MARCONI PLC
Form 20-F
September 25, 2003

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As filed with the Securities and Exchange Commission on September 25, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

(Mark One)

o	**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**
	OR
x	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the fiscal year ended March 31, 2003
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the transition period from to

Commission File Number 333-12430

Marconi plc

(Exact name of Registrant as specified in its charter)

ENGLAND AND WALES
(Jurisdiction of incorporation or organization)

New Century Park

P.O. Box 53
Coventry
Warwickshire CV3 1HJ
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:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
$900,000,000 7 3/4% Bonds due 2010 of Marconi Corporation plc
$900,000,000 8 3/8% Bonds due 2030 of Marconi Corporation plc

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of March 31, 2003:
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 x NO o

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

ITEM 17 o ITEM 18 x

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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, 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 Marconi plc and Marconi Corporation plc. As a result of the restructuring, Marconi Corporation plc became the new parent company of the Marconi group and Marconi plc ceased to be a member of the Marconi group. Marconi 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 Marconi plc and, prior to May 19, 2003, its subsidiari and joint ventures, as the context requires.

Under the terms of the Marconi plc scheme of arrangement, all of the assets of Marconi plc, other than those necessary to fund the administration of the scheme, will be distributed to its creditors over time in accordance with the scheme of arrangement. We expect to liquidate or dissolve Marconi plc after the completion of these distributions to its creditors. While Marconi plc shares, and ADRs representing Marconi plc shares, remain outstanding following the effectiveness of the financial restructuring, we believe that there will be no circumstances under which any additional value will be returned to shareholders of Marconi plc. As that is the case, we believe Marconi plc shares and ADRs are effectively worthless.

Marconi 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.

Some of the market share information and other statements in this annual report regarding our former position relative to our competitors with respect to the manufacture or distribution of particular products are not based on published statistical data or information obtained from independent third parties. Rather, such information and statements reflect our management s best estimates based upon information obtained from our customers and from trade and business organizations and associations and other contacts within the industries in which we competed. Unless otherwise specified or the context otherwise requires, market share and market data are based on fiscal 2003 sales.

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 2003 represents the fiscal year beginning on April 1, 2002 and ending on March 31, 2003.

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. Other than in Item 5: Operating and Financial Review and Prospects and our consolidated financial statements beginning on page F-1, all segment information is presented solely on a U.S. GAAP basis.

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

The information concerning equity affiliates contained in this annual report, including financial information, has been taken from or based upon publicly available documents and, where applicable, records on file with the U.S. Securities and Exchange Commission (SEC), supplemented by additional information obtained in our capacity as shareholders.

Solely for convenience, this annual report contains translations of certain U.K. pounds sterling amounts into U.S. dollars at specified rates. These are simply translations and you should not expect that a U.K. pounds sterling amount actually represents a stated U.S. dollar amount or that it could be converted into U.S. dollars at the rate suggested, or any other rate. In this annual report, the translations of U.K. pounds sterling amounts into U.S. dollars, where indicated, have been made at the rate of U.S.$1.5790 per £1.00, the noon buying rate for cable transfers of U.K. pounds sterling, as reported by the Federal Reserve Bank of New York (the Noon Buying Rate) on March 31, 2003. The Noon Buying Rate on September 23, 2003 was U.S.$1.6560 per £1.00.

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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.

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Item 3: ***Key Information***

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected historical consolidated financial information presented below as at and for each of the five years ended March 31, 1999 through 2003, 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.

The information below has been restated for the following business disposals that have been treated as discontinued operations under U.S. GAAP:

- Mobile (disposed in fiscal 2003);
- Medical Systems and Data Systems businesses (disposed in fiscal 2002); and
- Marconi Electronic Systems (MES), the international aerospace, naval shipbuilding, defense electronics and defense systems business (separated and subsequently merged with BAE Systems plc in fiscal 2000).

The information set forth below is not necessarily indicative of future results and should be read in conjunction with the audited consolidated financial statements and accompanying notes included elsewhere in this annual report and with the information set forth in Item 5: Operating and Financial Review and Prospects .

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SELECTED CONSOLIDATED FINANCIAL INFORMATION (continued)

	At and for the fiscal year ended March 31,					
	2003 $(2)	2003 £	2002 £	2001 £	2000 £	1999 £
	(in millions, except share data)					
STATEMENT OF OPERATIONS DATA:						
Revenues						
Network Equipment	1,786	1,131	1,812	3,268	2,535	1,343
Network Services	1,173	743	969	1,016	543	244
Other	35	22	465	637	824	815
Total	2,994	1,896	3,246	4,921	3,902	2,402
Operating (loss)/income(1)	(960)	(608)	(6,392)	(52)	(380)	271
Other (expense)/income, net	(465)	(295)	(143)	310	(106)	972
(Loss)/income from continuing operations before income taxes, minority interest, cumulative effect of changes in accounting principles and extraordinary items	(1,425)	(903)	(6,535)	258	(486)	1,243
(Loss)/income from continuing operations before cumulative effects of changes in accounting principles and extraordinary items	(1,193)	(756)	(6,260)	101	(451)	811
Cumulative effects of changes in accounting principles(4)			(240)			
Net (loss)/income	(1,274)	(807)	(6,150)	180	285	1,129
(Loss)/income per share basic						
(Loss)/income from continuing operations	(0.43)	(0.27)	(2.24)	0.03	(0.17)	0.30
Net (loss)/income	(0.46)	(0.29)	(2.20)	0.07	0.11	0.42
(Loss)/income per share diluted						
(Loss)/income from continuing operations	(0.43)	(0.27)	(2.24)	0.03	(0.17)	0.30
Net (loss)/income	(0.46)	(0.29)	(2.20)	0.06	0.11	0.41
Cash dividends declared per common share (3)						
£ per share				£0.05	£0.11	£0.12
$ equivalent per share				$0.08	$0.17	$0.20
BALANCE SHEET DATA:						
Total assets	4,912	3,111	4,925	11,683	9,426	7,699
Net assets/(liabilities)	(3,947)	(2,500)	(1,493)	4,805	4,468	5,874
Capital stock	1,926	1,220	1,203	946	622	414
Shares issued and outstanding (millions)	2,793	2,793	2,793	2,785	2,724	2,677

Notes:

(1) For fiscal 2002, operating loss is reflected after business restructuring and asset impairment charges of £5,319 million. For further information about these charges, see consolidated financial statements contained elsewhere herein.

(2) The consolidated financial statements are presented in millions of U.K. pounds sterling. U.S. dollar amounts are presented solely for the convenience of the reader at the rate of £1.00 = $1.5790, the noon buying rate in the City of New York for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York on March 31, 2003. These translated amounts should not be construed as representations that the U.K. pounds sterling amounts could have been, or could in the future, be converted into U.S. dollars at this or any other exchange rate.

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SELECTED CONSOLIDATED FINANCIAL INFORMATION (continued)

(3) Dividend payments were made out of net income, which included income from discontinued operations.

(4) 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.

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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, we 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 Marconi plc and Marconi Corporation plc. As a result of the restructuring, Marconi Corporation plc became the new parent company of the Marconi group and Marconi plc ceased to be a member of the Marconi group. Marconi plc no longer conducts any business and does not intend to revive any business operations.

Under the terms of the Marconi plc scheme of arrangement, all of the assets of Marconi plc, other than those necessary to fund the administration of the scheme, will be distributed to its creditors over time in accordance with the scheme of arrangement. We expect to liquidate or dissolve Marconi plc after the completion of these distributions to its creditors. While Marconi plc shares, and ADRs representing Marconi plc shares, remain outstanding following the effectiveness of the financial restructuring, we believe that there will be no circumstances under which any additional value will be returned to shareholders of Marconi plc. As that is the case, we believe Marconi plc shares and ADRs are effectively worthless.

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EXCHANGE RATE INFORMATION

The noon buying rate for pounds sterling expressed in U.S. dollars per pounds sterling on September 23, 2003 was £1.00 = U.S.$1.6560.

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:

2003	High	Low
April	1.6000	1.5500
May	1.6484	1.5930
June	1.6840	1.6278
July	1.6718	1.5867
August	1.6170	1.5728
September (through Sept. 23)	1.6560	1.5732

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.

Fiscal year ended March 31,	Average
1999	1.6526
2000	1.6085
2001	1.4737
2002	1.4320
2003	1.5541

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Item 4: ***Information on the Company***

HISTORY AND DEVELOPMENT OF THE COMPANY

Until the effectiveness on May 19, 2003 of the schemes of arrangement described below under the caption Financial Restructuring , Marconi 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, Marconi plc 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 Marconi plc.

Following the passage of a special resolution at our annual general meeting on September 25, 2003, we will be submitting a request to the registrar of companies to change our name to M (2003) plc.

History

Early history

Marconi plc was a holding company that operated through its direct wholly owned subsidiary Marconi Corporation plc and Marconi Corporation s direct and indirect subsidiaries. Marconi Corporation, previously called The General Electric Company, p.l.c., or GEC, was incorporated as a private limited company in England in 1900 under the name The General Electric Company (1900) Limited. GEC originally operated in the electrical industry. The more significant events in our development are as follows:

1960s: We expanded significantly in the electrical industry through acquisitions;

1970s and 1980s:

- We acquired Videojet Systems International Inc., a data systems business, Picker International Holdings Inc., a medical systems business, and Gilbarco Inc., a commerce systems business.
- We formed GEC Plessey Telecommunications Holdings Limited, or GPT, a 50% joint venture with The Plessey Company plc, subsequently increasing our stake to 60%.
- We formed two 50% joint ventures, GEC Alsthom N.V. with Alcatel S.A., and General Domestic Appliances Limited, now known as General Domestic Appliances Holdings Limited, with the General Electric Company of the United States.

1990s:

- We reduced our stake in the GEC Alsthom joint venture to a 24% shareholding in Alstom.
- We acquired the minority 40% stake in GPT and formed Marconi Communications.
- We combined the GPT business with the Marconi telecommunications operations in Italy, Hong Kong and South Africa under the same management structure.

1999: GEC separated the Marconi Electronic Systems business, or MES, its international aerospace, naval shipbuilding, defense electronics and defense systems business, which merged with British Aerospace plc, now known as BAE SYSTEMS plc, or BAE. GEC s remaining businesses were reorganized under Marconi plc, with GEC becoming a wholly-owned subsidiary of Marconi plc. Shareholders of GEC became shareholders of Marconi plc.

Modern history

Following the separation of MES, we focused our strategy on communications technology and services.

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Acquisitions

From that time until we completed the operational review in fiscal 2002 referred to below, we acquired a number of business, including the following:

Fiscal 2000:

RELTEC Corporation,

FORE Systems,

the business of RDC Communications Limited,

Nokia s transmission equipment business,

the public networks business of Bosch,

the Australian communications solutions business of Scitec, and

a 27% interest in Atlantic Telecom which was diluted in June 2000 to 19.7% as a result of Atlantic Telecom s acquisition of First Telecom. Atlantic Telecom is now in liquidation.

Fiscal 2001:

Metapath Software International Inc., or MSI,

Systems Management Specialist, Inc.,

Albany Partnership Limited, and

Mariposa Technology, Inc.

Fiscal 2002:

a 71.9% economic interest, and 49.9% of voting share capital, in Easynet Group plc in July, 2001.

Reorganization and dispositions

Following a profit warning that we made on July 4, 2001, we undertook an operational review of our activities, the results of which we announced in September 2001. These results included a change in management with the appointment of a new chief executive officer and interim chairman. Subsequently, in December 2002, a new chairman was appointed to our board. The review also covered our markets, operations and scope of business and focused on adapting the group to the changed circumstances of the telecommunications market during the substantial decline in market demand for the group s products and services. As a consequence of the review, we streamlined our activities and disposed of a number of businesses and investments, including the following:

Fiscal 2002:

our remaining 24% interest in Alstom in February and June 2001,

our 92% interest in ipsaris Limited, as part of the Easynet acquisition referred to above;

our remaining 1.49% interest in Lagardère SCA in September 2001,

Marconi Medical Systems Group in October 2001, a 6.5% interest in Lottomatica SpA in November 2001 and February 2002,

Marconi Commerce Systems Group in February 2002,

the Marconi Optical Components business in February 2002 for a 9% interest in Bookham Technology p.l.c. which was later diluted to approximately 6%,

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Marconi Data Systems Group in February 2002, and

our 50% interest in General Domestic Appliances Holdings Limited in March 2002.

Fiscal 2003:

our applied technologies division in July 2002,

our strategic communications business (Mobile) in August 2002,

OTE SpA, our private mobile networks division, which was also known as TETRA in January 2003,

our 50% interest in Ultramast Limited, a joint venture, in February 2003 through a capital reduction, and

Marconi Online, in January 2003.

We also reorganized our businesses with effect from March 31, 2002, into two main divisions: Core, which focused primarily on network communications, and Capital, which comprised certain non-Core businesses that we managed for value and ultimately for disposal. This division is reflected in our historical financial statements included in this annual report. We further divided our Core business into two main business types, Network Equipment and Network Services.

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 Marconi plc. As a result of the restructuring, Marconi Corporation plc became the new parent holding company of the Marconi group, replacing us, and Marconi 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;

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; 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 Marconi plc. In connection with the restructuring Marconi Corporation plc listed its ordinary shares on the London Stock Exchange and established an ADR program in respect of those shares.

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In connection with the financial restructuring, our ordinary shares were delisted from the London Stock Exchange. Under the terms of the Marconi plc scheme of arrangement, all of the assets of Marconi plc, other than those necessary to fund the administration of the scheme, will be distributed to its creditors over time in accordance with the scheme of arrangement. We expect to liquidate or dissolve Marconi plc after the completion of these distributions to its creditors. While Marconi plc shares, and ADRs representing Marconi plc shares, remain outstanding following the effectiveness of the financial restructuring, we believe that there will be no circumstances under which any additional value will be returned to shareholders of Marconi plc. As that is the case, we believe Marconi plc shares and ADRs are effectively worthless.

Prior to the financial restructuring, we had issued options in respect of Marconi 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 Marconi 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.

BUSINESS OVERVIEW

Until the effectiveness on May 19, 2003 of the schemes of arrangement of Marconi plc and Marconi Corporation plc described under the caption History and Development of the Company Financial Restructuring , Marconi 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 Marconi plc and Marconi Corporation schemes of arrangement, Marconi plc ceased to be a member of the Marconi group and ceased its 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. Marconi plc does 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. Our customers included a number of the leading telecommunications operators throughout the world, with whom we had a large base of installed equipment. Unless context otherwise requires, the following discussion relates to the business of the Marconi group.

Principal operations

Our principal executive office was in Coventry with principal operating sites of the Marconi group in:

United Kingdom: Coventry, Beeston, Chorley, Camberley, Liverpool, London, Stafford and Wellingborough.

United States and Canada: Florida, Pennsylvania, Ontario, Georgia, Mississippi, North Carolina, Illinois, Texas, Ohio and Quebec.

Italy: Genova, Marcianise and Pisa.

Germany: Backnang, Offenburg, Frankfurt and Radeberg.

Spain: Madrid.

Australia: Melbourne and Sydney.

China: Beijing, Guilin and Hong Kong.

Malaysia: Daralam and Kuala Lumpur.

New Zealand: Auckland.

India: New Delhi.

Saudi Arabia: Riyadh.

United Arab Emirates: Dubai.

South Africa: Johannesburg.

Brazil: Sao Paulo and Votorantim.

Mexico: Naucalpan de Juarez and Huixquilucan Edo de Mexico.

As of March 31, 2003, we were organized into main divisions: Core and Capital.

Core businesses

For the purposes of our historical financial reporting, we divided our Core activities into two main business types: Network Equipment, comprising optical networks, BBRS, European Access, North American Access, OPP and other network equipment; and Network Services, comprising installation, commissioning and maintenance and valued added services.

Our customer base included telecommunications companies and providers of internet services for their public networks. In addition, we counted certain large corporations, government departments and agencies, utilities and educational institutions for their private networks as customers.

Sales, marketing and distribution

We sold our Network Equipment and Network Services using our direct sales force as well as indirect channels such as local partners and distribution partners. Our sales activities included sales and marketing organizations in all major geographic regions. There were specialized product marketing groups which supported these organizations internally. In addition, we had a central marketing staff which provided strategic direction and customer and market communications support for these organizations externally. Each of these regional organizations had responsibility for account management, sales, technical support and contract negotiation.

Our distribution partners include Ericsson, Italtel, Nokia and Siemens. We entered into a seven-year agreement with Ericsson in July 1999 that allows Ericsson to market the full range of our SDH equipment throughout the world. In June 2002, we entered into an additional seven-year agreement enabling Ericsson to source our range of next-generation DWDM optical networking equipment as well as encompassing the existing 1999 agreement on SDH equipment. We also entered into a five-year agreement with Nokia in November 1999 to market our SDH and DWDM systems.

Customers

We benefitted from the continued support of our strong customer base which comprised mainly well-established incumbent telecommunications operators and government agencies.

The main customers of our Network Equipment and Network Services included:

Europe: BT, the Metro City Carriers in Germany, Telecom Italia, the U.K. Government and Vodafone Group.

United States: BellSouth, Qwest, Sprint, the U.S. Federal Government and Verizon.

Asia-Pacific: China Railcom, China Telecom, China Unicom, Telkom Malaysia and Telstra.

Central and Latin America: Brasil Telecom, Telcel, Telecentro Oeste, Telefonica and Telmex.

These customers accounted for approximately 52% of our total sales during fiscal 2003.

Customers of our optical networks and European Access businesses were predominantly based in Europe as well as in the Asia-Pacific region and Central and Latin America. Customers of our BBRS, OPP and North American Access businesses were predominantly based in the Americas. In addition, we provided network services to a number of customers in the transportation and utility sectors, mainly in Europe.

Except for BT, each of our customers accounted for less than 6% of total sales for fiscal 2003. For the same period, BT accounted for approximately 18% of our total sales.

We entered into frame contracts with most of our major customers. While the terms of the frame contracts vary from customer to customer, these contracts generally set out the terms and conditions, including pricing, on which we planned to supply a customer with products and services. The length of frame contracts varied from customer to customer and ranged from one to five years. Some of the frame contracts established price and volume expectations which provided us with some visibility of expected sales during the terms of the contracts. However, the frame contracts did not typically guarantee the volume or value of products or services actually supplied by us, which remain at the discretion of the relevant customer. Near the end of their term, some frame contracts imposed an obligation on the parties to negotiate in good faith to agree an extension of the contract.

Customers were not normally contractually bound under their frame contracts to purchase products or services solely from us. Customers also often had the right to terminate a frame contract after a specified notice period. Notwithstanding the flexibility customers had in terms of the volume and value of the orders they placed and whether they placed those orders with us or one of our competitors, customers often had a commercial incentive to continue to purchase all of their requirements for specific types of products and services from, and to have those parts of their networks serviced by us.

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Network Equipment

We designed and supplied communications systems that transmitted and switched voice, data and video traffic predominantly in public networks. Our network equipment products included optical networking systems, broadband and narrowband switches, routers and aggregation devices, wireless transmission systems and software management systems. In addition, we sold outside plant and power products for use in communications networks.

Aggregate sales for all of our Network Equipment businesses for fiscal 2003 were £1,131 million, representing 60% of our total sales, compared to £1,812 million, or 56% of total sales, in fiscal 2002 and £3,268 million, or 66% of total sales, in fiscal 2001.

Overview of the public network market and competition

Historically, government-owned or government-regulated monopolies have operated public networks, which traditionally transmitted voice calls between users. Privatization and deregulation of public networks contributed to the entry of a large number of new companies into the public network market, offering new voice, data and video services.

The public network markets in which we operated are highly competitive. Our principal competitors included Alcatel, Cisco Systems, Ericsson, Fujitsu, Lucent Technologies, Nortel Networks and Siemens. The primary method of competition in the public network market is the widespread use of open bids for equipment purchases. Buyers use a combination of factors to evaluate bids, including price, technical compliance, ability to deliver in the required timescale and provide after-sales support, financial stability and long-term viability.

A typical public network can be portrayed as comprising three high level layers. These are the service, switching and transport layers. Traffic in the network is moved around the network by equipment in the transport layer and routed to different points in the network by equipment in the switching layer. Equipment in the services layer defines and makes available the service associated with each particular class of network traffic, for example, voice, data or video services. Public networks, which comprise the three layers above, can typically be either access, metro or core networks, depending on the connections they establish. The access network typically connects an end user of a service to a network operator s local exchange, where switches are located. The core network usually connects an operator s major points of presence like, for example, the routes between two cities. The metro network typically provides connections between the access and core networks, for example, between a major city and the various local exchanges or points of presence within a particular geographic region.

Our equipment can be found in most parts of the typical public network with:

- our optical products predominantly operating in the transport layer;
- our multi-service switches and softswitch in the switching layer; and
- our range of access products found in most layers of the access network.

Optical Networks

Communications service providers primarily use three technology standards, SDH, SONET and DWDM, to transmit voice, data and video traffic over fiber optic communications networks. DWDM is a relatively new transmission standard that is used worldwide. SDH is the digital transmission standard that is used in most regions except North America and Japan. SONET is the predominant standard that is used in North America and Japan. In June 2002, we announced that we were ceasing development of our SONET products because of continuing weak market conditions. We had never made material sales of SONET products. Sales of our optical networks products constituted 23% of our total sales in both fiscal 2003 and 2002. During the latter period, sales were predominantly in Europe and Asia, with the remainder from the Americas.

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We focused our development on a comprehensive range of optical transmission equipment based on SDH and, more recently, DWDM.

Synchronous Digital Hierarchy: We were a pioneer of SDH technology following its introduction in the early 1990s and have continued to introduce next generation SDH products. We were a leading supplier of SDH transmission equipment within Europe and believed we had a tenable position in other markets including the Central and Latin American and Asia-Pacific regions. SDH contributed approximately 84% of optical networks business s sales in both fiscal 2003 and 2002.

Our add-drop multiplexers transport voice, data and video traffic streams over ring-based optical fiber networks to provide protection against network failures. Our line systems transport high-capacity voice, data and video traffic streamed between major traffic centers. We also supplied cross-connects to provide points of flexibility and restoration within an SDH network and to switch traffic streams from one transmission line to another.