493,000
Broadband routing and switching		9,000	142,000
Other network equipment		6,000	57,000
Network Equipment		100,000	1,131,000
Value-added services		33,000	373,000
Installation, commissioning and maintenance		35,000	370,000
Network Services		68,000	743,000
Total Core revenues		168,000	1,874,000
Capital businesses			22,000
Total external revenue		168,000	1,896,000

**Long-lived assets**

Within capital employed, the balance sheet measure reviewed by the chief operating decision maker, the only long-lived assets included are property, plant and equipment and other non-current assets.

Expenditure by sector on property, plant and equipment is as follows:

	Year ended March 31,		
	2005 £ 000	2004 £ 000	2003 £ 000
Network Equipment			34,000
Network Services			
Capital			1,000
Total			35,000
Discontinued operations			8,000
Total			43,000

The geographical split of property, plant and equipment and goodwill and intangibles is as follows:

	Year ended March 31,		
	2005 £ 000	2004 £ 000	2003 £ 000

United Kingdom	567,000
United States	249,000
Italy	48,000
Other	157,000
Total	1,021,000

Long-lived assets within other countries are not individually material for any fiscal year presented.

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**Table of Contents****11. Commitments and contingencies*****Legal proceedings***

Under the M (2003) plc scheme of arrangement, any and all legal claims against M (2003) plc as at March 27, 2003, whether liquidated or unliquidated, or actual or contingent, were compromised. Therefore, there are no circumstances under which any of these claims will result in liability for M (2003) plc. Certain of these claims, however, may result in payments by the M (2003) plc scheme of arrangement. Where such a claim is pending or threatened and may have or has had in the recent past, including at least the 12 months immediately preceding the date of this prospectus, a significant effect on the financial position of the scheme as a whole, this is set out below. Where a liquidated sum is claimed, a *de minimis* figure of £5 million has been applied in determining which claims may have a significant effect. The figures given are the full amounts claimed by the claimants in each case, which may be much greater than the amounts the claimants realistically believe they can recover. We and our other former group companies intend to defend claims vigorously. While we believe that we have meritorious defenses, the duration and outcome of the litigation are not predictable at this point.

The following represents the largest recent or outstanding claims made against us:

Marconi Corporation plc, M (2003) plc, Marconi Inc. and Marconi Data Systems Inc. are defendants in an action brought by a former employee, Thomas Edeus, or Edeus. The complaint asserts three causes of action; firstly that Edeus was unlawfully deprived of benefits to which he was entitled under Marconi Data Systems Inc's United States severance plan; secondly for failure to provide Edeus with a summary plan description relating to the severance plan; and thirdly for age discrimination in employment. The plaintiff has purported to have made out claims in various specified amounts totaling over U.S.\$901,000, some of which may be in the alternative, and also unspecified punitive damages, liquidated damages and front and back pay, making the impact of this claim on us and the former group difficult to assess. An answer and affirmative defenses have been filed on behalf of all defendants. On June 5, 2003, the court entered an order providing as follows:

Plaintiff having advised the court that one or more defendants [sic] are in Bankruptcy, this action is placed on the court's [suspense] calendar pending disposition of the bankruptcy case. Plaintiff is directed to file a notice for hearing a motion to reinstate upon disposition of the bankruptcy proceedings. Potential liabilities in respect of the claim against Marconi Corporation plc and M (2003) plc were compromised pursuant to our restructuring.

In April 2002, 11 former employees of Ten Square Inc. brought a claim against directors of their company for fraud in reducing their compensation package before liquidating the company and restarting it under a different name. The claim was for \$2,160,050.91, plus \$1 million in punitive damages for all plaintiffs (it is unclear if this was for each of the plaintiffs or in total). The plaintiffs alleged that M (2003) plc was a director of Ten Square Inc. although in fact M (2003) plc only had a right to appoint a director, a right M (2003) plc had not recently exercised. Marconi Ventures was also named as a plaintiff on September 9, 2002. The plaintiffs did not serve proceedings upon M (2003) plc and on October 24, 2002 an order for the dismissal of the claim against M (2003) plc was entered. However, M (2003) plc was named in the second amended complaint which was filed on December 24, 2002. M (2003) plc is aware of the action but has not served and is not yet a party to it. Potential liabilities in respect of the claim against M (2003) plc have been compromised pursuant to the M (2003) plc scheme of arrangement.

We are not and have not been engaged in, nor, so far as we are aware, do we have pending or threatened by or against us, any legal or arbitration proceedings which may have or have had in period since March 27, 2003, a significant effect on our financial position as a whole.

**Table of Contents****Purchase commitments**

In the ordinary course of business the Company entered into contracts for capital expenditures as set out below:

	Capital expenditure commitments		
	2005	2004	2003
	£ 000	£ 000	£ 000
At March 31			4,000

**Leases**

The Company leases certain facilities and equipment under operating leases, many of which contain renewal options and escalation clauses. Total rental expense for fiscal 2005 was £nil (2004, £nil and 2003, £34 million).

At March 31, 2005, minimum future rental commitments under operating leases having non-cancelable lease terms in excess of one year are £nil (2004, £nil, 2003, £34 million)

**14. Investments in affiliates****Fiscal 2004**

All investments in affiliates were disposed of as a result of the Financial Restructuring on May 19, 2003, as described in note 3.

**Fiscal 2003**

At March 31, 2003, the Company had two investments, which it accounted for using the equity method, Easynet Group plc (Easynet) and Confirmant. At March 31, 2002 Ultramast was also accounted for using the equity method.

In February 2003, the Company completed the disposition of Ultramast through a capital reduction and settled all litigation associated with Ultramast. As a result, the Company acquired an additional 1.3 million ordinary shares in Easynet, which increased its equity holding to 72.7% and its holding of voting shares to 51.6%. Under the Articles of Association of Easynet and the Company's Relationship Agreement with

Easynet, the Company's voting rights were limited to 49.9%. Accordingly, despite ownership of a majority-voting shareholder, the Company determined that it did not control Easynet in the period and the Company continued to account for its investment in Easynet using the equity method of accounting. In addition to the Easynet shares, the Company also received cash proceeds of £41 million reflecting a gain on disposal of £14 million.

*Summarized financial information for investment in affiliates is as follows:*

There are no assets or liabilities as at March 31, 2005 or March 31, 2004.

	2005	March 31, 2004	2003
	£ 000	£ 000	£ 000
<b>Statement of operations data</b>			
Revenues			89
Operating (loss)/income			(74)
Net (loss)/income			(81)

**Table of Contents****15. Investment in securities**

During fiscal 2005, an impairment charge of £nil (2004, £nil, and 2003, £38 million) was recorded in the statement of operations related to declines in value of equity securities judged to be other than temporary.

On May 19, 2003 the investment in securities were disposed of as part of the Financial Restructuring described in note 3. There were no equity securities as at March 31, 2005 or March 31, 2004.

**16. Shareholders equity**

Holders of ordinary shares in the Company are entitled to one vote per share on matters to be voted on by the shareholders, and to receive dividends when and as declared by the board. Shareholders are not entitled to pre-emptive rights and have no subscription, redemption or conversion privileges. The ordinary shares do not have cumulative voting rights. The rights, preferences and privileges of holders of ordinary shares are subject to the rights of the holders of shares of any series of preferred shares issued or that may be issued in the future.

**17. Employee stock option plans**

Prior to the Financial Restructuring the Company accounted for employee stock option plans under APB 25 and had nine plans under which it granted options: the GEC Employee 1992 Savings-Related Share Option Plan, the GEC 1984 Managers Share Option Plan, the GEC 1997 Executive Share Option Plan, the Marconi 1999 Stock Option Plan, the Marconi U.K. Sharesave Plan, the Marconi International Sharesave Plan, the Marconi Launch Share Plan, the Marconi Long Term Incentive Plan and the Marconi Phantom Option Plan. In addition, during fiscal 2002, the Company granted options in its ADR s under the Marconi Employee Stock Purchase Plan for the Company s employees in North America.

As of March 31, 2003, the Company had granted options under the following eight plans in respect of the acquisitions of Reltec, Mariposa, MSI and Northwood Technologies: the 1998 Equity Participation Plan of Reltec Corporation, the amended and restated 1995 Stock Purchase and Option Plan for employees of Reltec Holdings Inc., and subsidiaries, the MSI 1995 Stock Option Plan, the MSI 1999 Stock Option Plan, the MSIH Stock Option Plan, the Mariposa Technology, Inc. 1998 Employee Incentive Plan and the Marconi Restricted Share Plan.

Under the terms of the stock option plans, employees have been granted rights to purchase ordinary shares and/or phantom options. The terms of the grant vary and each of the main plans is described below.

At the date of the Financial Restructuring, options outstanding under the majority of plans lapsed as the employees were no longer employed by a group company. For the remaining share options issued under variable plans, the compensation cost has been re-measured on the basis of a £nil value of M (2003) plc stock at March 31, 2004 because the Company s shares were delisted as part of the restructuring. The full expense has been recognized in the current year rather than over the vesting period as the options are not expected to hold any future value.

**Plans under which options were still outstanding in respect of the Company s ordinary shares at March 31, 2005:*****Non-savings related plans******The Marconi Launch Share Plan***

Under this plan, employees at November 30, 1999 were, at the discretion of the board, granted the right to receive up to 1,000 Company ordinary shares, which would be exercisable provided that two conditions are met. The first condition is that the market price of a Company ordinary share must have doubled from 801.5p to £16.03 during the period between November 30, 1999 and November 30, 2004. The second condition is that a participant must normally remain in employment until November 30, 2002 or, if later, at the time that the first condition is met. The Company applied variable plan accounting for grants under this plan and would



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have accounted for the compensation expense if the first condition had been met. At March 31, 2004, 19,589,228 Company shares were outstanding to be purchased under the plan.

*Metapath Software Corporation Amended and Restated 1995 Stock Option Plan, the Metapath Software International, Inc. Amended and Restated 1999 Stock Option Plan, and the Mobile Systems International Holdings Limited Share Option Plan.*

Each of these option plans had been in place over MSI shares prior to the acquisition by the Company in June 2000. Following the acquisition, MSI option holders who would become employees of the Company exchanged options over MSI shares for options over Marconi plc shares. Following the exchange the option holder was kept in the same economic position as before the exchange through an adjustment to the exercise price and an increase in the number of shares under option. The option holder was given a choice to retain their options with their existing vesting schedule, or to elect to accept an amended vesting schedule (vesting one third of their options on each of the first, second and third anniversaries of the acquisition) together with an award of restricted stock over the same number of shares as they had shares under option. Compensation expense was recognized on the shares that were unvested at the acquisition date (based on the intrinsic value of the shares as of the acquisition date) over the vesting period. The fair value of all shares issued at the date of acquisition, less the amount allocated to compensation expense, has been recorded as a cost of the acquisition. Certain arrangements under the Marconi Restricted Share Plan, the Marconi 1999 Stock Option Plan, the MSI 1995 Plan and the MSIH Plan were modified subsequent to acquisition. As a result, the modified arrangements became subject to variable accounting.

At March 31, 2004, 2,530,225 Company shares were outstanding. For fiscal 2004, a charge of approximately £2 million has been recorded related to these plans to recognize in full the remaining compensation cost relating to the outstanding shares.

*Mariposa Technology, Inc. 1998 Employee Incentive Plan*

Prior to the acquisition by the Company in October 2000, options had been granted under The Mariposa Technology, Inc. 1998 Employee Incentive Plan over Mariposa Technology, Inc. shares. Following the acquisition, option holders who would become employees of the Company exchanged options over Mariposa Technology, Inc. shares for options over Company shares. Following the exchange the option holder was kept in the same economic position as before the exchange through an adjustment to the exercise price and an increase in the number of shares under option. Compensation expense was recognized on the shares that were unvested at the acquisition date (based on the intrinsic value of the shares as of the acquisition date) over the vesting period. The fair value of all shares issued at the date of acquisition, less the amount allocated to compensation expense, has been recorded as a cost of the acquisition.

At March 31, 2004, 320,684 Company shares were outstanding. For fiscal 2004, a charge of approximately £7 million has been recorded related to these plans to recognize in full the remaining compensation cost relating to the outstanding shares.

*The Marconi Long Term Incentive Plan*

Under the long term incentive plan (LTIP), participants could be granted performance-related awards entitling them, at the end of a three-year period, to be granted a right to call for a number of ordinary shares of the Company without payment based on corporate performance of the business in which they worked and of the Company as a whole over that period. The annual award was limited to a maximum value of 50% of base salary. Any right so granted would normally become exercisable in three equal tranches. The first tranche would become exercisable immediately, and the second and third tranches would normally become exercisable on the first and second anniversaries of the date of grant. All full-time employees of the Company, directors of the Company and executive directors of the Company were eligible to participate in the long-term incentive plan, at the discretion of the remuneration committee of the board of directors of the Company. No newly issued shares could be used to satisfy options under this plan. The Company applied variable plan accounting for grants under this plan and recognized compensation cost when achievement of

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the performance conditions became probable. No new shares were granted during the year and no charges were recorded. At March 31, 2003, 617,963 Company shares were outstanding.

**Additional plans at March 31, 2003:**

***Savings related plans***

*The Marconi U.K. Sharesave Plan*

All employees of participating U.K. companies including full-time executive directors were eligible to participate in the U.K. sharesave plan. Under this plan, participants were granted options to purchase shares with an exercise price not less than 80% of the market value of a Company ordinary share on the trading day immediately before the invitation day (as defined in the rules of the plan). In order to participate, each employee must have entered into a savings contract with a specified financial institution under which they agreed to make monthly contributions, not exceeding £250 per month in aggregate. The savings contracts typically expired on the third or fifth anniversary of the date of grant. The plan was compensatory and compensation expense was recorded over the vesting period.

At May 19, 2003, the outstanding options lapsed due to the Financial Restructuring as a result of which the participants were no longer employees of the Company.

*The Marconi International Sharesave Plan*

The international sharesave plan, at the discretion of the board of directors of Marconi plc permitted employees of the Company who were resident outside the U.K. to participate in a share option plan that was substantially similar to the U.K. sharesave plan. Unlike the U.K. sharesave plan, under the international sharesave plan the savings contracts could not generate the exact amount required to exercise the options because of currency fluctuations and interest rate differences. Additional cash may have been required when the options were exercised, however, any excess savings generated could not be used to purchase additional shares.

At May 19, 2003, the outstanding options lapsed due to the Financial Restructuring as a result of which the participants were no longer employees of the Company.

*The Marconi International Sharesave Plan Italian Appendix*

All employees and executive directors whose remuneration was subject to taxation in Italy were eligible to participate in the Italian Appendix of the International Sharesave Plan. Under the Italian Appendix of the International Sharesave Plan, participants could exercise options to purchase shares with an exercise price not less than the market value of a Company ordinary share averaged over the 30 trading days immediately before the date of grant. Upon exercise, participants would be gifted such number of additional shares as could be purchased on the market with 10% of their total accumulated savings and interest. In order to participate, each employee must have entered into a savings contract with a specified financial institution under which they agreed to make monthly contributions, not exceeding the Italian Lira/ Euro equivalent of £250 per month in aggregate.

At May 19, 2003, the outstanding options lapsed due to the Financial Restructuring as a result of which the participants were no longer employees of the Company.

*The Marconi Employee Stock Purchase Plan for Employees in North America*

All employees of participating U.S. and Canadian companies were eligible to participate in the Stock Purchase Plan. Employees could purchase shares with after-tax payroll deductions at the end of an Offering Period, at a price not less than 85% of the lower of the closing price of a share on the Offering Date and the closing price of a share on the Purchase Date (as defined in the rules of the Plan). No employee could purchase shares pursuant to the Stock Purchase Plan at a rate, which exceeded U.S.\$25,000 in any calendar

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year or such lower limit as the Company specified from time to time. This plan was non-compensatory in nature.

At May 19, 2003, the outstanding options lapsed due to the Financial Restructuring as a result of which the participants were no longer employees of the Company.

***Non-savings related plans******The Marconi 1999 Share Option Plan***

All employees and full-time executive directors were eligible to be granted options under the option plan at the discretion of the remuneration committee. Options granted prior to July 2001 to participants were not normally exercisable unless our earnings per share over a period of at least three financial years exceeded the growth in the U.K. Retail Price Index by at least an average of 3% per year. Options granted after July 2001 became exercisable over periods and subject to conditions defined by the remuneration committee. Options granted under the plan in November 2001 became progressively exercisable over four years and were subject to conditions related to reduction in the Company's consolidated net debt and the Company's total shareholder return being better than that of the company at the fiftieth percentile of FTSE 100 companies. Options entitled the option holder to acquire Company ordinary shares at a price per share determined by the remuneration committee, not less than the market value of a Company share shortly before the date of grant.

The Company applied variable plan accounting for grants under this scheme and recognized compensation cost if achievement of the performance conditions became probable.

At May 19, 2003, the outstanding options lapsed due to the Financial Restructuring as a result of which the participants were no longer employees of the Company.

***The Marconi Phantom Option Plan***

In June 1999, the GEC remuneration committee adopted the phantom option plan for the purpose of granting incentives relating to any increase in our value primarily to executives and employees of Reltec and Fore Systems following our acquisition of those businesses. From November 1999, the Company operated the phantom option plan and made awards by reference to Company shares and previous awards (grants made between June 1999 and November 1999 in relation to GEC Shares) were adjusted so that they related to Company shares on a value-for-value basis. Following the adjustment the holder of a phantom unit was kept in the same economic position as before through an adjustment to the exercise price and an increase in the number of units. A phantom option is similar to a share option except that it is a cash-based award granted in relation to a stated number of phantom units, each of which has the same economic value as a Company ordinary share. Upon exercise of a phantom option, the holder was entitled to receive a cash payment equal to the difference between the base price of the phantom option (normally corresponding to the market value of a Company ordinary share at the time the phantom option was granted) and market value of a Company ordinary share on the date of exercise. The Company may give notice to participants that it elects to substitute options to acquire real Company ordinary shares for phantom options. If such an election is made, a participant would be required on exercise to pay an amount equal to the base price of the phantom options to the Company and would receive Company ordinary shares. Options were normally exercisable between the third and tenth anniversaries of grant. The Company recognized compensation expense measured at the end of each period as the amount by which the quoted market value of a Company share exceeded the unit price payable by the unit holder. The expense was recognized over the service period. Changes, either increases or decreases, in the quoted market value of the shares between the date of grant and the date the phantom options were exercised result in a change in the compensation expense to be recognized.

Where the phantom options were granted in exchange for Reltec and Fore System's options as part of those business combinations, the fair value of those options was treated as part of the respective purchase prices.

At May 19, 2003, the outstanding options lapsed due to the Financial Restructuring as a result of which the participants were no longer employees of the Company.

**Table of Contents***Marconi Restricted Share Plan*

The Restricted Share Plan was introduced to enable the Company to award share based incentives to employees of companies which the Company acquired. The Remuneration Committee had discretion to make awards of restricted stock, which entitled the employee to call for shares at £nil cost once the stock had vested. The stock vested either at certain specified times or subject to the satisfaction of performance conditions. In practice the performance conditions imposed generally related to specific integration targets or business goals of the acquired company. Once the restrictions had ended or the conditions had been met, the restricted share vested and would either be automatically released (in the case of U.S. employees) or could be called for by the employee (in all other jurisdictions). The Company applied variable plan accounting for grants under this plan, and compensation expense was recorded over the vesting period.

At May 19, 2003, the outstanding options lapsed due to the Financial Restructuring as a result of which the participants were no longer employees of the Company.

*The Marconi Associated Companies Share Option Plan*

The associated companies option plan enabled options to be granted to executives of companies in which the Company had a direct or indirect equity interest of between 20% and 50%. The terms of the associated companies option plan were substantially similar to the Marconi 1999 Share Option Plan. No options were granted under this plan.

*Existing GEC share option plans*

Options plans similar to the Marconi 1999 Stock Option Plan and the Marconi U.K. Sharesave Plan had been in place over GEC shares. There was a non-compensatory plan known as the 1992 Savings-Related Scheme. There was a fixed plan known as the 1984 Managers Scheme (1984 Scheme). There was a variable plan known as the 1997 Executive Scheme (1997 Scheme). During fiscal 2000, option holders who would remain employees of the Company were able to exchange options over GEC shares for options over Company shares. Following the exchange the option holder was kept in the same economic position after the exchange as before the exchange through an adjustment to the exercise price and an increase in the number of shares under option. The exchange resulted in no change in measurement date for either the 1992 Savings-Related Scheme or the 1984 Scheme. As performance conditions in respect of the 1997 Scheme ceased to apply, the measurement date for this option plan occurred. These performance conditions were the achievement of earnings per share targets and a vesting period. Option holders in the three plans who would not remain employees of the Company were able to exercise their options.

At May 19, 2003, the outstanding options lapsed due to the Financial Restructuring as a result of which the participants were no longer employees of the Company.

*The 1998 Equity Participation Plan of Reltec Corporation, the Amended and Restated 1995 Stock Purchase and Option Plan for Employees of Reltec Holdings, Inc. and Subsidiaries**The Northwood Technologies Inc. Stock Option Plan*

Prior to the acquisition by the Company in October 2002, Northwood Technologies Inc. (Northwood) granted options under the Northwood Technologies Inc. stock option plan over Northwood shares. Following the acquisition by the Company, option holders who would become employees of the Company exchanged options over Northwood shares for options over 70,536 Company shares. Following the exchange, the option-holder was kept in the same economic position as before the exchange through an adjustment to the exercise price and an increase in the number of shares under option. Compensation expense was recognized on the shares that were unvested at the acquisition date (based on the intrinsic value of the shares as of the acquisition date) over the vesting period. The fair value of all share issued at the date of acquisition, less the amount allocated to compensation expense, was recorded as a cost of the acquisition.

At May 19, 2003, the outstanding options lapsed due to the Financial Restructuring as a result of which the participants were no longer employees of the Company.

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Option activity under the non-savings related plans is as follows:

	Number of shares	Weighted average exercise price
Outstanding March 31, 2003	197,121,951	3.24
Granted		
Lapsed	(174,063,851)	3.61
Exercised		
Outstanding March 31, 2004	23,058,100	0.43
Granted		
Lapsed		
Exercised		
Outstanding March 31, 2005	23,058,100	0.43

All options were granted with an exercise price equal to the market value of shares as of date of grant, with the exception of those granted for acquisitions and the LTIP as noted above.

Of the total number of non-savings related options outstanding at March 31, 2005, none are expected to be exercised as the Company's shares were delisted as part of the Financial Restructuring and there are no circumstances under which any value will be attributed to these share options. All options are considered to be anti-dilutive.

Additional information regarding all options outstanding as of March 31, 2005 is noted in the table below:

Range of exercise prices (£)	Total options outstanding			Total options exercisable	
	Total number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (£)	Number exercisable	Weighted average exercise price (£)
Nil	20,207,191	2.59	nil	617,963	nil
0.03 0.2	66,715	2.54	0.19	66,715	0.19
0.35 0.8	324,118	5.71	0.56	324,118	0.56
1.22 2.66	1,708,105	5.21	2.12	1,708,105	2.12
2.73 4.72	63,367	4.61	2.91	63,367	2.91
6.85 9.57	688,604	5.89	8.73	688,604	8.73
nil 9.57	23,058,100	2.93	0.43	2,850,909	3.51

**18. Fair values of financial instruments**

The carrying amounts and fair values of material financial instruments at March 31, 2005, and 2004 were £nil.

The following methods and assumptions were used in estimating the fair values of financial instruments:

***Equity forward contracts***

At March 31, 2003 the carrying value and fair value of the equity forward contracts was £158 million. As a result of the Financial Restructuring, which was concluded on May 19, 2003, an agreement was reached and these equity forward contracts were settled for £35 million. See note 2, Summary of significant accounting policies, for further discussion of these equity forward contracts.

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**Table of Contents****19. Valuation and qualifying accounts**

<b>Description</b>	March 31, 2004 £	Additions/ (release) £	Net effect of acquisitions less disposals £	Effect of exchange rate changes £	Utilization £	March 31, 2005 £
Allowance for doubtful accounts						
Warranty reserve*						
<b>Total</b>						
<b>Description</b>	March 31, 2003 £	Additions/ (release) £	Net effect of acquisitions less disposals £	Effect of exchange rate changes £	Utilization £	March 31, 2004 £
Allowance for doubtful accounts	78,000	(2,000)	(76,000)			
Warranty reserve*	43,000	2,000	(43,000)		(2,000)	
<b>Total</b>	121,000		(119,000)		(2,000)	
<b>Description</b>	March 31, 2002 £	Additions/ (release) £	Effect of exchange rate changes £	Utilization £	March 31, 2003 £	
Allowance for doubtful accounts	167,000	(10,000)	(7,000)	(72,000)	78,000	
Warranty reserve*	29,000	49,000 <sup>(1)</sup>	(1,000)	(34,000)	43,000	
<b>Total</b>	196,000	39,000	(8,000)	(106,000)	121,000	

(1) The addition of £49 million in fiscal 2003 includes a £12 million change in liability in respect of the estimated pre-existing warranties at April 1, 2002.

In light of the declining market and economic trends the Company was experiencing, a provision against bad and doubtful debts of £150 million was charged during fiscal 2002. Of this amount, £10 million was reassessed and released to the profit and loss account in fiscal 2003.





**Table of Contents****20. Earnings per share**

The following table reconciles net (loss)/income available for ordinary shareholders and the weighted average ordinary shares outstanding for basic and diluted earnings per ordinary share for the periods:

	2005 £ 000	March 31, 2004 £ 000	2003 £ 000
Net (loss)/income	(1,108)	2,276,000	(807,000)
Basic (loss)/earnings per ordinary share:			
Weighted average ordinary shares outstanding	2,793.0	2,793.0	2,792.6
Basic (loss)/earnings per ordinary share		0.92	(0.29)
Diluted (loss)/earnings per ordinary share:			
Weighted average ordinary shares outstanding	2,793.0	2,793.0	2,792.6
Effect of dilutive options			
	2,793.0	2,793.0	2,792.6
Diluted (loss)/earnings per ordinary share		0.92	(0.29)

For the fiscal years ended March 31, 2005, 2004 and 2003, the effect of share options is anti-dilutive and has therefore been excluded from the calculation of diluted weighted average number of shares.

**21. Income taxes**

The geographic analysis of income /(loss) from continuing operations before income taxes, minority interests and cumulative changes in accounting principles is as follows:

	2005 £ 000	March 31, 2004 £ 000	2003 £ 000
United Kingdom	(923)	2,304,000	(673,000)
Non-United Kingdom		(27,000)	(230,000)
Total	(923)	2,277,000	(903,000)

Income tax benefit/(provision) includes:

	2005 £ 000	March 31, 2004 £ 000	2003 £ 000
Current income taxes			
United Kingdom	(185)		155,000
Non-United Kingdom		(1,000)	32,000
Total current taxes	(185)	(1,000)	187,000
Deferred income taxes			
United Kingdom			29,000
Non-United Kingdom			(7,000)

Total deferred taxes			22,000
Total income taxes	(185)	(1,000)	209,000

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The differences between the Company's tax on profit on ordinary activities, and the statutory income tax rate in the United Kingdom are as follows:

	2005 £ 000	March 31, 2004 £ 000	2003 £ 000
Taxes computed at the statutory rate: (30% 2005, 2004 and 2003)	(277)	683,000	(271)
Non-deductible intangible amortization and impairment charge			
Non-U.K. tax rate differences			(9)
Non-deductible/(non-taxable) items	462	(682,000)	(30)
Changes in reinvestment position			
Valuation allowances on losses and other assets			38
Other, net			3
Income tax (benefit)/provision	185	1,000	(209)
Effective tax rate	20%	0%	23.1%

All deferred tax assets or liabilities were eliminated when the assets, liabilities and businesses to which they relate were disposed as part of the Financial Restructuring of May 19, 2003.

The Financial Restructuring was implemented by way of two separate schemes of arrangement under section 425 of the U.K. Companies Act 1985. As a result, the gain on disposal described in note 3 will not give rise to any taxable amounts.

The tax on discontinued operations and on the disposal of discontinued operations is £nil.

**22. Related party transactions**

The Company and its subsidiaries have had no related party transaction during the fiscal year 2005. The Company and its subsidiaries had sales and purchases during the year with equity investments, joint ventures and associates, which are not consolidated, during fiscal 2004 and 2003. All transactions are in the ordinary course of business. The primary transactions between the Company and related parties are summarized as follows:

	Year ended March 31, 2004	
	MMFG <sup>(1)</sup> £ 000	Other £ 000
<b>Statement of operations:</b>		
Net sales		4,000

	Year ended March 31, 2003	
	MMFG <sup>(1)</sup> £ 000	Other £ 000
<b>Statement of operations:</b>		
Net sales		30,000

**Statement of operations:**

Net sales	30,000
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**Balance sheet:**

Trade receivables	26,000
Trade payables	9,000

(1) MMFG Marconi Medical Financial Group (formerly known as Picker Financial)  
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All the contracts and other arrangements are with Atlantic Telecommunications Limited/ GaMMa, Alstom and the joint ventures described below which management believe have been on arm s-length terms and which were part of the Group prior to the Financial Restructuring on May 19, 2003.

***Atlantic Telecommunications Limited/ GaMMa***

The Company owned 19.7% of Atlantic Telecommunications Limited (Atlantic). Atlantic went into administration on October 5, 2001. GaMMa acquired certain assets from Atlantic in bankruptcy. The Company received a 14.3% beneficial holding in GaMMa in December 2001, in consideration of the waiver of retention of title claims against certain assets of Atlantic, the grant of software licenses and procurement of the assignment of the indefeasible right of use terms granted by Easynet. Under the terms of the agreement with GaMMa, the Company received warrants equating to 1.7% of the authorized share capital of GaMMa.

***CosmoCom***

As of June 18, 2003, Capital Limited owned 5.7% of CosmoCom, Inc. CosmoCom, Inc. develops and deploys call center products and services. Marconi Communications International Limited, or MCIL, entered into a Value Added Reseller Agreement with CosmoCom, Inc. on March 3, 2000, as amended by Amendment No. 1, dated September 8, 2000, the VAR, whereby would act as a reseller of certain CosmoCom, Inc. products. Subject to other terms of the VAR, including the termination provisions contained therein, MCIL was required to purchase products and/or services of \$12,000,000 over approximately a three year period. On or about October 29, 2001, MCIL advised CosmoCom, Inc. that it was terminating the VAR, and is making no further purchases at this time. During the term of the VAR, purchased approximately \$1.5 million of products and/or services. MCIL and CosmoCom are currently involved in litigation wherein each party asserts that the other party has breached the VAR.

***Marconi (Malaysia) SDN BHD***

Marconi Communications S.p.A. owns a 30% shareholding in Marconi (Malaysia) SDN BHD, a business that sells and installs telecommunications equipment. During the fiscal year ended March 31, 2003, the Company supplied network equipment products totaling £23.1 million to Marconi (Malaysia) SDN BHD, at arm s-length terms.

***Ultramast***

The Company formed a joint venture company with Railtrack Telecom Services Limited, or RTSL, on April 26, 2001 to support the deployment of next generation broadband wireless networks. The Company and RTSL each had a 50 percent interest in the joint venture company until February 2003 when the Company settled litigation with RTSL and RTSL assumed full control of Ultramast. Albany Partnership Ltd., or APT, a wholly owned subsidiary of the Company, has a consultancy agreement with Ultramast to provide it with telecommunications consultancy services to design, construct and maintain masts for the next generation networks. Ultramast also has an agreement with ipsaris Limited under which ipsaris is nominated as the preferred supplier for connectivity for the telecommunications network.

***Confirmant***

Confirmant is a 50-50 joint venture between Marconi Corporation plc and Oxford Glyco Sciences (U.K.) Limited, a wholly owned subsidiary of Oxford Glyco Sciences plc. Confirmant was formed in June 2001 for the purpose of completing and then offering for subscription a proteomic database and for providing managed hosting services to the biotech sector. Although the Company s outstanding contracts with Confirmant have not been formally cancelled, all members of the Confirmant board of directors have acknowledged that they are de facto cancelled and, therefore, the Company has no remaining liability under those contracts.

**Table of Contents*****Easynet Group plc***

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

No significant transactions with directors or other executive officers of the Company have occurred during fiscal 2004, 2003 or 2002. Sir Alan Rudge, a non-executive director of the Company and non-executive chairman of MSI (acquired in 2001), held a substantial number of share options in MSI. At completion, he received approximately \$5.3 million from MSI in respect of the cancellation of his options. Sir Alan Rudge did not participate in that part of any board meeting, which considered the acquisition of MSI, nor did he receive any board papers related thereto.

**23. Subsidiary company and equity investee information**

The following table provides information on the principal subsidiary undertakings and other associated companies that the Company considers to have had a significant impact on the assessment of the assets and liabilities, the financial position and/or the profits and losses of the Company to March 31, 2004. Except where stated otherwise, each of these companies was wholly owned by a member of the Company and the share capital was fully paid up to May 19, 2003.

Name	Registered Office
<b>Network Equipment and Services</b>	
Marconi Communications Limited	New Century Park, PO Box 53, Coventry CV3 1HJ, England
Marconi Communications S.p.A. Marconi Communications, Inc.	Via Ludovico Calda 5, 16153 Genoa, Italy c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, 19801, U.S.A
Marconi Communications GmbH	Gerberstrasse 33, D 71522 Backnang, Germany
<b>Capital</b>	
Marconi Mobile S.p.A. <sup>(1)</sup>	Via A. Negrone 1/A, 16153 Genoa, Italy
<b>Other Associated Companies</b>	
Easynet Group plc (72.7% group equity share; 49.9% voting share) <sup>(2)</sup>	44-46 Whitfield Street, London W1T 2RJ, England

(1) Marconi Mobile S.p.A. was sold as part of the disposal of Marconi Mobile Holdings S.p.A. to Finmeccanica S.p.A. on August 2, 2002.

(2) See note 14, Investments in affiliates.

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The undertakings in which the Company's interest at March 31, 2005 of more than 20% are as follows:

<b>Undertakings</b>	<b>Country of incorporation</b>	<b>Principal activity</b>	<b>Class and percentage of ordinary shares held</b>
Ancrane	England and Wales	Non trading	100%
M Ansty Limited	England and Wales	Dormant	100%
M Nominees Limited	England and Wales	Dormant	100%
Photonika Limited	England and Wales	Dormant	100%
Yeslink Unlimited*	England and Wales	Dormant	100%

\* Yeslink Unlimited is a subsidiary of Photonika Limited.

All other subsidiary undertakings were disposed of as part of the Financial Restructuring on May 19, 2003 described in note 3.

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