

M 2003 PLC
Form 20-F
September 29, 2006

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As filed with the Securities and Exchange Commission on September 29, 2006

**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, 2006
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

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

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Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of March 31, 2006:

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES NO

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

YES NO

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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 whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filers and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

ITEM 17 ITEM 18

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

(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 (now known as **telent** 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 and 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. 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 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 2006 represents the fiscal year beginning on April 1, 2005 and ending on March 31, 2006.

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, 2002 through 2006, 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)**

| | 2006 £000 | 2005 £000 | 2004 £000 | 2003 £000 | 2002 £000 |
|---|--------------|--------------|--------------|--------------|--------------|
| STATEMENT OF OPERATIONS DATA: | | | | | |
| Revenues | | | | | |
| Network Equipment | | | 100,000 | 1,131,000 | 1,812,000 |
| Network Services | | | 68,000 | 743,000 | 969,000 |
| Other | | | | 22,000 | 465,000 |
| Total | | | 168,000 | 1,896,000 | 3,246,000 |
| Operating loss ⁽¹⁾ | (622) | (1,284) | (58,000) | (608) | (6,392) |
| Other income/(expense), net ⁽²⁾ | 327 | 361 | 2,335,000 | (295) | 23 |
| Income/(loss) from continuing operations before income taxes, minority interest and cumulative effect of changes in accounting principles | (295) | (923) | 2,277,000 | (903) | (6,369) |
| Income/(loss) from continuing operations before cumulative effects of changes in accounting principles | (259) | (1,108) | 2,276,000 | (756) | (6,094) |
| Cumulative effects of changes in accounting principles ⁽³⁾ | | | | | (240) |
| Net income/(loss) | (259) | (1,108) | 2,276,000 | (807) | (6,150) |
| Cash dividends declared per common share | | | | | |
| £ per share | | | | | |
| \$ equivalent per share | | | | | |
| BALANCE SHEET DATA: | | | | | |
| Total assets | 7,687 | 8,266 | 8,961 | 3,111 | 4,925 |
| Net assets/(liabilities) | 7,593 | 7,852 | 8,960 | (2,500) | (1,493) |
| Capital stock | 799,000 | 799,000 | 799,000 | 1,220 | 1,203 |
| Shares issued and outstanding (thousands) | 2,793,011 | 2,793,011 | 2,793,011 | 2,793,011 | 2,793,011 |

Notes:

- (1) For fiscal 2002, operating loss is reflected after business restructuring and asset impairment charges of £5,319 million.
- (2) For fiscal 2006 and 2005, other income is entirely comprised of bank interest. For fiscal 2004, other income 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 includes a gain on early retirement of debt of £166 million which was previously shown as extraordinary income. This reclassification was 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.

Table of Contents**EXCHANGE RATE INFORMATION**

The Noon Buying Rate for pounds sterling expressed in U.S. dollars per pounds sterling on September 26, 2006 was £1.00 = U.S.\$1.8954.

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:

| 2006 | High | Low |
|----------------------------------|--------|--------|
| April | 1.8220 | 1.7389 |
| May | 1.8911 | 1.8286 |
| June | 1.8817 | 1.8108 |
| July | 1.8685 | 1.8203 |
| August | 1.9102 | 1.8711 |
| September (through September 26) | 1.9050 | 1.8630 |

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 |
|------------------------------------|---------|
| 2002 | 1.4320 |
| 2003 | 1.5541 |
| 2004 | 1.8400 |
| 2005 | 1.8506 |
| 2006 | 1.7795 |

RISK FACTORS

As a result of our financial restructuring, we have ceased business operations and shall 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 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. 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 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.

On September 25, 2006, a meeting of the Company's creditors considered and approved an amended scheme of arrangement for the Company. Subject to approval by the High Court at a hearing which is expected to take place on or around October 3, 2006, the directors intend to propose a special resolution to the Company's shareholders at an Extraordinary General Meeting, to be held on October 27, 2006 (the same day as the 2006 Annual General Meeting), to put the Company into Members' Voluntary Liquidation. A separate letter explaining this proposal in greater detail will be issued to shareholders.

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The accounts will be prepared on a liquidation basis once the liquidation of the Company has been approved by the shareholders. Management believes the only adjustment necessary to prepare the accounts on a liquidation basis is the recognition of an additional liability of £7,593,000 for the costs associated with liquidating the company in accordance with the Scheme of Arrangement which was effective on May 19, 2003.

Table of Contents**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 3704.

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.

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 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

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scheme creditors in accordance with the scheme of arrangement. 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 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.

On September 25, 2006, a meeting of the Company's creditors considered and approved an amended scheme of arrangement for the Company. Subject to approval by the High Court at a hearing which is expected to take place on or around October 3, 2006, the directors intend to propose a special resolution to the Company's shareholders at an Extraordinary General Meeting, to be held on October 27, 2006 (the same day as the 2006 Annual General Meeting), to put the Company into Members' Voluntary Liquidation. A separate letter explaining this proposal in greater detail will be issued to shareholders.

The accounts will be prepared on a liquidation basis once the liquidation of the Company has been approved by the shareholders. Management believes the only adjustment necessary to prepare the accounts on a liquidation basis is the recognition of an additional liability of £7,593,000 for the costs associated with liquidating the company in accordance with the Scheme of Arrangement which was effective on May 19, 2003.

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 the business then conducted by 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.

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.

Table of Contents**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 is not meaningful. For fiscal 2005 and 2006, other income represents bank interest. Tax charges/credits include adjustments for non-deductible expenses and under/over provisions in previous years.

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 was accounted for in fiscal 2004 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 through March 31, 2004 were approximately £0.3 million. Expenses incurred by the Scheme Supervisors were approximately £1.3 million in fiscal 2005 and approximately £0.6 million in fiscal 2006.

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.

We have no external sources of liquidity. We have 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 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, 2006, our cash and cash equivalents totaled approximately £7.4 million, as compared to £8 million at March 31, 2005. 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, 2006, 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 | 68 | Chairman |
| Christopher James Shaw | 53 | Director |
| Richard Anthony Robinson | 58 | 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 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, 2006.

| | 2006 | 2005 |
|-----------------------|-------|-------|
| | £ 000 | £ 000 |
| Directors' emoluments | 37 | 37 |

The aggregate of emoluments of the highest paid director was £20,587 in fiscal 2006 (fiscal 2005: £23,834). None of the directors received any compensation in fiscal 2006 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 . The current terms of office of Christopher James Shaw and Richard Anthony Robinson will expire on December 31, 2006, subject to extension by agreement among the directors. John Jameson White will retire from his directorship at the Annual General Meeting on October 27, 2006, as required under the Company's Articles of Association, but is standing for reappointment. If Mr. White is reappointed as a director, his term of office will also expire on December 31, 2006, subject to extension by agreement among the directors. 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 Appointment | Acquired | Disposed | At March 31, 2006 |
|--------------|-------------------|----------|----------|----------------------|
| 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:

| Plan | On Appointment | Granted | Exercised | Lapsed | At March 31, 2006 |
|--------------------------------------|-------------------|---------|-----------|--------|----------------------|
| 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.

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As at September 19, 2006, there were 746 registered holders of our American depositary receipts. Each ADR issued represents two ordinary shares. Of these registered ADR holders, 718 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 98,775,469 ADRs, or approximately 7.1% of our total issued share capital as at September 18, 2006.

To our knowledge, there are no holders of 5% or more of the ordinary shares in M (2003) plc as at September 28, 2006.

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. 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.

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

On September 25, 2006, a meeting of the Company s creditors considered and approved an amended scheme of arrangement for the Company. Subject to approval by the High Court at a hearing which is expected to take place on or around October 3, 2006, the directors intend to propose a special resolution to the Company s shareholders at an Extraordinary General Meeting, to be held on October 27, 2006 (the same day as the 2006 Annual General Meeting), to put the Company into Members Voluntary Liquidation. A separate letter explaining this proposal in greater detail will be issued to shareholders.

The accounts will be prepared on a liquidation basis once the liquidation of the Company has been approved by the shareholders. Management believes the only adjustment necessary to prepare the accounts on a liquidation basis is the recognition of an additional liability of £7,593,000 for the costs associated with liquidating the company in accordance with the Scheme of Arrangement which was effective on May 19, 2003.

Table of Contents**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 |
| Fiscal Year | | | | |
| 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 |
| April 1, 2005 to March 31, 2006 | | | 0.01 | 0.00 |
| Fiscal Quarter | | | | |
| 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 |
| April 1, 2005 to June 30, 2005 | | | 0.00 | 0.00 |
| July 1, 2005 to September 30, 2005 | | | 0.00 | 0.00 |
| October 1, 2005 to December 31, 2005 | | | 0.00 | 0.00 |
| January 1, 2006 to March 31, 2006 | | | 0.01 | 0.00 |
| Month | | | | |
| April 2006 | | | 0.01 | 0.00 |
| May 2006 | | | 0.00 | 0.00 |
| June 2006 | | | 0.00 | 0.00 |
| July 2006 | | | 0.00 | 0.00 |
| August 2006 | | | 0.00 | 0.00 |
| September 2006 (through September 19) | | | 0.00 | 0.00 |

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

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.

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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

Prospective and existing holders of our shares or of ADRs representing our shares should be aware that the Directors believe that there will be no circumstances under which any additional value will be returned to shareholders of M (2003) plc.

United States Federal Income Taxation

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 or dispose of 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.

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.

Table of Contents*Sale or Other Disposition of M (2003) 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.

Deposits and withdrawals of ordinary shares by holders in exchange for ADRs will not result in the realization of gain or loss for United States federal income tax purposes.

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 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, 2006. 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 gain realized from the sale or other disposition of our ordinary shares and/or ADRs (whether or not we continue to be a PFIC).

Some of the rules with respect to dispositions described above may be avoided if a U.S. holder makes a valid *mark-to-market* election. A *mark-to-market* election is only available however 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. Our stock is not currently traded on a *qualified exchange* and we do not expect it to be in the future. PFIC stock is *regularly traded* if, among other

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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 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 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 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 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. A U.S. holder's tax position could be affected, depending on the circumstances, by 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.

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Taxation of capital gains

A U.S. holder 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. holder 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. holder 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 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. 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 Office of Public Reference 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.

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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 and with the participation of our management, including 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, 2006. 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 Item 16B(b). 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 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 £38,000 in fiscal 2006 (2005: £35,000). Tax fees charged by Deloitte & Touche were £nil for each of fiscal 2006 and fiscal 2005, and fees for other services were £nil in each of fiscal 2006 and fiscal 2005. All services performed by the auditors are pre-approved by the Company's audit committee, in accordance with the committee's auditors independence policy.

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

During fiscal 2006, 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/ Kevin David Smith

Name: Kevin David Smith
Title: Company Secretary
Date: September 28, 2006

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M (2003) plc and subsidiaries
Consolidated financial statements as of March 31, 2006 and 2005 and
for the three years ended March 31, 2006**

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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, 2006 and 2005 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, 2006. 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, 2006 and 2005, and the consolidated results of its operations and its cash flows for each of the three fiscal years in the period ended March 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

Our audits also comprehended the translations of certain pounds sterling amounts into US Dollars and, in our opinion, such translations 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
September 29, 2006

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M (2003) plc and subsidiaries
CONSOLIDATED BALANCE SHEETS

| | 2006 U.S.\$ 000 | March 31, 2006 £ 000 | 2005 £ 000 |
|---|--------------------|----------------------------|---------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 12,741 | 7,365 | 8,130 |
| Prepaid expenses and other current assets | 557 | 322 | 136 |
| Total current assets | 13,298 | 7,687 | 8,266 |
| TOTAL ASSETS | 13,298 | 7,687 | 8,266 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | |
| Current liabilities | | | |
| Accrued expenses and other current liabilities | 162 | 94 | 414 |
| Total current liabilities | 162 | 94 | 414 |
| Shareholders' equity/(deficit) | | | |
| Ordinary shares, £0.05 par value; Authorized: 6,000,000,000 shares in 2006 and 2005; Issued and outstanding: 2,793,011,951 shares in 2006 and 2005 | | | |
| | 241,596 | 139,651 | 139,651 |
| Additional paid-in capital | 1,140,674 | 659,349 | 659,349 |
| Accumulated deficit | (1,369,134) | (791,407) | (791,148) |
| Total shareholders' equity | 13,136 | 7,593 | 7,852 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | 13,298 | 7,687 | 8,266 |

See notes to consolidated financial statements.

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M (2003) plc and subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS

| | Fiscal Year Ended March 31, | | | |
|--|-----------------------------|---------------|----------------|------------------|
| | 2006 U.S.\$ 000 | 2006 £ 000 | 2005 £ 000 | 2004 £ 000 |
| Revenue: | | | | |
| Network equipment | | | | 100,000 |
| Network services | | | | 68,000 |
| Total Revenue | | | | 168,000 |
| Direct costs | | | | |
| | | | | 138,000 |
| | | | | 30,000 |
| Operating expenses: | | | | |
| Selling, general and administrative | 1,076 | 622 | 1,284 | 49,000 |
| Research and development | | | | 31,000 |
| Amortization of goodwill and intangibles | | | | 6,000 |
| Business restructuring charges | | | | 2,000 |
| Total operating expenses | 1,076 | 622 | 1,284 | 88,000 |
| Operating loss | (1,076) | (622) | (1,284) | (58,000) |
| Other income: | | | | |
| Gain on financial restructuring | | | | 2,183,000 |
| Gain on settlement of equity forward contracts | | | | 123,000 |
| Interest income | 576 | 333 | 361 | 29,000 |
| Interest expense | (10) | (6) | | |
| Income/(loss) before income taxes | (510) | (295) | (923) | 2,277,000 |
| Income tax (charge)/credit | 62 | 36 | (185) | (1,000) |
| Net income/(loss) | (448) | (259) | (1,108) | 2,276,000 |
| Earnings per share basic | | | | |
| Net income/(loss) | | | | 0.92 |
| Earnings per share diluted | | | | |
| Net income/(loss) | | | | 0.92 |

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, | | | |
|---|-----------------------------|---------------|---------------|---------------|
| | 2006 U.S.\$ 000 | 2006 £ 000 | 2005 £ 000 | 2004 £ 000 |
| Cash flows from operating activities: | | | | |
| Net income/(loss) | (448) | (259) | (1,108) | 2,276,000 |
| Cash paid on settlement of equity forward contracts | | | | (35,000) |
| Gain on financial restructuring | | | | (2,183,000) |
| Gain on settlement of equity forward contracts | | | | (123,000) |
| Stock compensation | | | | 9,000 |
| Depreciation and amortization | | | | 16,000 |
| Cash paid for restructuring | | | | (20,000) |
| Net operating cash flow provided by discontinued operations | | | | 2,000 |
| Changes in operating assets and liabilities, net of the effect of acquisitions: | | | | |
| Accounts receivable | (322) | (186) | (46) | 100,000 |
| Inventories | | | | 1,000 |
| Accounts payable | | | | (26,000) |
| Accrued expenses and other liabilities | (553) | (320) | 284 | (29,000) |
| Net cash used in operating activities | (1,323) | (765) | (870) | (12,000) |

See notes to consolidated financial statements.

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| | Fiscal year ended March 31, | | | |
|---|-----------------------------|-------|-------|-------------|
| | 2006 | 2006 | 2005 | 2004 |
| | U.S.\$ 000 | £ 000 | £ 000 | £ 000 |
| Cash flows from investing activities: | | | | |
| Maturities and sales of debt and marketable equity securities | | | | (209,000) |
| Purchases of property, plant and equipment | | | | (5,000) |
| Cash outflow from disposals | | | | (568,000) |
| Cash element of scheme consideration | | | | (333,000) |
| Net cash used in investing activities | | | | (1,115,000) |
| Cash flows from financing activities: | | | | |
| Short-term debt repayments, net | | | | (22,000) |
| Term loan repayments, net | | | | (1,000) |
| Restricted cash transferred to secured accounts | | | | 964,000 |
| Net cash from financing activities | | | | 941,000 |
| Net decrease in cash and cash equivalents | (1,323) | (765) | (870) | (186,000) |
| Cash and cash equivalents, beginning of year | 14,064 | 8,130 | 9,000 | 195,000 |
| Cash and cash equivalents, end of year | 12,741 | 7,365 | 8,130 | 9,000 |
| Supplemental disclosure of cash flow activity: | | | | |
| Cash receipts/(payments) for interest | 566 | 327 | 363 | (1,000) |
| Cash payment for income taxes | (401) | (232) | (185) | (1,000) |

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, | | | |
|---|-----------------------------|---------------|---------------|---------------|
| | 2006 U.S.\$ 000 | 2006 £ 000 | 2005 £ 000 | 2004 £ 000 |
| Other comprehensive income: | | | | |
| Net income/(loss) | (448) | (259) | (1,108) | 2,276,000 |
| Other comprehensive income/(loss): | | | | |
| Minimum pension liability, (net of income tax of £nil) | | | | 295,000 |
| Other comprehensive income/(loss) | (448) | (259) | (1,108) | 2,571,000 |
| Disclosure of tax and reclassification amounts: | | | | |
| Unrealized gains on derivative instruments, net of tax of £1 | | | | 1,000 |
| Less: reclassification adjustment for loss included in net loss, net of tax of £nil | | | | (1,000) |
| Unrealized gains on derivative instruments | | | | |
| Accumulated translation adjustments, net of tax of £nil | | | | (14,000) |
| Less: reclassification adjustment for gains included in net income/(loss), net of tax of £nil | | | | 14,000 |
| Net translation adjustments | | | | |

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) | Total |
|---|-----------------|-------------------|----------------------------------|------------------------------------|--|-------------|
| | Shares | Amount £,000 s | £,000 s | £,000 s | £,000 s | £,000 s |
| 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 |
| As of March 31, 2004 | 2,793,011,951 | 139,651 | 659,349 | (790,040) | | 8,960 |
| Net loss | | | | (1,108) | | (1,108) |
| As of March 31, 2005 | 2,793,011,951 | 139,651 | 659,349 | (791,148) | | 7,852 |
| Net Loss | | | | (259) | | (259) |
| As of March 31, 2006 | 2,793,011,951 | 139,651 | 659,349 | (791,407) | | (7,593) |

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 (now known as telent 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 19. 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.

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.

On September 25, 2006, a meeting of the Company's creditors considered and approved an amended scheme of arrangement for the Company. Subject to approval by the High Court at a hearing which is expected to take place on or around October 3, 2006, the directors intend to propose a special resolution to the Company's shareholders at an Extraordinary General Meeting, to be held on October 27, 2006 (the same day as the 2006 Annual General Meeting), to put the Company into Members' Voluntary Liquidation.

The accounts will be prepared on a liquidation basis once the liquidation of the Company has been approved by the shareholders. Management believes the only adjustment necessary to prepare the accounts on a liquidation basis is the recognition of an additional liability of £7,593,000 for the costs associated with liquidating the company in accordance with the Scheme of Arrangement which was effective on May 19, 2003.

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

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, | |
| | 2006 | 2005 | 2004 | 2006 | 2005 |
| U.S. Dollar | 1.79 | 1.84 | 1.70 | 1.73 | 1.89 |
| Euro | 1.47 | 1.47 | 1.44 | 1.43 | 1.45 |

US dollar translations presented in the consolidated balance sheets, statements of operations, statements of cash flows and statements of other comprehensive income/(loss) are presented solely for the convenience of readers in the United States of America and are translated from pounds sterling at the year end rate.

Revenue

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No revenue has been recorded since the Financial Restructuring on May 19, 2003.

Prior to that date, the Company recognized 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 was recognized when: persuasive evidence of an arrangement existed; delivery had occurred or services had been rendered; customer acceptance had occurred; the price to the buyer was fixed or determinable; and collectability was reasonably assured.

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

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

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

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

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 Cristin 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 for fiscal 2004 as part of the gain on disposal of businesses.

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 was included in earnings.

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

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As a result of the Financial Restructuring on May 19, 2003 (see note 3), the Company does not have any borrowings or foreign currency commitments.

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.

Cash flow hedges

The Company has previously 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 had on cash flow associated with forecasted purchases.

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

As a result of the Financial Restructuring on May 19, 2003 (see note 3), the Company does not have any borrowings or foreign currency commitments.

Pension and other post-retirement benefits

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, 2006. Further, the pension schemes have, always been, and remain, liabilities of the Marconi Group.

Prior to the Financial Restructuring the Company accounted 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, *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) were recognized in the net periodic pension calculation over the remaining average service lifetimes of active members.

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The Company used long-term historical actual return information, the mix of investments that comprised 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, 2003. The rate of compensation increase was another significant assumption used in the actuarial model for pension accounting and was determined by the Company based upon its long-term plans for such increases. For retiree medical plan accounting, the Company reviewed 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 exceeded the fair value of the plan assets, the Company recognized an additional minimum liability that was at least equal to the unfunded accumulated benefit obligation. Where an additional minimum liability was recognized an intangible asset was recognized up to the amount of any unrecognized prior service cost and the balance was recognized through other comprehensive income.

Product warranty

Prior to the Financial Restructuring on May 19, 2003, provisions for estimated expenses related to product warranties were made at the time products were sold. These estimates were established using historical information on the nature, frequency, and average cost of warranty claims. Management actively studied trends of warranty claims and took action to improve equipment quality and minimize warranty claims.

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.

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, 2004 because the Company's shares were delisted as part of the restructuring. The full expense has been recognized in fiscal 2004 rather than over the vesting period as there are no circumstances under which it is expected that any value will be attributable the these share options.

The Company recorded a stock compensation credit in fiscal 2004 of approximately £37 million. This credit comprised a charge of £9 million, related to stock options issued below fair market value and those plans which are variable, and a credit of £46 million relating to stock options that were forfeited as a result of the Financial Restructuring. This credit was reported as part of the gain on financial restructuring. Share options are considered to have no value as a result of the financial restructuring in fiscal 2004.

No share options were granted in the fiscal years 2006, 2005 and 2004.

Table of Contents**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) |
| Transfer on financial restructuring | | (2,000) | 1,000 | 295,000 | 294,000 |
| Balance at March 31, 2004 and 2005 and 2006 | | | | | |

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.

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 group's 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 2006 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

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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 19. 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.

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.

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 14 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. For the current year ended March 31, 2006, they were approximately £0.4 million.

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Pursuant to the Company's Scheme, the remaining assets of the Company will be distributed over time to its creditors. There will be no circumstances under which any value will be returned to shareholders under the terms of the Company's Scheme.

On September 25, 2006, a meeting of the Company's creditors considered and approved an amended scheme of arrangement for the Company. Subject to approval by the High Court at a hearing which is expected to take place on or around October 3, 2006, the directors intend to propose a special resolution to the Company's shareholders at an Extraordinary General Meeting, to be held on October 27, 2006 (the same day as the 2006 Annual General Meeting), to put the Company into Members' Voluntary Liquidation.

The accounts will be prepared on a liquidation basis once the liquidation of the Company has been approved by the shareholders. Management believes the only adjustment necessary to prepare the accounts on a liquidation basis is the recognition of an additional liability of £7,593,000 for the costs associated with liquidating the company in accordance with the Scheme of Arrangement which was effective on May 19, 2003.

4. Balance sheet information

| | March 31, | |
|--|------------|------------|
| | 2006 | 2005 |
| | £ 000 | £ 000 |
| <i>Accounts receivable, net:</i> | | |
| Accounts receivable | 322 | 136 |
| Total | 322 | 136 |
| <i>Accrued expenses and other current liabilities:</i> | | |
| Accrued income and other taxes | | 185 |
| Accrued expenses | 94 | 229 |
| Total | 94 | 414 |

Depreciation expense for fiscal 2006 was £nil (2005, £nil and 2004, £10 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, 2006 will be used to comply with the terms of the M (2003) plc scheme of arrangement, 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. 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 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.

Prior to the Financial Restructuring, when management reviewed the operating income performance of the segments described in note 8, Segment and related information disclosures, management used 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

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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 in fiscal 2004 and the balances remaining in other liabilities at March 31, 2004 following the implementation of actions required to achieve these objectives. There has been no movement in these balances since March 31, 2004.

| | Balance at March 31, 2003 £ 000 | Charged/ (credited) during fiscal 2004 £ 000 | Utilized during fiscal 2004 | | Balance at March 31, 2004 £ 000 |
|--|--|---|--------------------------------|-------------------------------|---|
| | | | Net cash payments £ 000 | Non cash movement £ 000 | |
| <i>Direct costs:</i> | | | | | |
| Manufacturing outsourcing | 8,000 | (1,000) | | (7,000) | |
| 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) | |

Manufacturing outsourcing

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

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

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.

Site rationalization

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.

Table of Contents***Contractual commitments and other restructuring***

In fiscal 2004, the remaining balance was transferred out of the group as part of the Financial Restructuring at May 19, 2003.

Advisor fees

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.

6. Intangible assets

Amortization of intangibles for fiscal 2006 was £nil (2005, £nil and 2004, £6 million). All intangible assets were disposed of as part of the Financial Restructuring described in Note 3.

7. 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, 2006. Further, the pension schemes have always been, and remain, liabilities of the Marconi Group.

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 | | |
|---------------------------------------|--------------------------------|------|------|------------------------------------|------|------|
| | 2006 | 2005 | 2004 | 2006 | 2005 | 2004 |
| | % | % | % | % | % | % |
| Weighted average assumptions: | | | | | | |
| Discount rate for pension expense | | | 5.3 | | | 6.7 |
| Discount rate for year end disclosure | | | 5.3 | | | 6.0 |
| Expected return on plan assets | | | 5.7 | | | 8.5 |
| Rate of compensation increases | | | 4.5 | | | 4.4 |
| Rate of pension increases | | | 2.5 | | | 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 | | |
|---|--------------------------------|-------|-------|------------------------------------|-------|-------|
| | 2006 | 2005 | 2004 | 2006 | 2005 | 2004 |
| | £ 000 | £ 000 | £ 000 | £ 000 | £ 000 | £ 000 |
| Components of net periodic benefit expense/(income): | | | | | | |
| Service cost | | | 4,000 | | | |
| Interest cost | | | 1,000 | | | |
| Expected return on plan assets | | | | | | |
| Amortization of unrecognized transition liability | | | | | | |
| Net periodic benefit expense of defined benefit plans | | | 5,000 | | | |
| Net curtailment loss | | | | | | |
| Net periodic benefit expense | | | 5,000 | | | |

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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 2006, the matching contributions were £nil (2005, £nil and 2004, £1 million).

8. 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 used 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

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segments 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, 2006 | Revenues £ 000 | Segment operating (loss)/profit £ 000 | Capital employed £ 000 |
|--|-------------------|--|------------------------------|
| Other (including intra activity sales) | | (361) | |
| Segment total U.K. GAAP | | (361) | |

| As of and For the Year Ended March 31, 2005 | Revenues £ 000 | Segment operating (loss)/profit £ 000 | Capital employed £ 000 |
|--|-------------------|--|------------------------------|
| 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 £ 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) | |

Analysis of revenue by product (U.K. GAAP)

| | 2006 £ 000 | 2005 £ 000 | 2004 £ 000 |
|-----------------------|---------------|---------------|---------------|
| Network Equipment: | | | |
| Optical Networks | | | 35,000 |
| BBRS | | | 9,000 |
| European Access | | | 19,000 |
| North American Access | | | 13,000 |

| | |
|---|---------|
| Outside Plant & Power | 18,000 |
| Other Network Equipment | 6,000 |
| Total | 100,000 |
| Network Services: | |
| IC&M | 35,000 |
| VAS | 33,000 |
| Total | 68,000 |
| Total Network Equipment and Network Services revenues | 168,000 |
| Total capital revenue | |
| Total discontinued | |
| Total revenues | 168,000 |

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

There are no differences between U.K. and U.S. GAAP when reporting revenue for fiscal 2006, 2005 or 2004.

Operating (loss)/income

| | 2006 £ 000 | 2005 £ 000 | 2004 £ 000 |
|---|---------------|---------------|---------------|
| Segmental operating loss per U.K. GAAP | (361) | (226) | (38,000) |
| Amortization expense | | | (13,000) |
| Operating exceptional items | | | (2,000) |
| U.K. GAAP operating loss | (361) | (226) | (53,000) |
| U.S. GAAP adjustments: | | | |
| Share option plans | | | (9,000) |
| Pension and other post-retirement benefits | | | (3,000) |
| Goodwill and intangible asset amortization and impairment charges | | | 7,000 |
| Other | (261) | (1,058) | |
| U.S. GAAP operating loss | (622) | (1,284) | (58,000) |
| Gain on financial restructuring | | | 2,183,000 |
| Gain on settlement of equity forward contracts | | | 123,000 |
| Interest income | 333 | 361 | 29,000 |
| Interest expense | (6) | | |
| U.S. GAAP income/(loss) from continuing operations before income taxes, minority interests and cumulative effects of changes in accounting principles | (295) | (923) | 2,277,000 |

Capital employed/total assets

| | 2006 £ 000 | 2005 £ 000 |
|---|---------------|---------------|
| Total U.K. GAAP segment capital employed | | |
| U.K. GAAP capital employed | | |
| U.S. GAAP adjustments: | | |
| Provisions for restructuring not included in U.S. GAAP capital employed | 7,593 | 7,852 |
| Total U.S. GAAP assets | 7,593 | 7,852 |

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:

| | 2006 | Year ended March 31, 2005 | 2004 |
|---|-------|---------------------------------|---------|
| | £ 000 | £ 000 | £ 000 |
| Revenue by territory of destination: | | | |
| United Kingdom | | | 42,000 |
| Other | | | 58,000 |
| Total Europe, Middle East, Africa (EMEA) | | | 100,000 |
| United States | | | 50,000 |
| Central and Latin America (CALA) | | | 5,000 |
| Other | | | |
| Total the Americas | | | 55,000 |
| Asia Pacific (APAC) | | | 13,000 |
| Total external revenue | | | 168,000 |

| | 2006 | Year ended March 31, 2005 | 2004 |
|--|-------|------------------------------|--------|
| | £ 000 | £ 000 | £ 000 |
| Revenue by territory of origin: | | | |
| United Kingdom | | | 58,000 |
| Italy | | | 19,000 |
| Other | | | 21,000 |
| Total Europe, Middle East, Africa (EMEA) | | | 98,000 |
| United States | | | 58,000 |
| Central and Latin America (CALA) | | | 4,000 |
| Other | | | |
| Total the Americas | | | 62,000 |
| Asia Pacific (APAC) | | | 8,000 |

| | |
|------------------------|---------|
| Total external revenue | 168,000 |
|------------------------|---------|

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, | | |
|---|----------------------|-------|---------|
| | 2006 | 2005 | 2004 |
| | £ 000 | £ 000 | £ 000 |
| Optical networks | | | 35,000 |
| Access systems | | | 50,000 |
| Broadband routing and switching | | | 9,000 |
| Other network equipment | | | 6,000 |
| Network Equipment | | | 100,000 |
| Value-added services | | | 33,000 |
| Installation, commissioning and maintenance | | | 35,000 |
| Network Services | | | 68,000 |
| Total Core revenues | | | 168,000 |
| Capital businesses | | | |
| Total external revenue | | | 168,000 |

9. 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.

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 legal or arbitration proceedings which may have or have had in period a significant effect on our financial position as a whole.

10. Investments in affiliates**Fiscal 2004**

At March 31, 2003, the Company had two investments, which it accounted for using the equity method, Easynet Group plc (Easynet) and Confirmant. All investments in affiliates were disposed of as a result of the Financial Restructuring on May 19, 2003, as described in note 3.

11. Investment in securities

On May 19, 2003 all investments in securities were disposed of as part of the Financial Restructuring described in note 3.

12. 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.

Table of Contents**13. 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 ADRs 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 fiscal 2004 rather than over the vesting period as the options are not expected to hold any future value.

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 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

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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 was 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 was 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 the performance conditions became probable. At March 31, 2004, 617,963 Company shares were outstanding. No new shares have since been granted and no charges recorded.

Additional plans at March 31, 2003:

At May 19, 2003, the outstanding options relating to the following employee stock option plans lapsed due to the Financial Restructuring as a result of which the participants were no longer employees of the Company. There has been no movement since that date on options under any of these plans.

Savings related plans

The Marconi U.K. Sharesave Plan

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The Marconi International Sharesave Plan
 The Marconi International Sharesave Plan Italian Appendix
 The Marconi Employee Stock Purchase Plan for Employees in North America

Non-savings related plans

The Marconi 1999 Share Option Plan
 The Marconi Phantom Option Plan
 Marconi Restricted Share Plan
 The Marconi Associated Companies Share Option Plan
 Existing GEC share option plans
 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

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 |
| Granted | | |
| Lapsed | | |
| Exercised | | |
| Outstanding March 31, 2006 | 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.

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Of the total number of non-savings related options outstanding at March 31, 2006, 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.

14. Fair values of financial instruments

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.

15. Valuation and qualifying accounts

There has been no movement on these accounts since March 31, 2004.

| Description | 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) | |
| Total | 121,000 | | (119,000) | | (2,000) | |

16. 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:

| | 2006 £ 000 | March 31, 2005 £ 000 | 2004 £ 000 |
|---|---------------|----------------------------|---------------|
| Net (loss)/income | (259) | (1,108) | 2,276,000 |
| Basic (loss)/earnings per ordinary share: | | | |
| Weighted average ordinary shares outstanding (millions) | 2,793.0 | 2,793.0 | 2,793.0 |
| Basic (loss)/earnings per ordinary share | | | 0.92 |
| Diluted (loss)/earnings per ordinary share: | | | |
| Weighted average ordinary shares outstanding (millions) | 2,793.0 | 2,793.0 | 2,793.0 |
| Effect of dilutive options | | | |
| Diluted (loss)/earnings per ordinary share | 2,793.0 | 2,793.0 | 2,793.0 |
| Diluted (loss)/earnings per ordinary share | | | 0.92 |

For the fiscal years ended March 31, 2006, 2005, and 2004, the effect of share options is anti-dilutive and has therefore been excluded from the calculation of diluted weighted average number of shares.

Table of Contents**17. 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:

| | 2006 £ 000 | March 31, 2005 £ 000 | 2004 £ 000 |
|--------------------|---------------|----------------------------|------------------|
| United Kingdom | (259) | (923) | 2,304,000 |
| Non-United Kingdom | | | (27,000) |
| Total | (259) | (923) | 2,277,000 |

Income tax benefit/(provision) includes:

| | 2006 £ 000 | March 31, 2005 £ 000 | 2004 £ 000 |
|------------------------------|---------------|----------------------------|----------------|
| Current income taxes | | | |
| United Kingdom | 36 | (185) | |
| Non-United Kingdom | | | (1,000) |
| Total current taxes | 36 | (185) | (1,000) |
| Deferred income taxes | | | |
| United Kingdom | | | |
| Non-United Kingdom | | | |
| Total deferred taxes | | | |
| Total income taxes | 36 | (185) | (1,000) |

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:

| | 2006 £ 000 | March 31, 2005 £ 000 | 2004 £ 000 |
|---|---------------|----------------------------|---------------|
| Taxes computed at the statutory rate: (30% 2006, 2005 and 2004) | (78) | (277) | 683,000 |
| Non-deductible/(non-taxable) items | 108 | 462 | (682,000) |
| Over provision in prior years | (100) | | |
| Other, net | 34 | | |
| Income tax (benefit)/provision | (36) | 185 | 1,000 |

| | | | |
|--------------------|-----|-----|----|
| Effective tax rate | 14% | 20% | 0% |
|--------------------|-----|-----|----|

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.

18. Related party transactions

The Company and its subsidiaries have had no related party transactions during the fiscal years 2006 and 2005. The Company and its subsidiaries had sales and purchases with equity investments, joint

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ventures and associates, which are not consolidated, during fiscal 2004. 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 £ 000 |
|---------------------------------|---------------------------------------|
| Statement of operations: | |
| Net sales | 4,000 |

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, Marconi Capital Limited owned 5.7% of CosmoCom, Inc. CosmoCom, Inc. developed and deployed 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 MCIL 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, MCIL purchased approximately \$1.5 million of products and/or services.

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 until the Financial Restructuring, had 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 had an agreement with ipsaris Limited under which ipsaris was nominated as the preferred supplier for connectivity for the telecommunications network.

Table of Contents**Confirmant**

Confirmant was 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.

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 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 2006, 2005, or 2004.

19. 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 |
|---|---|
| Network Equipment and Services | |
| 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 |
| Other Associated Companies | |
| Easynet Group plc (72.7% group equity share; 49.9% voting share) ⁽¹⁾ | 44-46 Whitfield Street, London W1T 2RJ, England |

(1) See note 10, Investments in affiliates.

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The undertakings in which the Company's interest at March 31, 2006 was more than 20% are as follows:

| Undertakings | Country of incorporation | Principal activity | Class and percentage of ordinary shares held |
|---------------------|-------------------------------------|-------------------------------|---|
| 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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